LINCOLN NATIONAL CORP
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number: 1-6028

LINCOLN NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(484) 583-1400

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer   Smaller reporting company

Emerging growth company

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

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

As of October 30, 2018, there were 213,604,724 shares of the registrant's common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of September 30, 2018 (Unaudited)	As of December 31, 2017
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2018 – $90,808; 2017 – $86,993)	$ 93,161	$ 94,840
Equity securities (cost: 2017 – $247)	-	246
Trading securities	1,440	1,620
Equity securities	112	-
Mortgage loans on real estate	12,561	10,762
Real estate	12	11
Policy loans	2,490	2,399
Derivative investments	706	915
Other investments	2,204	2,296
Total investments	112,686	113,089
Cash and invested cash	1,460	1,628
Deferred acquisition costs and value of business acquired	10,014	8,403
Premiums and fees receivable	592	396
Accrued investment income	1,168	1,078
Reinsurance recoverables	18,271	4,907
Funds withheld reinsurance assets	566	593
Goodwill	1,757	1,368
Other assets	9,644	6,082
Separate account assets	147,692	144,219
Total assets	$ 303,850	$ 281,763
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 33,988	$ 22,887
Other contract holder funds	89,906	80,209
Short-term debt	-	450
Long-term debt	5,804	4,894
Reinsurance related embedded derivatives	20	57
Funds withheld reinsurance liabilities	1,733	1,761
Deferred gain on business sold through reinsurance	1	1

Payables for collateral on investments	4,212	4,417
Other liabilities	5,424	5,546
Separate account liabilities	147,692	144,219
Total liabilities	288,780	264,441
Contingencies and Commitments (See Note 10)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized	-	-
Common stock – 800,000,000 shares authorized; 214,776,806 and 218,090,114 shares issued and outstanding as of September 30, 2018, and December 31, 2017, respectively	5,619	5,693
Retained earnings	8,615	8,399
Accumulated other comprehensive income (loss)	836	3,230
Total stockholders' equity	15,070	17,322
Total liabilities and stockholders' equity	$ 303,850	$ 281,763

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Insurance premiums	$ 1,323	$ 774	$ 3,265	$ 2,382
Fee income	1,550	1,401	4,475	4,148
Net investment income	1,271	1,239	3,736	3,738
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(2)	(9)	(5)	(17)
Portion of loss recognized in other comprehensive income	-	1	-	1
Net other-than-temporary impairment losses on securities recognized in earnings	(2)	(8)	(5)	(16)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(53)	(48)	(46)	(89)
Total realized gain (loss)	(55)	(56)	(51)	(105)
Amortization of deferred gain on business sold through reinsurance	-	-	1	22
Other revenues	175	153	467	403
Total revenues	4,264	3,511	11,893	10,588
Expenses				
Interest credited	652	647	1,952	1,940
Benefits	1,626	1,261	4,646	3,839
Commissions and other expenses	1,367	1,020	3,600	3,068
Interest and debt expense	69	63	228	190
Strategic digitization expense	18	10	49	33
Total expenses	3,732	3,001	10,475	9,070
Income (loss) before taxes	532	510	1,418	1,518
Federal income tax expense (benefit)	42	92	176	254
Net income (loss)	490	418	1,242	1,264
Other comprehensive income (loss), net of tax	(365)	148	(3,036)	1,293
Comprehensive income (loss)	$ 125	$ 566	$ (1,794)	$ 2,557
Net Income (Loss) Per Common Share				
Basic	$ 2.27	$ 1.89	$ 5.71	$ 5.66
Diluted	2.24	1.87	5.59	5.58
Cash Dividends Declared Per Common Share	$ 0.33	$ 0.29	$ 0.99	$ 0.87

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Nine Months Ended September 30,	
	2018	2017
Common Stock		
Balance as of beginning-of-year	$ 5,693	$ 5,869
Stock compensation/issued for benefit plans	33	75
Retirement of common stock/cancellation of shares	(107)	(227)
Balance as of end-of-period	5,619	5,717
Retained Earnings		
Balance as of beginning-of-year	8,399	7,043
Cumulative effect from adoption of new accounting standards	(642)	-
Net income (loss)	1,242	1,264
Retirement of common stock	(168)	(373)
Common stock dividends declared	(216)	(196)
Balance as of end-of-period	8,615	7,738
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	3,230	1,566
Cumulative effect from adoption of new accounting standards	642	-
Other comprehensive income (loss), net of tax	(3,036)	1,293
Balance as of end-of-period	836	2,859
Total stockholders' equity as of end-of-period	$ 15,070	$ 16,314

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income (loss)	$ 1,242	$ 1,264
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	86	38
Trading securities purchases, sales and maturities, net	162	83
Change in premiums and fees receivable	(109)	60
Change in accrued investment income	(66)	(75)
Change in future contract benefits and other contract holder funds	(997)	(1,152)
Change in reinsurance related assets and liabilities	426	80
Change in accrued expenses	73	(21)
Change in federal income tax accruals	86	154
Realized (gain) loss	51	105
Amortization of deferred gain on business sold through reinsurance	(1)	(22)
Other	81	95
Net cash provided by (used in) operating activities	1,034	609
Cash Flows from Investing Activities		
Purchases of available-for-sale securities and equity securities	(8,816)	(7,465)
Sales of available-for-sale securities and equity securities	2,678	1,104
Maturities of available-for-sale securities	4,714	4,100
Purchase of common stock in acquisition, net of cash acquired	(1,410)	-
Sale of business, net	(12)	-
Purchases of alternative investments	(234)	(228)
Sales and repayments of alternative investments	115	140
Issuance of mortgage loans on real estate	(2,035)	(1,342)
Repayment and maturities of mortgage loans on real estate	842	849
Issuance and repayment of policy loans, net	40	34
Net change in collateral on investments, derivatives and related settlements	22	90
Other	(144)	(66)
Net cash provided by (used in) investing activities	(4,240)	(2,784)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(537)	-
Issuance of long-term debt, net of issuance costs	1,094	-
Payment related to early extinguishment of debt	(23)	-

Proceeds from sales leaseback transaction	51	45
Deposits of fixed account values, including the fixed portion of variable	9,426	7,625
Withdrawals of fixed account values, including the fixed portion of variable	(4,466)	(4,309)
Transfers to and from separate accounts, net	(2,008)	(1,183)
Common stock issued for benefit plans	(7)	38
Repurchase of common stock	(275)	(600)
Dividends paid to common stockholders	(217)	(198)
Net cash provided by (used in) financing activities	3,038	1,418
Net increase (decrease) in cash, invested cash and restricted cash	(168)	(757)
Cash, invested cash and restricted cash as of beginning-of-year	1,628	2,722
Cash, invested cash and restricted cash as of end-of-period	$ 1,460	$ 1,965

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 15 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products primarily include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed universal life insurance ("IUL"), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. As discussed in Note 3, on May 1, 2018, LNC and The Lincoln National Life Insurance Company ("LNL") completed the acquisition of Liberty Life Assurance Company of Boston ("Liberty Life"). The information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial condition, results of operations and cash flows, are summarized in our 2017 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine months ended September 30, 2018, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2018. All material inter-company accounts and transactions have been eliminated in consolidation.

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2. New Accounting Standards

Adoption of New Accounting Standards

The following table provides a description of our adoption of new Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board and the impact of the adoption on our financial statements. ASUs not listed below were assessed and determined to be either not applicable or not material in presentation or amount.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers and all related amendments	This standard establishes the core principle of recognizing revenue to depict the transfer of promised goods and services and defines a five-step process that systematically identifies the various components of the revenue recognition process, culminating with the recognition of revenue upon satisfaction of an entity's performance obligation. Although the standard and all related amendments supersede nearly all existing revenue recognition guidance under GAAP, the guidance does not amend the accounting for insurance and investment contracts recognized in accordance with Accounting Standards Codification™ ("ASC") Topic 944, Financial Services – Insurance, leases, financial instruments and guarantees.	January 1, 2018	We adopted the standard and all related amendments using the modified retrospective method. Our primary sources of revenue are recognized in accordance with ASC Topic 944, Financial Services – Insurance; as such, revenue within the scope of the new standard primarily includes commissions and advisory fees earned by our broker dealer operation. The adoption did not have a material impact on our consolidated financial condition, results of operations, stockholders' equity or cash flows. There were no material changes in the timing or measurement of revenues based upon the guidance. As a result, there is no cumulative effect on retained earnings. For more information, see Note 15.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	These amendments require, among other things, the fair value measurement of investments in equity securities and certain other ownership interests that do not result in consolidation and are not accounted for under the equity method of accounting. The change in fair value of the impacted investments in equity securities must be recognized in net income in the period of the change in fair value. In addition, the amendments include certain enhancements to the presentation and disclosure requirements for financial assets and financial liabilities. The guidance does not apply to Federal Home Loan Bank ("FHLB") stock. Early adoption of the ASU is generally not permitted, except as defined in the ASU. The amendments were adopted in the financial statements through a cumulative-effect adjustment to the beginning balance of retained earnings in the period of adoption.	January 1, 2018	At the time of adoption, we had equity securities classified as available-for-sale ("AFS") with a total carrying value of $246 million. We classified, prospectively, $110 million of equity securities within the scope of this ASU in a separate line on our Consolidated Balance Sheets. The remaining securities, consisting of $136 million of FHLB stock, are classified in other investments on our Consolidated Balance Sheets and carried at cost. The cumulative-effect adjustment of adopting this ASU was $1 million.
ASU 2018-02, Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income	These amendments require a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act ("Tax Act") of 2017. The amount of the reclassification is equal to the impact of the change in deferred taxes related to amounts recorded in AOCI resulting from the change in the statutory corporate tax rate from 35% to 21%. Early adoption is permitted and retrospective application is required.	January 1, 2018	We retrospectively reclassified $641 million of stranded tax effects from AOCI to retained earnings in the period of adoption.

Future Adoption of New Accounting Standards

The following table provides a description of future adoptions of new accounting standards that may have an impact on our financial statements when adopted:

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases	This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet as a right-of-use asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the right-of-use asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted.	January 1, 2019	We continue to gather information to determine our leases that are within the scope of this standard. We do not expect there to be a significant difference in our pattern of lease expense recognition under this ASU.
ASU 2016-13, Measurement of Credit Losses on Financial Instruments	These amendments adopt a new model to measure and recognize credit losses for most financial assets. The method used to measure estimated credit losses for AFS debt securities will be unchanged from current GAAP; however, the amendments require credit losses to be recognized through an allowance rather than as a reduction to the amortized cost of those debt securities. The amendments will permit entities to recognize improvements in credit loss estimates on AFS debt securities by reducing the allowance account immediately through earnings. The amendments will be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein.	January 1, 2020	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations, with a primary focus on our fixed maturity securities, mortgage loans and reinsurance recoverables.
ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities	These amendments require an entity to shorten the amortization period for certain callable debt securities held at a premium so that the premium is amortized to the earliest call date. Early adoption is permitted, and the ASU requires adoption under a modified retrospective basis through a cumulative-effect adjustment to the beginning balance of retained earnings.	January 1, 2019	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities	These amendments change both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments retain the threshold of highly effective for hedging relationships, remove the requirement to bifurcate between the portions of the hedging relationship that are effective and ineffective, record hedge item and hedging instrument results in the same financial statement line item, require quantitative assessment initially for all hedging relationships unless the hedging relationship meets the definition of either the shortcut method or critical terms match method and allow the contractual specified index rate to be designated as the hedged risk in a cash flow hedge of interest rate risk of a variable rate financial instrument. These amendments also eliminate the benchmark interest rate concept for variable rate instruments. Early adoption is permitted.	January 1, 2019	We do not currently expect the adoption of this guidance to have a material impact on our consolidated financial condition and results of operations.

Standard	Description	Projected Date of Adoption	Effect on Financial Statements or Other Significant Matters
ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts	These amendments make changes to the accounting and reporting for long-duration contracts issued by an insurance entity that will significantly change how insurers account for long-duration contracts, including how they measure, recognize and make disclosures about insurance liabilities and deferred acquisition costs (“DAC”). Under this ASU insurers will be required to review cash flow assumptions at least annually and update them if necessary. They also will have to make quarterly updates to the discount rate assumptions they use to measure the liability for future policyholder benefits. The ASU creates a new category of market risk benefits (i.e., features that protect the contract holder from capital market risk and expose the insurer to that risk) that insurers will have to measure at fair value. The ASU provides various transition methods by topic that entities may elect upon adoption. Early adoption is permitted.	January 1, 2021	We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations.

3. Acquisition

As previously announced, on May 1, 2018, we completed the acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business (“Liberty Group Business”) and individual life and individual and group annuity business (the “Liberty Life Business”), from Liberty Mutual Insurance Company in a transaction accounted for under the acquisition method of accounting pursuant to Business Combinations Topic 805 (“Topic 805”). The acquisition enables us to increase our market share within the group protection marketplace.

In connection with the acquisition and pursuant to the Master Transaction Agreement (“MTA”), dated January 18, 2018, which was attached as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on January 22, 2018, Liberty Life sold the Liberty Life Business on May 1, 2018, by entering into reinsurance agreements and related ancillary documents (including administrative services agreements and transition services agreements) with Protective Life Insurance Company and its wholly-owned subsidiary, Protective Life and Annuity Insurance Company (together with Protective Life Insurance Company, “Protective”), providing for the reinsurance and administration of the Liberty Life Business.

Liberty Life’s excess capital of $1.8 billion was paid to Liberty Mutual Insurance Company through an extraordinary dividend at the acquisition date. We paid $1.5 billion of cash to Liberty Mutual Insurance Company to acquire the Liberty Group Business.

We recognized $10 million and $60 million of acquisition-related costs, pre-tax, for the three and nine months ended September 30, 2018, respectively. These costs are included in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

The acquisition date fair values of certain assets and liabilities, including future contract benefits, intangible assets and related weighted average expected lives, commercial mortgage loans, reinsurance recoverables and deferred income taxes, are provisional and subject to revision within one year of the acquisition date. Under the terms of the MTA, a final balance sheet will be agreed upon at a later date. As such, our estimates of fair values are pending finalization, which may result in adjustments to goodwill. The following table presents the preliminary fair values (in millions) of the net assets acquired related to the Liberty Group Business as of the acquisition date:

	Preliminary Fair Value
Assets	
Investments	$ 2,493
Mortgage loans on real estate	658
Cash and invested cash	107
Reinsurance recoverables	76
Premiums and fees receivable	83
Accrued investment income	24
Other intangible assets acquired	640
Other assets acquired	142
Separate account assets	99
Total assets acquired	$ 4,322
Liabilities	
Future contract benefits	$ 2,930
Other contract holder funds	46
Other liabilities acquired	120
Separate account liabilities	99
Total liabilities assumed	$ 3,195
Net identifiable assets acquired	$ 1,127
Goodwill	390
Net assets acquired	$ 1,517

Identifiable Intangible Assets

The following table presents the fair value of identifiable intangible assets acquired (dollars in millions):

Weighted-
Average

	Fair Value	Amortization Period
Value of customer relationships acquired	$ 576	20
Value of distribution agreements	31	13
Value of business acquired	30	3
Insurance licenses	3	N/A
Total identifiable intangible assets	$ 640	

The value of customer relationships acquired ("VOCRA") and value of distribution agreements ("VODA"), included in other assets on our Consolidated Balance Sheets, reflects the estimated fair value of the customer relationships acquired and distribution agreements of the Liberty Group Business as of May 1, 2018. The value of the identifiable intangible assets was estimated using a discounted cash flow method. Significant inputs to the valuation models include estimates of expected premiums, persistency rates, investment returns, claim costs, expenses and discount rates based on a weighted average cost of capital. Similar to other specifically identifiable intangible assets, the carrying values of VOCRA and VODA will be amortized using a straight-line method and reviewed at least annually for indicators of impairment in value that are other-than-temporary.

For information on value of business acquired ("VOBA"), see Notes 1 and 8 in our 2017 Form 10-K.

The value of insurance licenses was estimated using the comparable transaction method under the market approach based on arms-length transactions in which certificate authority companies with life and health insurance licenses were purchased. The value of insurance licenses has an indefinite useful life.

Goodwill

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from assets acquired and liabilities assumed that could not be individually identified. The goodwill recorded as part of the acquisition includes the expected synergies and other benefits that management believes will result from the acquisition, including an increase in distribution strength. The goodwill resulting from the acquisition was allocated to the Group Protection segment. The goodwill is not expected to be deductible for income tax purposes. For more information on goodwill, see Notes 1 and 10 in our 2017 Form 10-K.

Future Contract Benefits

Unpaid claims acquired reflected within future contract benefits were recorded at estimated fair value. The reserve discount rate was based on the investment yield of the assets acquired with adjustments for risk margin. The actuarial classifications and methodologies were adjusted to be consistent with our accounting policies and reserve methodologies.

Financial Information

Since the acquisition date of May 1, 2018, the revenues and net income of the business acquired have been included in our Consolidated Statements of Comprehensive Income (Loss) in the Group Protection segment and were $929 million and $26 million, respectively.

The following unaudited pro forma condensed consolidated results of operations of the Company assume that the acquisition of Liberty Life was completed on January 1, 2017 (in millions):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue	$ 4,263	$ 3,989	$ 12,632	$ 12,030
Net income	497	396	1,287	1,201

Pro forma adjustments include the revenue and net income of the acquired business for each period as well as amortization of identifiable intangible assets acquired and the fair value adjustment to acquired insurance reserves and investments. Other pro forma adjustments include the incremental increase to interest expense attributable to financing the acquisition; and the impact of reflecting acquisition and integration costs and investment expenses directly attributable to the business combination in 2017 instead of in 2018. Pro forma adjustments do not include retrospective adjustments to defer and amortize acquisition costs as would be recorded under our accounting policy.

Reinsurance

Pursuant to the reinsurance agreements, we sold the Liberty Life Business to Protective for a ceding commission of $423 million. Our amounts recoverable from reinsurers increased significantly to $18.3 billion as of September 30, 2018, from $4.9 billion as of December 31, 2017, primarily as a result of this reinsurance transaction. As such, Protective now represents our largest reinsurance exposure. As we are not relieved of our liability, the liabilities and obligations associated with the reinsured policies remain on our Consolidated Balance Sheets with a corresponding reinsurance recoverable from Protective. To support its obligations under the reinsurance agreements, Protective has established trust accounts for our benefit that fully collateralize the related reinsurance recoverable. We recorded a deferred tax asset attributed to a tax loss carryforward arising from the reinsurance transaction with Protective.

4. Variable Interest Entities

Consolidated VIEs

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

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

	As of September 30, 2018			As of December 31, 2017		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Total return swap	1	587	-	1	573	-
Total assets	1	$ 587	$ -	1	$ 573	$ -

As of September 30, 2018, and December 31, 2017, there were no gains or losses for consolidated VIEs recognized on our Consolidated Statements of Comprehensive Income (Loss).

Unconsolidated VIEs

See Note 4 in our 2017 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

Limited Partnerships and Limited Liability Companies

We invest in certain limited partnerships ("LPs") and limited liability companies ("LLCs"), including qualified affordable housing projects, that we have concluded are VIEs. We do not hold any substantive kick-out or participation rights in the LPs and LLCs, and we do not receive any performance fees or decision maker fees from the LPs and LLCs. Based on our analysis of the LPs and LLCs, we are not the primary beneficiary of the VIEs as we do not have the power to direct the most significant activities of the LPs and LLCs.

The carrying amounts of our investments in the LPs and LLCs are recognized in other investments on our Consolidated Balance Sheets and were $1.7 billion and $1.5 billion as of September 30, 2018, and December 31, 2017, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were $25 million and $31 million as of September 30, 2018, and December 31, 2017, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We received returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits that were $1 million and $2 million for the nine months ended September 30, 2018 and 2017, respectively, which were recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss).

Our exposure to loss is limited to the capital we invest in the LPs and LLCs, and there have been no indicators of impairment that would require us to recognize an impairment loss related to the LPs and LLCs as of September 30, 2018.

5. Investments

AFS Securities

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

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

	As of September 30, 2018				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed maturity AFS securities:					
Corporate bonds	$ 78,496	$ 3,299	$ 1,724	$ (9)	$ 80,080
Asset-backed securities ("ABS")	934	41	7	(17)	985
U.S. government bonds	392	23	6	-	409
Foreign government bonds	418	41	-	-	459
Residential mortgage-backed securities ("RMBS")	3,267	113	114	(21)	3,287
Commercial mortgage-backed securities ("CMBS")	766	2	23	(3)	748
Collateralized loan obligations ("CLOs")	1,371	-	14	(5)	1,362
State and municipal bonds	4,588	656	26	-	5,218
Hybrid and redeemable preferred securities	576				