

LINCOLN NATIONAL CORP  
Form 10-Q  
July 31, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 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

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LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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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 July 28, 2014, there were 261,073,946 shares of the registrant’s common stock outstanding.

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Lincoln National Corporation

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See accompanying Notes to Consolidated Financial Statements

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of June 30, 2014 (Unaudited)	As of December 31, 2013
<b>ASSETS</b>		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2014 – \$78,084; 2013 – \$76,353)	\$ 85,511	\$ 80,078
Variable interest entities' fixed maturity securities (amortized cost: 2014 – \$584; 2013 – \$682)	598	697
Equity securities (cost: 2014 – \$235; 2013 – \$182)	256	201
Trading securities	2,339	2,282
Mortgage loans on real estate	7,096	7,210
Real estate	32	47
Policy loans	2,683	2,677
Derivative investments	1,142	881
Other investments	1,301	1,218
Total investments	100,958	95,291
Cash and invested cash	1,509	2,364
Deferred acquisition costs and value of business acquired	8,149	8,886
Premiums and fees receivable	465	420
Accrued investment income	1,081	1,029
Reinsurance recoverables	6,007	6,041
Funds withheld reinsurance assets	764	776
Goodwill	2,273	2,273
Other assets	3,760	2,730
Separate account assets	124,159	117,135
Total assets	\$ 249,125	\$ 236,945
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Future contract benefits	\$ 19,460	\$ 17,251
Other contract holder funds	74,735	74,548
Short-term debt	250	501
Long-term debt	5,170	5,320
Reinsurance related embedded derivatives	155	108



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Funds withheld reinsurance liabilities	842	867
Deferred gain on business sold through reinsurance	208	245
Payables for collateral on investments	3,571	3,238
Variable interest entities' liabilities	10	27
Other liabilities	5,114	4,253
Separate account liabilities	124,159	117,135
Total liabilities	233,674	223,493

Contingencies and Commitments (See Note 8)

Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 260,831,708 and 262,896,701 shares issued and outstanding as of June 30, 2014, and December 31, 2013, respectively	6,739	6,876
Retained earnings	5,513	5,013
Accumulated other comprehensive income (loss)	3,199	1,563
Total stockholders' equity	15,451	13,452
Total liabilities and stockholders' equity	\$ 249,125	\$ 236,945

See accompanying Notes to Consolidated Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues				
Insurance premiums	\$ 755	\$ 674	\$ 1,494	\$ 1,328
Fee income	1,134	983	2,232	1,941
Net investment income	1,207	1,213	2,415	2,363
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(5 )	(20 )	(15 )	(39 )
Portion of loss recognized in other comprehensive income	2	1	8	6
Net other-than-temporary impairment losses on securities recognized in earnings	(3 )	(19 )	(7 )	(33 )
Realized gain (loss), excluding other-than-temporary impairment losses on securities	38	2	23	(43 )
Total realized gain (loss)	35	(17 )	16	(76 )
Amortization of deferred gain on business sold through reinsurance	18	19	37	37
Other revenues	133	127	263	245
Total revenues	3,282	2,999	6,457	5,838
Expenses				
Interest credited	636	627	1,269	1,244
Benefits	1,079	991	2,157	1,950
Commissions and other expenses	963	898	1,934	1,792
Interest and debt expense	67	65	134	129
Total expenses	2,745	2,581	5,494	5,115
Income (loss) before taxes	537	418	963	723
Federal income tax expense (benefit)	139	101	236	167
Net income (loss)	398	317	727	556
Other comprehensive income (loss), net of tax	746	(1,688)	1,636	(1,915)
Comprehensive income (loss)	\$ 1,144	\$ (1,371)	\$ 2,363	\$ (1,359)
Net Income (Loss) Per Common Share				
Basic	\$ 1.52	\$ 1.19	\$ 2.77	\$ 2.07
Diluted	1.48	1.15	2.69	2.01

See accompanying Notes to Consolidated Financial Statements

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## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Six Months Ended June 30,	
	2014	2013
<b>Common Stock</b>		
Balance as of beginning-of-year	\$ 6,876	\$ 7,121
Stock compensation/issued for benefit plans	20	18
Retirement of common stock/cancellation of shares	(157 )	(202 )
Balance as of end-of-period	6,739	6,937
<b>Retained Earnings</b>		
Balance as of beginning-of-year	5,013	4,044
Net income (loss)	727	556
Retirement of common stock	(143 )	(48 )
Common stock dividends declared (2014 – \$0.32; 2013 – \$0.24)	(84 )	(65 )
Balance as of end-of-period	5,513	4,487
<b>Accumulated Other Comprehensive Income (Loss)</b>		
Balance as of beginning-of-year	1,563	3,808
Other comprehensive income (loss), net of tax	1,636	(1,915 )
Balance as of end-of-period	3,199	1,893
Total stockholders' equity as of end-of-period	\$ 15,451	\$ 13,317

See accompanying Notes to Consolidated Financial Statements

## LINCOLN NATIONAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	\$ 727	\$ 556
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	(213 )	(217 )
Trading securities purchases, sales and maturities, net	25	63
Change in premiums and fees receivable	(45 )	(50 )
Change in accrued investment income	(52 )	(37 )
Change in future contract benefits and other contract holder funds	188	(293 )
Change in reinsurance related assets and liabilities	(33 )	(59 )
Change in federal income tax accruals	86	157
Realized (gain) loss	(16 )	76
Amortization of deferred gain on business sold through reinsurance	(37 )	(37 )
Change in accrued expenses	(158 )	-
Other	(101 )	(104 )
Net cash provided by (used in) operating activities	371	55
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(4,186)	(6,726)
Sales of available-for-sale securities	173	449
Maturities of available-for-sale securities	2,476	3,387
Purchases of other investments	(1,322)	(1,170)
Sales or maturities of other investments	1,452	1,245
Increase (decrease) in payables for collateral on investments	333	71
Other	(31 )	(59 )
Net cash provided by (used in) investing activities	(1,105)	(2,803)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(500 )	-
Issuance of long-term debt, net of issuance costs	-	50
Deposits of fixed account values, including the fixed portion of variable	4,884	5,275
Withdrawals of fixed account values, including the fixed portion of variable	(2,765)	(2,513)
Transfers to and from separate accounts, net	(1,356)	(1,405)
Repurchase of common stock	(300 )	(250 )
Dividends paid to common and preferred stockholders	(84 )	(65 )
Net cash provided by (used in) financing activities	(121 )	1,092

Net increase (decrease) in cash and invested cash	(855 )	(1,656)
Cash and invested cash as of beginning-of-year	2,364	4,230
Cash and invested cash as of end-of-period	\$ 1,509	\$ 2,574

See accompanying Notes to Consolidated Financial Statements

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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 six month period ended June 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.





## 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 which 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 June 30, 2014:

	Amount and Date of Issuance	
	\$400	\$200
	December	April
	2006	2007
Original attachment point (subordination)	5.50%	2.05%
Current attachment point (subordination)	4.17%	1.48%
Maturity	12/20/2016	3/20/2017
Current rating of tranche	BB+	Ba2
Current rating of underlying reference obligations	Aa1-B1	Aaa-Caa2
Number of defaults in underlying reference	2	2

obligations		
Number of entities	124	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 June 30, 2014:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Financial intermediaries	0.0%	2.1%	6.3%	2.1%	0.0%	0.0%	0.0%	10.5%
Telecommunications	0.0%	0.0%	3.5%	6.1%	1.4%	0.0%	0.0%	11.0%
Oil and gas	0.3%	2.1%	1.4%	4.2%	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%	1.6%	1.8%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	2.1%	0.9%	0.6%	0.0%	0.0%	3.6%
Industrial equipment	0.0%	0.0%	2.6%	0.7%	0.0%	0.0%	0.0%	3.3%
Sovereign	0.0%	0.7%	1.5%	1.0%	0.0%	0.0%	0.0%	3.2%
Conglomerates	0.0%	2.6%	0.5%	0.0%	0.0%	0.0%	0.0%	3.1%
Forest products	0.0%	0.0%	0.5%	1.1%	1.4%	0.0%	0.0%	3.0%
Other	0.0%	4.6%	13.9%	18.0%	4.8%	0.7%	0.3%	42.3%
Total	0.6%	13.7%	39.0%	37.2%	8.5%	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 June 30, 2014			As of December 31, 2013		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
<b>Assets</b>						
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	383	-	1	361	-
Total assets (1)	1	\$ 383	\$ 598	1	\$ 361	\$ 697
<b>Liabilities</b>						
Non-qualifying hedges:						
Credit default swaps	2	\$ 600	\$ 10	2	\$ 600	\$ 27
Contingent forwards	2	-	-	2	-	-
Total liabilities (2)	4	\$ 600	\$ 10	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 June 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 June 30, 2014		For the Six Months Ended June 30, 2013	
Non-Qualifying Hedges				
Credit default swaps	\$ 12	\$ 11	\$ 17	\$ 27
Contingent forwards	-	-	-	-
Total non-qualifying hedges (1)	\$ 12	\$ 11	\$ 17	\$ 27

(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.

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 \$75 million and \$77 million as of June 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.

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

	As of June 30, 2014				
	Amortized Cost	Gross Gains	Unrealized Losses	OTTI	Fair Value
Fixed maturity securities:					
Corporate bonds	\$ 67,738	\$ 6,644	\$ 277	\$ 88	\$ 74,017
U.S. government bonds	362	37	3	-	396
Foreign government bonds	491	65	-	-	556
Residential mortgage-backed securities ("RMBS")	3,986	286	-	22	4,250
Commercial mortgage-backed securities ("CMBS")	658	36	-	15	679
Collateralized loan obligations ("CLOs")	258	1	-	3	256
State and municipal bonds	3,703	697	5	-	4,395
Hybrid and redeemable preferred securities	888	111	37	-	962
VIEs' fixed maturity securities	584	14	-	-	598
Total fixed maturity securities	78,668	7,891	322	128	86,109
Equity securities	235	21	-	-	256
Total AFS securities	\$ 78,903	\$ 7,912	\$ 322	\$ 128	\$ 86,365



	As of December 31, 2013				Fair Value
	Amortized Cost	Gross Gains	Unrealized Losses	OTTI	
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 June 30, 2014, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 2,480	\$ 2,540
Due after one year through five years	16,960	18,580
Due after five years through ten years	22,794	24,182
Due after ten years	31,532	35,622
Subtotal	73,766	80,924
Mortgage-backed securities ("MBS")	4,644	4,929
CLOs	258	256
Total fixed maturity AFS securities	\$ 78,668	\$ 86,109

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

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

	As of June 30, 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	\$ 2,103	\$ 40	\$ 6,451	\$ 325	\$ 8,554	\$ 365
U.S. government bonds	74	1	77	2	151	3
RMBS	157	3	314	19	471	22
CMBS	3	-	127	15	130	15
CLOs	79	-	46	3	125	3
State and municipal bonds	3	-	65	5	68	5
Hybrid and redeemable preferred securities	-	-	194	37	194	37
Total AFS securities	\$ 2,419	\$ 44	\$ 7,274	\$ 406	\$ 9,693	\$ 450
Total number of AFS securities in an unrealized loss position						812

	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 June 30, 2014		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	\$ 903	\$ 829	\$ 74
AFS securities backed by pools of commercial mortgages	164	147	17
Total	\$ 1,067	\$ 976	\$ 91
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	\$ 771	\$ 702	\$ 70

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AFS securities backed by pools of commercial mortgages	29	25	4
Total	\$ 800	\$ 727	\$ 74

	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

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

	As of June 30, 2014			Number of Securities (1)
	Fair Value	Gross Unrealized Losses OTTI		
Six months or greater, but less than nine months	\$ 1	\$ -	\$ -	3
Twelve months or greater	192	31	66	78
Total	\$ 193	\$ 31	\$ 66	81

	As of December 31, 2013			Number of Securities (1)
	Fair Value	Gross Unrealized Losses OTTI		
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 \$959 million for the six months ended June 30, 2014. As discussed further below, we believe the unrealized loss position as of June 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 June 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 June 30, 2014, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the underlying collateral and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. 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 June 30, 2014, the unrealized losses associated with our MBS and collateralized debt obligations (“CDOs”) were attributable primarily to collateral losses and credit spreads. We assessed our MBS and 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 June 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 June 30, 2014		For the Six Months Ended June 30, 2013	
Balance as of beginning-of-period	\$ 408	\$ 437	\$ 404	\$ 424
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	1	19	2	20
Credit losses on securities for which an OTTI was previously recognized	3	5	7	21
Decreases attributable to:				
Securities sold	(23)	(48)	(24)	(52)
Balance as of end-of-period	\$ 389	\$ 413	\$ 389	\$ 413

During the six months ended June 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:

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As of June 30, 2014					
	Gross Unrealized Losses			Fair	OTTI in Credit
	Amortized Cost	Gains	and OTTI	Value	Losses
Corporate bonds	\$ 271	\$ 27	\$ 41	\$ 257	\$ 124
RMBS	500	26	12	514	185
CMBS	51	4	13	42	80
Total	\$ 822	\$ 57	\$ 66	\$ 813	\$ 389

As of December 31, 2013					
	Gross Unrealized Losses			Fair	OTTI in Credit
	Amortized Cost	Gains	and OTTI	Value	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 32% of mortgage loans on real estate as of June 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 June 30, 2014	As of December 31, 2013
Current	\$ 7,087	\$ 7,200
60 to 90 days past due	6	4
Greater than 90 days past due	2	3
Valuation allowance associated with impaired mortgage loans on real estate	(3 )	(3 )
Unamortized premium (discount)	4	6
Total carrying value	\$ 7,096	\$ 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 June 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      As of

	June 30, 2014	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 June 30, 2014 2013		For the Six Months Ended June 30, 2014 2013	
Average carrying value for impaired mortgage loans on real estate	\$ 24	\$ 35	\$ 24	\$ 41
Interest income recognized on impaired mortgage loans on real estate	-	-	1	1
Interest income collected on impaired mortgage loans on real estate	-	-	1	1

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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 June 30, 2014			As of December 31, 2013		
	Principal Amount	% of Total	Debt-Service Coverage Ratio	Principal Amount	% of Total	Debt-Service Coverage Ratio
Less than 65%	\$ 6,022	84.8%	1.78	\$ 6,026	83.6%	1.78
65% to 74%	628	8.9%	1.52	744	10.3%	1.42
75% to 100%	411	5.8%	0.88	402	5.6%	0.83
Greater than 100%	34	0.5%	0.78	35	0.5%	0.78
Total mortgage loans on real estate	\$ 7,095	100.0%		\$ 7,207	100.0%	

Alternative Investments

As of June 30, 2014, and December 31, 2013, alternative investments included investments in 137 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 June 30, 2014		For the Six Months Ended June 30, 2013	
	2014	2013	2014	2013
Fixed maturity AFS securities:				
Gross gains	\$ 11	\$ 4	\$ 19	\$ 11
Gross losses	(6 )	(25)	(13)	(43)
Equity AFS securities:				
Gross gains	3	-	3	6
Gross losses	-	(1 )	-	(1 )
Gain (loss) on other investments	3	1	3	(1 )
Associated amortization of DAC, VOBA,				

DSI and DFEL and changes in other contract holder funds	(10)	(4 )	(17)	(11)
Total realized gain (loss) related to certain investments, pre-tax	\$ 1	\$ (25)	\$ (5 )	\$ (39)

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 June 30, 2014		For the Six Months Ended June 30, 2013	
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	\$ (2 )	\$ (7 )	\$ (5 )	\$ (10)
RMBS	(1 )	(5 )	(3 )	(16)
CMBS	(1 )	(12)	(1 )	(14)
Commercial real estate ("CRE") CDOs	-	-	-	(1 )
Gross OTTI recognized in net income (loss)	(4 )	(24)	(9 )	(41)
Associated amortization of DAC, VOBA, DSI and DFEL	1	5	2	8
Net OTTI recognized in net income (loss), pre-tax	\$ (3 )	\$ (19)	\$ (7 )	\$ (33)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	\$ 2	\$ 1	\$ 9	\$ 7
Change in DAC, VOBA, DSI and DFEL	-	-	(1 )	(1 )
Net portion of OTTI recognized in OCI, pre-tax	\$ 2	\$ 1	\$ 8	\$ 6

#### Determination of Credit Losses on Corporate Bonds and CDOs

As of June 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 June 30, 2014, and December 31, 2013, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of June 30, 2014, and December 31, 2013, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of \$3.2 billion and \$3.0 billion, respectively, and a fair value of \$3.3 billion

and \$2.9 billion, respectively. As of June 30, 2014, and December 31, 2013, 95% and 94%, respectively, of the fair value of our CDO portfolio was rated investment grade. As of June 30, 2014, and December 31, 2013, the portion of our CDO portfolio rated below investment grade had an amortized cost of \$15 million and \$16 million, respectively, and fair value of \$13 million. Based upon the analysis discussed above, we believe as of June 30, 2014, and December 31, 2013, that we would recover the amortized cost of each investment grade corporate bond and CDO security.

#### Determination of Credit Losses on MBS

As of June 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 June 30, 2014		As of December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	\$ 957	\$ 957	\$ 638	\$ 638
Securities pledged under securities lending agreements (2)	199	192	184	178
Securities pledged under repurchase agreements (3)	205	216	530	553
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	35	47	36	49
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (5)	2,175	3,576	1,850	3,127
Total payables for collateral on investments	\$ 3,571	\$ 4,988	\$ 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 Six Months Ended June 30,	
	2014	2013
Collateral payable held for derivative investments	\$ 319	\$ (1,149)
Securities pledged under securities lending agreements	15	(20 )
Securities pledged under repurchase agreements	(325)	-
Securities pledged for TALF	(1 )	-
Investments pledged for FHLBI	325	1,240
Total increase (decrease) in payables for collateral on investments	\$ 333	\$ 71

#### Investment Commitments

As of June 30, 2014, our investment commitments were \$1.3 billion, which included \$573 million of LPs, \$448 million of mortgage loans on real estate and \$308 million of private placement securities.

#### Concentrations of Financial Instruments

As of June 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 \$2.5 billion and \$2.6 billion, respectively, or 3% of our invested assets



portfolio, and our investments in securities issued by Fannie Mae with a fair value of \$1.6 billion and \$1.7 billion, respectively, or 2% of our invested assets portfolio. These investments are included in corporate bonds in the tables above.

As of June 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. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

## 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 June 30, 2014			As of December 31, 2013		
	Notional Amounts	Fair Value Asset	Liability	Notional Amounts	Fair Value Asset	Liability
<b>Qualifying Hedges</b>						
<b>Cash flow hedges:</b>						
Interest rate contracts (1)	\$ 3,830	\$ 513	\$ 145	\$ 4,339	\$ 562	\$ 148
Foreign currency contracts (1)	607	33	54	615	32	46
Total cash flow hedges	4,437	546	199	4,954	594	194
<b>Fair value hedges:</b>						
Interest rate contracts (1)	875	159	-	875	92	33
<b>Non-Qualifying Hedges</b>						
Interest rate contracts (1)	53,463	493	452	45,620	215	744
Foreign currency contracts (1)	4	-	-	102	-	-
Equity market contracts (1)	21,510	815	285	19,917	957	193
Credit contracts (2)	126	-	1	126	-	2
<b>Embedded derivatives:</b>						

Guaranteed living benefit (“GLB”) reserves (3)	-	932	-	-	1,244	-
GLB reserves (2)	-	-	54	-	-	-
Reinsurance related (4)	-	-	155	-	-	108
Indexed annuity and universal life contracts (5)	-	-	1,167	-	-	1,048
Total derivative instruments	\$ 80,415	\$ 2,945	\$ 2,313	\$ 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 June 30, 2014					Total
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	
Interest rate contracts (1)	\$ 4,651	\$ 30,967	\$ 11,130	\$ 10,207	\$ 1,213	\$ 58,168
Foreign currency contracts (2)	43	141	275	152	-	611
Equity market contracts	11,607	4,539	5,342	20	2	21,510
Credit contracts	-	126	-	-	-	126
Total derivative instruments with notional amounts	\$ 16,301	\$ 35,773	\$ 16,747	\$ 10,379	\$ 1,215	\$ 80,415

(1) As of June 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 June 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 Six Months Ended June 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	(54 )	106
Foreign currency contracts	(7 )	12
Fair value hedges:		
Interest rate contracts	2	2
Change in foreign currency exchange rate adjustment	(11 )	18
Change in DAC, VOBA, DSI and DFEL	-	4
Income tax benefit (expense)	24	(49 )
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		

Interest rate contracts (1)	(12 )	(10 )
Foreign currency contracts (1)	-	2
Fair value hedges:		
Interest rate contracts (2)	2	2
Associated amortization of DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	3	2
Balance as of end-of-period	\$ 216	\$ 259

- (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).

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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 June 30, 2014		For the Six Months Ended June 30, 2013	
<b>Qualifying Hedges</b>				
<b>Cash flow hedges:</b>				
Interest rate contracts (1)	\$ (5 )	\$ (4 )	\$ (11 )	\$ (10 )
Foreign currency contracts (1)	(1 )	-	-	1
Total cash flow hedges	(6 )	(4 )	(11 )	(9 )
<b>Fair value hedges:</b>				
Interest rate contracts (2)	9	9	18	18
<b>Non-Qualifying Hedges</b>				
Interest rate contracts (3)	284	(488)	615	(662 )
Foreign currency contracts (3)	(1 )	(2 )	-	(13 )
Equity market contracts (3)	(257)	(44 )	(413)	(579 )
Equity market contracts (4)	7	3	8	15
Credit contracts (3)	1	2	1	3
<b>Embedded derivatives:</b>				
GLB reserves (3)	(58 )	491	(340)	1,201
Reinsurance related (3)	(21 )	68	(47 )	83
Indexed annuity and universal life contracts (3)	(92 )	(19 )	(140)	(149 )
Total derivative instruments	\$ (134)	\$ 16	\$ (309)	\$ (92 )

- (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 June 30, 2014		For the Six Months Ended June 30, 2013	
Gain (loss) recognized as a component of OCI with				

the offset to net investment income \$ (6) \$ (5 ) \$ (12) \$ (9 )

As of June 30, 2014, \$26 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 six months ended June 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 June 30, 2014		For the Six Months Ended June 30, 2013	
Gain (loss) recognized as a component of OCI with the offset to interest expense	\$ 1	\$ 1	\$ 2	\$ 2

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

As of June 30, 2014

	Reason for	Nature of	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
Maturity	Entering	Recourse				
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

	Reason for	Nature of	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
Maturity	Entering	Recourse				
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      As of  
June 30,

	December 31,	
	2014	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 June 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 June 30, 2014, the NPR adjustment was \$1 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all 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 June 30, 2014, our exposure was \$81 million.



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

S&P Credit Rating of Counterparty	As of June 30, 2014		As of December 31, 2013	
	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 Counter- Party (Held by LNC)
AA-	\$ 43	\$ (4 )	\$ 34	\$ (10 )
A+	50	-	19	-
A	667	(59 )	339	(183 )
A-	230	-	468	(123 )
BBB+	73	-	79	-
	\$ 1,063	\$ (63 )	\$ 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 June 30, 2014		
	Derivative Instruments	Embedded Derivative Instruments	Total
Financial Assets			
Gross amount of recognized assets	\$ 1,917	\$ 932	\$ 2,849
Gross amounts offset	(775 )	-	(775 )
Net amount of assets	1,142	932	2,074
Gross amounts not offset:			
Cash collateral	(1,063 )	-	(1,063 )
Net amount	\$ 79	\$ 932	\$ 1,011

Financial Liabilities

Gross amount of recognized liabilities	\$ 161	\$ 1,376	\$ 1,537
Gross amounts offset	(95 )	-	(95 )
Net amount of liabilities	66	1,376	1,442
Gross amounts not offset:			
Cash collateral	(63 )	-	(63 )
Net amount	\$ 3	\$ 1,376	\$ 1,379

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As of December 31, 2013

	Derivative Instruments	Embedded Derivative Instruments	Total
<b>Financial Assets</b>			
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
<b>Financial Liabilities</b>			
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 26% and 25% for the three and six months ended June 30, 2014, respectively. The effective tax rate was 24% and 23% for the three and six months ended June 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 June 30, 2014 (1)	As of December 31, 2013 (1)
<b>Return of Net Deposits</b>		
Total account value	\$ 84,621	\$ 79,391
Net amount at risk (2)	111	141
Average attained age of contract holders	61 years	61 years
<b>Minimum Return</b>		
Total account value	\$ 145	\$ 151
Net amount at risk (2)	25	27
Average attained age of contract holders	74 years	73 years
Guaranteed minimum return	5%	5%
<b>Anniversary Contract Value</b>		
Total account value	\$ 26,591	\$ 25,958
Net amount at risk (2)	518	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. The decrease in net amount at risk when comparing June 30, 2014, to December 31, 2013, was attributable primarily to the increase in the equity markets during the first six months of 2014.

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 Six Months Ended June 30, 2014 2013	
Balance as of beginning-of-year	\$ 73	\$ 104
Changes in reserves	12	7
Benefits paid	(10)	(12)
Balance as of end-of-period	\$ 75	\$ 99

#### Variable Annuity Contracts

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

Asset Type	As of June 30, 2014	As of December 31, 2013
Domestic equity	\$ 49,259	\$ 47,042
International equity	19,245	18,341
Bonds	26,401	24,547
Money market	12,077	10,926
Total	\$ 106,982	\$ 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 June 30, 2014, and 41% of total sales for the six months ended June 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 June 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.

On June 13, 2009, a single named plaintiff filed a putative national class action in the Circuit Court of Allen County ("Court"), Indiana, captioned Peter S. Bezich v. The Lincoln National Life Insurance Company ("LNL"), No. 02C01-0906-PL73, asserting he was charged a cost-of-insurance fee that exceeded the applicable mortality charge, and that this fee breached the terms of the insurance contract. Plaintiff petitioned the Court to certify a class action, on behalf of all persons who purchased or owned the relevant insurance product between 1999 and 2009, alleging that: (i) LNL breached the contract by including non-mortality factors in cost-of-insurance rates; (ii) LNL breached the contract when it charged administrative expenses in excess of set amount; and (iii) LNL breached the contract by failing to adjust cost-of-insurance rates to reflect improving mortality expectations. On June 12, 2014, the Court issued an Order denying certification on all of the Plaintiff's counts and claims except with respect to a single legal issue: whether the contract was breached as alleged in Count III. However, any damages arising from this alleged breach would have to be tried on an individual case-by-case basis. We continue to vigorously defend this matter and have requested the appellate court to permit interlocutory appeal of the certification of the single issue.

See Note 13 in our 2013 Form 10-K and Note 8 in our Form 10-Q for the quarter ended March 31, 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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Series A Preferred Stock				
Balance as of beginning-of-period	-	9,532	-	9,532
Conversion of convertible preferred stock (1)	-	(5,368)	) -	(5,368)
Balance as of end-of-period	-	4,164	-	4,164

### Common Stock

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Balance as of beginning-of-period	263,682,162	268,457,558	262,896,701	271,402,586
Conversion of convertible preferred stock (1)	-	85,888	-	85,888
Stock issued for exercise of warrants	54,714	-	3,099,479	-
Stock compensation/issued for benefit plans	171,293	96,740	899,808	524,169
Retirement/cancellation of shares	(3,076,461 )	(4,323,846 )	(6,064,280 )	(7,696,303 )
Balance as of end-of-period	260,831,708	264,316,340	260,831,708	264,316,340
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	260,831,708	264,382,964	260,831,708	264,382,964
Diluted basis	267,622,578	273,924,900	267,622,578	273,924,900

(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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Weighted-average shares, as used in basic calculation	262,271,670	266,367,162	262,503,816	268,305,694
Shares to cover exercise of outstanding warrants	4,106,444	10,150,032	5,650,623	10,150,070
Shares to cover conversion of preferred stock	-	146,840	-	149,661
Shares to cover non-vested stock	1,370,136	1,351,093	1,464,908	1,316,907
Average stock options outstanding during the period	3,669,928	2,600,595	3,784,391	2,163,605
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(875,064 )	(2,903,393 )	(1,194,789 )	(3,266,708 )
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(2,552,316 )	(1,912,155 )	(2,626,035 )	(1,592,213 )
Shares repurchaseable from measured but unrecognized stock option expense	(85,468 )	(141,826 )	(95,257 )	(112,577 )
Average deferred compensation shares	1,030,237	-	1,036,339	-
Weighted-average shares, as used in diluted calculation	268,935,567	275,658,348	270,523,996	277,114,439

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 six months ended June 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 \$(1) million and less than \$1 million for the three and six months ended June 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 Six Months Ended June 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	3,696	(4,635)
Change in foreign currency exchange rate adjustment	11	(16 )
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	(1,139)	1,483
Income tax benefit (expense)	(901 )	1,110
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	9	(27 )
Associated amortization of DAC, VOBA, DSI and DFEL	(18 )	(12 )
Income tax benefit (expense)	3	14
Balance as of end-of-period	\$ 3,282	\$ 2,033
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	\$ (78 )	\$ (107 )
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(9 )	(7 )
Change in DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	3	2
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	25	47
Change in DAC, VOBA, DSI and DFEL	(3 )	(5 )
Income tax benefit (expense)	(6 )	(15 )
Balance as of end-of-period	\$ (67 )	\$ (84 )
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	\$ 256	\$ 163
Unrealized holding gains (losses) arising during the period	(59 )	120
Change in foreign currency exchange rate adjustment	(11 )	18
Change in DAC, VOBA, DSI and DFEL	-	4
Income tax benefit (expense)	24	(49 )
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(10 )	(6 )
Associated amortization of DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	3	2
Balance as of end-of-period	\$ 216	\$ 259
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	\$ (5 )	\$ (4 )

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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	(3 )	-
Balance as of end-of-period	\$ (222 )	\$ (310 )

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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 Six Months Ended June 30,		
	2014	2013	
<b>Unrealized Gain (Loss) on AFS Securities</b>			
Gross reclassification	\$ 9	\$ (27)	Total realized gain (loss)
Associated amortization of DAC, VOBA, DSI and DFEL	(18)	(12)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(9 )	(39)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	3	14	Federal income tax expense (benefit)
Reclassification, net of income tax	\$ (6 )	\$ (25)	Net income (loss)
<b>Unrealized OTTI on AFS Securities</b>			
Gross reclassification	\$ 25	\$ 47	Total realized gain (loss)
Change in DAC, VOBA, DSI and DFEL	(3 )	(5 )	Total realized gain (loss)
Reclassification before income tax benefit (expense)	22	42	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(6 )	(15)	Federal income tax expense (benefit)
Reclassification, net of income tax	\$ 16	\$ 27	Net income (loss)
<b>Unrealized Gain (Loss) on Derivative Instruments</b>			
Gross reclassifications:			
Interest rate contracts	\$ (12)	\$ (10)	Net investment income
Interest rate contracts	2	2	Interest and debt expense
Foreign currency contracts	-	2	Net investment income
Total gross reclassifications	(10)	(6 )	
Associated amortization of DAC, VOBA, DSI and DFEL	1	1	Commissions and other expenses
Reclassifications before income tax benefit (expense)	(9 )	(5 )	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	3	2	Federal income tax expense (benefit)
Reclassification, net of income tax	\$ (6 )	\$ (3 )	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 June 30, 2014		For the Six Months Ended June 30, 2013	
Total realized gain (loss) related to certain investments (1)	\$ 1	\$ (25)	\$ (5 )	\$ (39)
Realized gain (loss) on the mark-to-market on certain instruments (2)	7	(9 )	(12)	(1 )
Indexed annuity and universal life net derivatives results: (3)				
Gross gain (loss)	(16)	(1 )	(39)	(13)
Associated amortization of DAC, VOBA, DSI and DFEL	3	-	8	2
Variable annuity net derivatives results: (4)				
Gross gain (loss)	35	25	65	(25)
Associated amortization of DAC, VOBA, DSI and DFEL	5	(7 )	(1 )	-
Total realized gain (loss)	\$ 35	\$ (17)	\$ 16	\$ (76)

(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 June 30, 2014	For the Six Months Ended June 30, 2014
10-year LNC stock options	-	476,845
Performance shares	-	177,315
RSUs	2,647	435,457
Non-employee:		
SARs	-	62,887
Agent stock options	1,696	88,311
Director DSUs	8,081	16,281

## 12. Fair Value of Financial Instruments

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

	As of June 30, 2014		As of December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
<b>AFS securities:</b>				
Fixed maturity securities	\$ 85,511	\$ 85,511	\$ 80,078	\$ 80,078
VIEs' fixed maturity securities	598	598	697	697
Equity securities	256	256	201	201
Trading securities	2,339	2,339	2,282	2,282
Mortgage loans on real estate	7,096	7,425	7,210	7,386
Derivative investments (1)	1,142	1,142	881	881
Other investments	1,301	1,301	1,218	1,218
Cash and invested cash	1,509	1,509	2,364	2,364
<b>Other assets (2):</b>				
GLB reserves embedded derivatives	932	932	-	-
Reinsurance recoverable	54	54	-	-
Separate account assets	124,159	124,159	117,135	117,135
<b>Liabilities</b>				
<b>Future contract benefits:</b>				
<b>Indexed annuity and universal life contracts embedded derivatives</b>				
GLB reserves embedded derivatives	(1,167 )	(1,167 )	(1,048 )	(1,048 )
Other contract holder funds:			1,244	1,244
Remaining guaranteed interest and similar contracts	(773 )	(773 )	(809 )	(809 )
Account values of certain investment contracts	(29,499 )	(31,584 )	(29,078 )	(30,574 )
Short-term debt	(250 )	(258 )	(501 )	(500 )
Long-term debt	(5,170 )	(5,735 )	(5,320 )	(5,762 )
Reinsurance related embedded derivatives	(155 )	(155 )	(108 )	(108 )
VIEs' liabilities – derivative instruments	(10 )	(10 )	(27 )	(27 )
<b>Other liabilities:</b>				
Credit default swaps	(1 )	(1 )	(2 )	(2 )
Derivative liabilities (1)	(65 )	(65 )	(187 )	(187 )
GLB reserves embedded derivatives (2)	(54 )	(54 )	-	-

(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 include 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 June 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 June 30, 2014, or December 31, 2013, and we noted no changes in our valuation methodologies between these periods.

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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 June 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
<b>Assets</b>				
<b>Investments:</b>				
<b>Fixed maturity AFS securities:</b>				
Corporate bonds	\$ 63	\$ 71,750	\$ 2,204	\$ 74,017
U.S. government bonds	375	21	-	396
Foreign government bonds	-	448	108	556
RMBS	-	4,249	1	4,250
CMBS	-	660	19	679
CLOs	-	46	210	256
State and municipal bonds	-	4,395	-	4,395
Hybrid and redeemable preferred securities	46	864	52	962
VIEs’ fixed maturity securities	-	598	-	598
Equity AFS securities	7	91	158	256
Trading securities	-	2,272	67	2,339
Derivative investments (1)	-	948	1,065	2,013
Cash and invested cash	-	1,509	-	1,509
<b>Other assets:</b>				
GLB reserves embedded derivatives	-	-	932	932
Reinsurance recoverable	-	-	54	54
Separate account assets	1,690	122,469	-	124,159
<b>Total assets</b>	<b>\$ 2,181</b>	<b>\$ 210,320</b>	<b>\$ 4,870</b>	<b>\$ 217,371</b>
<b>Liabilities</b>				
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	\$ -	\$ -	\$ (1,167 )	\$ (1,167 )
Long-term debt	-	(1,203 )	-	(1,203 )
Reinsurance related embedded derivatives	-	(155 )	-	(155 )
VIEs’ liabilities – derivative instruments	-	-	(10 )	(10 )
<b>Other liabilities:</b>				
Credit default swaps	-	-	(1 )	(1 )
Derivative liabilities (1)	-	(651 )	(285 )	(936 )

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GLB reserves embedded derivatives	-	-	(54 )	(54 )
Total liabilities	\$ -	\$ (2,009 )	\$ (1,517 )	\$ (3,526 )

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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.

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The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any effect of amortization of 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 June 30, 2014					
	Beginning in	Items	Gains	Issuances,	Transfers	Ending
	Fair	Included	(Losses)	Sales,	In or	Fair
	Value	Net	in	Maturities,	Level 3,	Value
		Income	OCI	Settlements,	Net (2)(3)	
			and	Calls,		
			Other (1)	Net		
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 1,958	\$ 5	\$ 49	\$ 132	\$ 60	\$ 2,204
Foreign government bonds	107	-	1	-	-	108
RMBS	1	-	-	-	-	1
CMBS	21	-	-	(2 )	-	19
CLOs	195	-	2	17	(4 )	210
State and municipal bonds	29	-	-	-	(29 )	-
Hybrid and redeemable						
preferred securities	55	-	2	(5 )	-	52
Equity AFS securities	162	3	(3 )	(4 )	-	158
Trading securities	53	1	3	4	6	67
Derivative investments	811	(42 )	80	(69 )	-	780
Other assets (5):						
GLB reserves embedded derivatives	979	(47 )	-	-	-	932
Reinsurance recoverable	43	11	-	-	-	54
Future contract benefits – indexed annuity						
and universal life contracts embedded						
derivatives (5)	(1,090)	(92 )	-	15	-	(1,167)
VIEs' liabilities – derivative instruments (6)	(22 )	12	-	-	-	(10 )
Other liabilities:						
Credit default swaps (7)	(2 )	1	-	-	-	(1 )
GLB reserves embedded derivatives (5)	(43 )	(11 )	-	-	-	(54 )
Total, net	\$ 3,257	\$ (159 )	\$ 134	\$ 88	\$ 33	\$ 3,353





## For the Three Months Ended June 30, 2013

	Beginning	Items	Gains	Issuances,	Transfers	Ending
Fair	Net	Included	(Losses)	Sales	In or	Fair
Value	Income		in	Maturities,	Out	Value
			OCI	Settlements,	Level 3,	
			and	Calls,	Net (2)	
			Other (1)	Net		
Investments: (4)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 1,825	\$ (5 )	\$ (25 )	\$ 198	\$ (201 )	\$ 1,792
Foreign government bonds	76	-	(1 )	-	-	75
RMBS	1	-	-	-	-	1
CMBS	27	1	3	(3 )	-	28
CLOs	149	-	-	(6 )	-	143
State and municipal bonds	32	-	(2 )	-	-	30
Hybrid and redeemable preferred securities	102	-	(3 )	-	(6 )	93
Equity AFS securities	110	-	-	37	-	147
Trading securities	54	1	(2 )	(1 )	1	53
Derivative investments	1,835	10	28	(50 )	-	1,823
Future contract benefits: (5)						
Indexed annuity and universal life contracts embedded derivatives	(853 )	(19 )	-	10	-	(862 )
GLB reserves embedded derivatives	(199 )	491	-	-	-	292
VIEs' liabilities – derivative instruments (6)	(113 )	12	-	-	-	(101 )
Other liabilities – credit default swaps (7)	(10 )	2	-	-	-	(8 )
Total, net	\$ 3,036	\$ 493	\$ (2 )	\$ 185	\$ (206 )	\$ 3,506

## For the Six Months Ended June 30, 2014

	Beginning in Fair Value	Items Included 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	\$ 74	\$ 150	\$ 260	\$ 2,204
Foreign government bonds	79	-	4	-	25	108
RMBS	1	-	-	-	-	1
CMBS	20	-	1	(8 )	6	19
CLOs	179	-	3	24	4	210
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	2	6	3	4	67
Derivative investments	1,266	(150 )	213	(123 )	(426 )	780
Other assets(5):						
GLB reserves embedded derivatives	-	(312 )	-	-	1,244	932
Reinsurance recoverable	27	27	-	-	-	54
Future contract benefits: (5)						
Indexed annuity and universal life contracts embedded derivatives	(1,048)	(141 )	-	22	-	(1,167)
GLB reserves embedded derivatives	1,244	-	-	-	(1,244 )	-
VIEs' liabilities – derivative instruments (6)	(27 )	17	-	-	-	(10 )
Other liabilities:						
Credit default swaps (7)	(2 )	1	-	-	-	(1 )
GLB reserves embedded derivatives (5)	(27 )	(27 )	-	-	-	(54 )
Total, net	\$ 3,730	\$ (571 )	\$ 302	\$ 58	\$ (166 )	\$ 3,353

## For the Six Months Ended June 30, 2013

	Beginning Fair Value	Items Included 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 )	\$ (14 )	\$ 182	\$ 120	\$ 1,792
U.S. government bonds	1	-	-	(1 )	-	-
Foreign government bonds	46	-	(1 )	30	-	75
RMBS	3	-	-	(2 )	-	1
CMBS	27	-	5	(4 )	-	28
CLOs	154	(1 )	2	(12 )	-	143
State and municipal bonds	32	-	(2 )	-	-	30
Hybrid and redeemable preferred securities	118	(1 )	2	-	(26 )	93
Equity AFS securities	87	-	2	58	-	147
Trading securities	56	1	(4 )	(1 )	1	53
Derivative investments	2,026	(248 )	69	(24 )	-	1,823
Future contract benefits: (5)						
Indexed annuity and universal life contracts embedded derivatives						
	(732 )	(149 )	-	19	-	(862 )
GLB reserves embedded derivatives						
	(909 )	1,201	-	-	-	292
VIEs' liabilities – derivative instruments (6)						
	(128 )	27	-	-	-	(101 )
Other liabilities – credit default swaps (7)						
	(11 )	3	-	-	-	(8 )
Total, net	\$ 2,275	\$ 832	\$ 59	\$ 245	\$ 95	\$ 3,506

- (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).



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

	For the Three Months Ended June 30, 2014					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 232	\$ (47)	\$ (14 )	\$ (16 )	\$ (23)	\$ 132
CMBS	-	-	-	(1 )	(1 )	(2 )
CLOs	20	-	-	(3 )	-	17
Hybrid and redeemable preferred securities	-	(5 )	-	-	-	(5 )
Equity AFS securities	-	(4 )	-	-	-	(4 )
Trading securities	4	-	-	-	-	4
Derivative investments	43	(19)	(93 )	-	-	(69)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(24)	-	-	39	-	15
Total, net	\$ 275	\$ (75)	\$ (107 )	\$ 19	\$ (24)	\$ 88

	For the Three Months Ended June 30, 2013					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 257	\$ (22)	\$ -	\$ (11 )	\$ (26)	\$ 198
CMBS	-	-	-	(2 )	(1 )	(3 )
CLOs	-	-	-	(6 )	-	(6 )
Equity AFS securities	38	(1 )	-	-	-	37
Trading securities	-	-	-	(1 )	-	(1 )
Derivative investments	42	(8 )	(84 )	-	-	(50)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(18)	-	-	28	-	10
Total, net	\$ 319	\$ (31)	\$ (84 )	\$ 8	\$ (27)	\$ 185

	For the Six Months Ended June 30, 2014					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						

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Fixed maturity AFS securities:

Corporate bonds	\$ 377	\$ (58 )	\$ (72 )	\$ (32 )	\$ (65 )	\$ 150
CMBS	-	-	-	(7 )	(1 )	(8 )
CLOs	32	-	-	(8 )	-	24
Hybrid and redeemable preferred securities	-	(5 )	-	-	-	(5 )
Equity AFS securities	-	(5 )	-	-	-	(5 )
Trading securities	6	-	-	(3 )	-	3
Derivative investments	79	(39 )	(163 )	-	-	(123)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(49 )	-	-	71	-	22
Total, net	\$ 445	\$ (107)	\$ (235 )	\$ 21	\$ (66)	\$ 58

	For the Six Months Ended June 30, 2013					
	Issuance	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	\$ 268	\$ (23 )	\$ (4 )	\$ (27 )	\$ (32 )	\$ 182
U.S. government bonds	-	-	-	(1 )	-	(1 )
Foreign government bonds	30	-	-	-	-	30
RMBS	-	-	-	(2 )	-	(2 )
CMBS	-	-	-	(3 )	(1 )	(4 )
CLOs	-	-	-	(12 )	-	(12 )
Equity AFS securities	63	(5 )	-	-	-	58
Trading securities	-	-	-	(1 )	-	(1 )
Derivative investments	74	44	(142 )	-	-	(24 )
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(37 )	-	-	56	-	19
Total, net	\$ 398	\$ 16	\$ (146 )	\$ 10	\$ (33 )	\$ 245

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      For the Six  
                                 Months Ended

	Months			
	Ended		June 30,	
	June 30,	2013	2014	2013
Derivative investments (1)	\$ (57)	\$ (4 )	\$ (170)	\$ (251 )
Embedded derivatives: (1)				
Indexed annuity and universal life contracts	(16)	13	(40 )	20
GLB reserves	71	557	(72 )	1,318
VIEs' liabilities – derivative instruments (2)	12	11	17	27
Credit default swaps (1)	1	2	1	2
Total, net	\$ 11	\$ 579	\$ (264)	\$ 1,116

(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).



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

	For the Three Months Ended June 30, 2014			For the Three Months Ended June 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	\$ 144	\$ (84 )	\$ 60	\$ 41	\$ (242 )	\$ (201)
CLOs	-	(4 )	(4 )	-	-	-
State and municipal bonds	-	(29 )	(29 )	-	-	-
Hybrid and redeemable preferred securities	-	-	-	-	(6 )	(6 )
Trading securities	6	-	6	1	-	1
Total, net	\$ 150	\$ (117 )	\$ 33	\$ 42	\$ (248 )	\$ (206)

	For the Six Months Ended June 30, 2014			For the Six Months Ended June 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	\$ 404	\$ (144 )	\$ 260	\$ 165	\$ (45 )	\$ 120
Foreign government bonds	25	-	25	-	-	-
CMBS	6	-	6	-	-	-
CLOs	8	(4 )	4	-	-	-
State and municipal bonds	-	(29 )	(29 )	-	-	-
Hybrid and redeemable preferred securities	12	(22 )	(10 )	-	(26 )	(26 )
Trading securities	10	(6 )	4	1	-	1
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	\$ 1,709	\$ (1,875 )	\$ (166 )	\$ 166	\$ (71 )	\$ 95

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 six months ended June 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 six months ended June 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.

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The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of June 30, 2014:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading				