LINCOLN NATIONAL CORP
Form 10-Q
November 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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 x 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 x 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 x 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 x

As of October 28, 2013, there were 262,347,187 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, 2013 (Unaudited)	As of December 31, 2012
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2013 – $75,856; 2012 – $72,718)	$ 80,135	$ 82,036
Variable interest entities' fixed maturity securities (amortized cost: 2013 – $681; 2012 – $677)	699	708
Equity securities (cost: 2013 – $166; 2012 – $137)	185	157
Trading securities	2,354	2,554
Mortgage loans on real estate	7,127	7,029
Real estate	56	65
Policy loans	2,679	2,766
Derivative investments	1,114	2,652
Other investments	1,219	1,098
Total investments	95,568	99,065
Cash and invested cash	2,650	4,230
Deferred acquisition costs and value of business acquired	8,500	6,667
Premiums and fees receivable	427	380
Accrued investment income	1,111	1,015
Reinsurance recoverables	6,528	6,449
Funds withheld reinsurance assets	782	837
Goodwill	2,273	2,273
Other assets	2,709	2,580
Separate account assets	109,376	95,373
Total assets	$ 229,924	$ 218,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 18,138	$ 19,780
Other contract holder funds	74,106	72,218
Short-term debt	503	200
Long-term debt	5,365	5,439
Reinsurance related embedded derivatives	121	215

Funds withheld reinsurance liabilities	898	940
Deferred gain on business sold through reinsurance	263	319
Payables for collateral on investments	3,553	4,181
Variable interest entities' liabilities	67	128
Other liabilities	4,145	5,103
Separate account liabilities	109,376	95,373
Total liabilities	216,535	203,896
Contingencies and Commitments (See Note 9)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized; Series A – 9,532 shares issued and outstanding as of December 31, 2012	-	-
Common stock – 800,000,000 shares authorized; 262,342,363 and 271,402,586 shares issued and outstanding as of September 30, 2013, and December 31, 2012, respectively	6,886	7,121
Retained earnings	4,753	4,044
Accumulated other comprehensive income (loss)	1,750	3,808
Total stockholders' equity	13,389	14,973
Total liabilities and stockholders' equity	$ 229,924	$ 218,869

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,	
	2013	2012	2013	2012
Revenues				
Insurance premiums	$ 672	$ 606	$ 2,000	$ 1,825
Fee income	1,032	990	2,973	2,778
Net investment income	1,180	1,146	3,543	3,509
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(22)	(47)	(61)	(194)
Portion of loss recognized in other comprehensive income	3	15	9	82
Net other-than-temporary impairment losses on securities recognized in earnings	(19)	(32)	(52)	(112)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(9)	102	(53)	140
Total realized gain (loss)	(28)	70	(105)	28
Amortization of deferred gain on business sold through reinsurance	19	19	56	56
Other revenues	134	123	380	366
Total revenues	3,009	2,954	8,847	8,562
Expenses				
Interest credited	627	611	1,871	1,855
Benefits	945	810	2,894	2,605
Commissions and other expenses	928	1,047	2,721	2,731
Interest and debt expense	67	68	196	203
Total expenses	2,567	2,536	7,682	7,394
Income (loss) from continuing operations before taxes	442	418	1,165	1,168
Federal income tax expense (benefit)	105	18	272	203
Income (loss) from continuing operations	337	400	893	965
Income (loss) from discontinued operations, net of federal income taxes	-	28	-	27
Net income (loss)	337	428	893	992
Other comprehensive income (loss), net of tax	(143)	771	(2,058)	1,471
Comprehensive income (loss)	$ 194	$ 1,199	$ (1,165)	$ 2,463
Earnings (Loss) Per Common Share – Basic				
Income (loss) from continuing operations	$ 1.28	$ 1.44	$ 3.35	$ 3.41
Income (loss) from discontinued operations	-	0.10	-	0.10
Net income (loss)	$ 1.28	$ 1.54	$ 3.35	$ 3.51
Earnings (Loss) Per Common Share – Diluted				
Income (loss) from continuing operations	$ 1.23	$ 1.41	$ 3.24	$ 3.33

Income (loss) from discontinued operations	-	0.10	-	0.09
Net income (loss)	$ 1.23	$ 1.51	$ 3.24	$ 3.42

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, 2013	2012
Common Stock		
Balance as of beginning-of-year	$ 7,121	$ 7,590
Stock compensation/issued for benefit plans	27	24
Retirement of common stock/cancellation of shares	(262)	(400)
Balance as of end-of-period	6,886	7,214
Retained Earnings		
Balance as of beginning-of-year	4,044	2,831
Net income (loss)	893	992
Retirement of common stock	(88)	-
Dividends declared: Common (2013 – $0.360; 2012 – $0.240)	(96)	(67)
Balance as of end-of-period	4,753	3,756
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	3,808	2,680
Other comprehensive income (loss), net of tax	(2,058)	1,471
Balance as of end-of-period	1,750	4,151
Total stockholders' equity as of end-of-period	$ 13,389	$ 15,121

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, 2013	2012
Cash Flows from Operating Activities		
Net income (loss)	$ 893	$ 992
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	(355)	(96)
Trading securities purchases, sales and maturities, net	90	124
Change in premiums and fees receivable	(47)	42
Change in accrued investment income	(96)	(86)
Change in future contract benefits and other contract holder funds	18	(264)
Change in reinsurance related assets and liabilities	(207)	71
Change in federal income tax accruals	262	23
Realized (gain) loss	105	(28)
(Income) loss attributable to equity method investments	(55)	(95)
Amortization of deferred gain on business sold through reinsurance	(56)	(56)
(Gain) loss on disposal of discontinued operations	-	1
Other	(48)	38
Net cash provided by (used in) operating activities	504	666
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(8,719)	(8,437)
Sales of available-for-sale securities	800	965
Maturities of available-for-sale securities	4,772	4,471
Purchases of other investments	(1,867)	(1,418)
Sales or maturities of other investments	1,901	1,622
Increase (decrease) in payables for collateral on investments	(628)	833
Other	(73)	(103)
Net cash provided by (used in) investing activities	(3,814)	(2,067)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	-	(300)
Issuance of long-term debt, net of issuance costs	397	300
Deposits of fixed account values, including the fixed portion of variable	7,847	7,612
Withdrawals of fixed account values, including the fixed portion of variable	(3,910)	(4,103)
Transfers to and from separate accounts, net	(2,158)	(1,775)
Common stock issued for benefit plans and excess tax benefits	1	(3)

Repurchase of common stock	(350)	(400)
Dividends paid to common and preferred stockholders	(97)	(67)
Net cash provided by (used in) financing activities	1,730	1,264
Net increase (decrease) in cash and invested cash, including discontinued operations	(1,580)	(137)
Cash and invested cash, including discontinued operations, as of beginning-of-year	4,230	4,510
Cash and invested cash, including discontinued operations, as of end-of-period	$ 2,650	$ 4,373

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 14 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, 2012 ("2012 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 2012 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine month period ended September 30, 2013, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. All material inter-company accounts and transactions have been eliminated in consolidation.

2. New Accounting Standards

Adoption of New Accounting Standards

Balance Sheet Topic

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"), and in January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" ("ASU 2013-01"). For a more detailed description of ASU 2011-11 and ASU 2013-01, see "Future Adoption of New Accounting Standards – Balance Sheet Topic" in Note 2 of our 2012 Form 10-K. We adopted the disclosure requirements of ASU 2011-11, after considering the scope clarification in ASU 2013-01, as of January 1, 2013, and have included the required disclosures for all comparative periods in Note 6 of this quarterly report on Form 10-Q.

Comprehensive Income Topic

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which requires enhanced reporting of such amounts either on the face of the financial statements or in the notes to the financial statements. For a more detailed description of ASU 2013-02, see "Future Adoption of New Accounting Standards – Comprehensive Income Topic" in Note 2 of our 2012 Form 10-K. We adopted the disclosure requirements in ASU 2013-02 as of January 1, 2013, and have provided the required disclosure in the notes to our consolidated financial statements. We have prospectively included the required disclosures in Note 10 of this quarterly report on Form 10-Q.

Derivatives and Hedging Topic

In July 2013, the FASB issued ASU No. 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes" ("ASU 2013-10"), which permits the Fed Funds Effective Swap Rate to be used as a benchmark interest rate for hedge accounting purposes under the FASB Accounting Standards CodificationTM ("ASC") in addition to interest rates on direct Treasury obligations of the U.S. government and the LIBOR swap rate. We adopted the amendments in ASU 2013-10 prospectively for qualifying new or designated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have an effect on our consolidated financial condition and results of operation.

Future Adoption of New Accounting Standards

Financial Services – Investment Companies Topic

In June 2013, the FASB issued 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. ASU 2013-08 requires an assessment of all the characteristics of an investment company through the use of a new two-tiered approach, which considers the entity's purpose and design to determine whether it is an investment company. As a result of applying the new criteria in ASU 2013-08, an entity once considered an investment company may no longer meet the new criteria to be classified as such, and, conversely, an entity not classified as an investment company under current GAAP may satisfy the criteria to be classified as such upon the adoption of ASU 2013-08. If an entity is no longer classified as an investment company, it must discontinue the application of investment company accounting guidance and present the change in status through a cumulative effect adjustment to the beginning balance of retained earnings in the period of adoption. If an entity becomes classified as an investment company, ASU 2013-08 should be applied prospectively with the effect of adoption recognized as an adjustment to opening net assets for the period of adoption. The amendments in ASU 2013-08 are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013, with early application prohibited. We will adopt the requirements in ASU 2013-08 effective January 1, 2014, and are currently evaluating the impact of adoption 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. ASU 2013-11 provides guidance on the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in ASU 2013-11 are effective prospectively for interim and annual reporting periods in fiscal years beginning after December 15, 2013, with early application permitted. We will adopt the requirements of ASU 2013-11 effective January 1, 2014, and will include the new disclosure requirements in the notes to our consolidated financial statements upon adoption.

3. Dispositions

Discontinued Investment Management Operations

On January 4, 2010, we closed on the stock sale of our subsidiary, Delaware Management Holdings, Inc. (“Delaware”), which provided investment products and services to individuals and institutions, to Macquarie Bank Limited.

Amounts (in millions) reflected in income (loss) from discontinued operations on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Disposal				
Gain (loss) on disposal, before federal income taxes	$ -	$ -	$ -	$ (1)
Federal income tax expense (benefit)	-	(28)	-	(28)
Gain (loss) on disposal	-	28	-	27
Income (loss) from discontinued operations	$ -	$ 28	$ -	$ 27

The income from discontinued operations for the three and nine months ended September 30, 2012, related to the release of reserves associated with prior tax years that were closed out during the third quarter. In addition, the nine months ended September 30, 2012, included a purchase price adjustment associated with the termination of a portion of the investment advisory agreement with Delaware.

4. Variable Interest Entities (“VIEs”)

Consolidated VIEs

See Note 4 in our 2012 Form 10-K for a detailed discussion of our consolidated VIEs, which information is incorporated herein by reference.

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The following summarizes information regarding the credit-linked note ("CLN") structures (dollars in millions) as of September 30, 2013:

	Amount and Date of Issuance	
	$400 December 2006	$200 April 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 collateral pool	Aa1-B1	Aaa-Caa2
Number of defaults in underlying collateral pool	2	2
Number of entities	123	99
Number of countries	20	21

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of September 30, 2013:

	AAA	AA	A	BBB	BB	B	CCC	Total
Financial intermediaries	0.0%	2.1%	7.0%	1.4%	0.0%	0.0%	0.0%	10.5%
Telecommunications	0.0%	0.0%	3.5%	6.4%	0.5%	0.0%	0.0%	10.4%
Oil and gas	0.4%	2.1%	1.0%	4.6%	0.0%	0.0%	0.0%	8.1%
Utilities	0.0%	0.0%	2.6%	2.0%	0.0%	0.0%	0.0%	4.6%
Chemicals and plastics	0.0%	0.0%	2.3%	1.2%	0.4%	0.0%	0.0%	3.9%
Drugs	0.3%	2.2%	1.2%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	2.1%	0.9%	0.5%	0.0%	0.0%	3.5%
Industrial equipment	0.0%	0.0%	2.6%	0.7%	0.0%	0.0%	0.0%	3.3%
Sovereign	0.0%	0.7%	1.2%	1.3%	0.0%	0.0%	0.0%	3.2%
Conglomerates	0.0%	2.3%	0.9%	0.0%	0.0%	0.0%	0.0%	3.2%
Forest products	0.0%	0.0%	0.0%	1.6%	1.4%	0.0%	0.0%	3.0%
Other	0.0%	4.1%	15.1%	18.2%	4.6%	0.3%	0.3%	42.6%
Total	0.7%	13.5%	39.5%	38.3%	7.4%	0.3%	0.3%	100.0%

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

	As of September 30, 2013			As of December 31, 2012		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loans	N/A	$ -	$ 595	N/A	$ -	$ 598
U.S. government bonds	N/A	-	104	N/A	-	110
Excess mortality swap	1	100	-	1	100	-
Total assets [1]	1	$ 100	$ 699	1	$ 100	$ 708
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 67	2	$ 600	$ 128
Contingent forwards	2	-	-	2	-	-
Total liabilities [2]	4	$ 600	$ 67	4	$ 600	$ 128

(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 5.

As described more fully in Note 1 of our 2012 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the AFS fixed maturity securities were not other-than-temporarily impaired as of September 30, 2013.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Non-Qualifying Hedges				
Credit default swaps	$ 35	$ 58	$ 61	$ 120
Contingent forwards	-	(1)	-	(3)
Total non-qualifying hedges [1]	$ 35	$ 57	$ 61	$ 117

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

Unconsolidated VIEs

See Note 4 in our 2012 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 $89 million and $92 million as of September 30, 2013, and December 31, 2012, respectively.

5. Investments

AFS Securities

See Note 1 in our 2012 Form 10-K for information regarding our accounting policy relating to AFS securities, which also includes additional disclosures regarding our fair value measurements.

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

	As of September 30, 2013				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 64,933	$ 4,739	$ 1,056	$ 91	$ 68,525
U.S. government bonds	345	32	9	-	368
Foreign government bonds	523	53	-	-	576
Residential mortgage-backed securities ("RMBS")	4,396	294	1	39	4,650
Commercial mortgage-backed securities ("CMBS")	776	40	4	17	795
Collateralized debt obligations ("CDOs")	202	-	1	7	194
State and municipal bonds	3,654	346	24	-	3,976
Hybrid and redeemable preferred securities	1,027	89	65	-	1,051
VIEs' fixed maturity securities	681	18	-	-	699
Total fixed maturity securities	76,537	5,611	1,160	154	80,834
Equity securities	166	19	-	-	185
Total AFS securities	$ 76,703	$ 5,630	$ 1,160	$ 154	$ 81,019

	As of December 31, 2012				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 60,124	$ 8,219	$ 219	$ 108	$ 68,016
U.S. government bonds	383	59	-	-	442
Foreign government bonds	562	92	-	-	654
RMBS	5,763	471	3	60	6,171
CMBS	970	68	16	19	1,003
CDOs	189	2	3	8	180
State and municipal bonds	3,546	814	7	-	4,353
Hybrid and redeemable preferred securities	1,181	106	70	-	1,217
VIEs' fixed maturity securities	677	31	-	-	708
Total fixed maturity securities	73,395	9,862	318	195	82,744
Equity securities	137	22	2	-	157
Total AFS securities	$ 73,532	$ 9,884	$ 320	$ 195	$ 82,901

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of September 30, 2013, were as follows:

	Amortized	Fair
	Cost	Value
Due in one year or less	$ 2,546	$ 2,604
Due after one year through five years	13,947	15,116
Due after five years through ten years	25,054	26,239
Due after ten years	29,616	31,236
Subtotal	71,163	75,195
Mortgage-backed securities ("MBS")	5,172	5,445
CDOs	202	194
Total fixed maturity AFS securities	$ 76,537	$ 80,834

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

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

	As of September 30, 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	$ 15,900	$ 978	$ 820	$ 169	$ 16,720	$ 1,147
U.S. government bonds	145	9	-	-	145	9
RMBS	635	30	100	10	735	40
CMBS	117	19	29	2	146	21
CDOs	73	7	45	1	118	8
State and municipal bonds	303	18	22	6	325	24
Hybrid and redeemable preferred securities	60	6	218	59	278	65
Total fixed maturity securities	17,233	1,067	1,234	247	18,467	1,314
Equity securities	-	-	-	-	-	-
Total AFS securities	$ 17,233	$ 1,067	$ 1,234	$ 247	$ 18,467	$ 1,314
Total number of AFS securities in an unrealized loss position						1,361

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	As of December 31, 2012					
	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	$ 2,853	$ 145	$ 934	$ 182	$ 3,787	$ 327
RMBS	272	39	199	24	471	63
CMBS	66	16	113	19	179	35
CDOs	10	8	53	3	63	11
State and municipal bonds	64	1	24	6	88	7
Hybrid and redeemable preferred securities	71	3	293	67	364	70
Total fixed maturity securities	3,336	212	1,616	301	4,952	513
Equity securities	7	2	-	-	7	2
Total AFS securities	$ 3,343	$ 214	$ 1,616	$ 301	$ 4,959	$ 515
Total number of AFS securities in an unrealized loss position						626

For information regarding our investments in VIEs, see Note 4.

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 2012 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of September 30, 2013		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,285	$ 1,163	$ 122
AFS securities backed by pools of commercial mortgages	190	163	27
Total	$ 1,475	$ 1,326	$ 149
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 1,055	$ 941	$ 114
AFS securities backed by pools of commercial mortgages	34	24	10

Total	$ 1,089	$ 965	$ 124

	As of December 31, 2012		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,181	$ 980	$ 201
AFS securities backed by pools of commercial mortgages	236	192	44
Total	$ 1,417	$ 1,172	$ 245
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 1,173	$ 972	$ 201
AFS securities backed by pools of commercial mortgages	56	40	16
Total	$ 1,229	$ 1,012	$ 217

For the nine months ended September 30, 2013 and 2012, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $23 million and $6 million, pre-tax, respectively, and before associated amortization expense for deferred acquisition costs (“DAC”), value of business acquired (“VOBA”), deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”), of which $1 million and $(31) million, respectively, was recognized in OCI and $22 million and $37 million, respectively, was recognized in net income (loss).

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

	As of September 30, 2013			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities [1]
Less than six months	$ 231	$ 61	$ 5	22
Six months or greater, but less than nine months	21	17	-	5
Nine months or greater, but less than twelve months	-	-	-	6
Twelve months or greater	249	87	87	84
Total	$ 501	$ 165	$ 92	117

	As of December 31, 2012			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities [1]
Less than six months	$ 34	$ 9	$ 1	14
Nine months or greater, but less than twelve months	15	10	-	3
Twelve months or greater	395	179	128	131
Total	$ 444	$ 198	$ 129	148

(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 increased by $799 million for the nine months ended September 30, 2013. As discussed further below, we believe the unrealized loss position as of September 30, 2013, did not represent OTTI as (i) we did not intend to sell the fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis; (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities; and (iv) we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of September 30, 2013, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of September 30, 2013, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and 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 September 30, 2013, the unrealized losses associated with our MBS and 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 September 30, 2013, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each security.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance as of beginning-of-period	$ 413	$ 415	$ 424	$ 390
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	6	19	26	74
Credit losses on securities for which an OTTI was previously recognized	16	18	37	60
Decreases attributable to:				
Securities sold	(16)	(19)	(68)	(91)
Balance as of end-of-period	$ 419	$ 433	$ 419	$ 433

During the nine months ended September 30, 2013 and 2012, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	As of September 30, 2013				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 271	$ 17	$ 60	$ 228	$ 122
RMBS	582	18	23	577	189
CMBS	37	3	13	27	108
Total	$ 890	$ 38	$ 96	$ 832	$ 419

	As of December 31, 2012				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 299	$ 4	$ 98	$ 205	$ 104
RMBS	636	22	40	618	227
CMBS	41	1	16	26	93
Total	$ 976	$ 27	$ 154	$ 849	$ 424

Mortgage Loans on Real Estate

See Note 1 in our 2012 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 September 30, 2013, and December 31, 2012.

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

	As of September 30, 2013	As of December 31, 2012
Current	$ 7,117	$ 7,011
60 to 90 days past due	-	8
Greater than 90 days past due	13	24
Valuation allowance associated with impaired mortgage loans on real estate	(9)	(21)
Unamortized premium (discount)	6	7
Total carrying value	$ 7,127	$ 7,029

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

	As of September 30, 2013	As of December 31, 2012
Number of impaired mortgage loans on real estate	4	10
Principal balance of impaired mortgage loans on real estate	$ 37	$ 75
Valuation allowance associated with impaired mortgage loans on real estate	(9)	(21)
Carrying value of impaired mortgage loans on real estate	$ 28	$ 54

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

As of As of

	September 30, 2013	December 31, 2012
Balance as of beginning-of-year	$ 21	$ 31
Additions	3	14
Charge-offs, net of recoveries	(15)	(24)
Balance as of end-of-period	$ 9	$ 21

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

	For the Three Months Ended September 30, 2013	2012	For the Nine Months Ended September 30, 2013	2012
Average carrying value for impaired mortgage loans on real estate	$ 31	$ 42	$ 37	$ 52
Interest income recognized on impaired mortgage loans on real estate	-	1	1	1
Interest income collected on impaired mortgage loans on real estate	-	1	1	1

As described in Note 1 in our 2012 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

	As of September 30, 2013			As of December 31, 2012		
	Principal Amount	% of Total	Debt-Service Coverage Ratio	Principal Amount	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 5,958	83.6%	1.79	$ 5,677	80.6%	1.68
65% to 74%	723	10.1%	1.42	897	12.7%	1.39
75% to 100%	404	5.7%	0.83	386	5.5%	0.84

Greater than 100%		45	0.6%	0.66		83	1.2%	0.66
Total mortgage loans on real estate	$	7,130	100.0%		$	7,043	100.0%	

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Alternative Investments

As of September 30, 2013, and December 31, 2012, alternative investments included investments in 108 and 98 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Fixed maturity AFS securities:				
Gross gains	$ 5	$ 4	$ 17	$ 12
Gross losses	(28)	(49)	(73)	(161)
Equity AFS securities:				
Gross gains	1	-	7	1
Gross losses	(1)	-	(2)	-
Gain (loss) on other investments	(2)	(10)	(3)	(8)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(8)	1	(19)	3
Total realized gain (loss) related to certain investments	$ (33)	$ (54)	$ (73)	$ (153)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
OTTI Recognized in Net Income (Loss)				
Corporate bonds	$ (11)	$ (5)	$ (21)	$ (34)

RMBS	(10)	(16)	(25)	(48)
CMBS	(1)	(14)	(15)	(50)
CDOs	-	(2)	(1)	(2)
Total fixed maturity securities	(22)	(37)	(62)	(134)
Equity securities	(1)	-	(1)	-
Gross OTTI recognized in net income (loss)	(23)	(37)	(63)	(134)
Associated amortization of DAC, VOBA, DSI, and DFEL	4	5	11	22
Net OTTI recognized in net income (loss), pre-tax	$ (19)	$ (32)	$ (52)	$ (112)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 4	$ 17	$ 10	$ 96
Change in DAC, VOBA, DSI and DFEL	(1)	(2)	(1)	(14)
Net portion of OTTI recognized in OCI, pre-tax	$ 3	$ 15	$ 9	$ 82

Determination of Credit Losses on Corporate Bonds and CDOs

As of September 30, 2013, and December 31, 2012, we reviewed our corporate bond and CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2013, and December 31, 2012, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2013, and December 31, 2012, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.1 billion and $3.0 billion, respectively, and a fair value of $3.0 billion and $2.9 billion, respectively. As of September 30, 2013, and December 31, 2012, 94% and 93% respectively, of the fair value of our CDO portfolio was rated investment grade. As of September 30, 2013, and December 31, 2012, the portion of our CDO portfolio rated below investment grade had an amortized cost of $18 million and $21 million, respectively, and fair value of $12 million and $13 million, respectively. Based upon the analysis discussed above, we believe as of September 30, 2013, and December 31, 2012, that we would recover the amortized cost of each investment grade corporate bond and CDO security.

Determination of Credit Losses on MBS

As of September 30, 2013, and December 31, 2012, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between approximately 10% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

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

Payables for Collateral on Investments

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

	As of September 30, 2013		As of December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments [1]	$ 957	$ 957	$ 2,567	$ 2,567
Securities pledged under securities lending agreements [2]	180	173	197	189
Securities pledged under reverse repurchase agreements [3]	530	552	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") [4]	36	50	37	52
Investments pledged for Federal Home Loan Bank of				

Indianapolis ("FHLBI") (5)	1,850	3,080	1,100	1,936
Total payables for collateral on investments	$ 3,553	$ 4,812	$ 4,181	$ 5,038

(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 6 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 reverse 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 reverse 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 collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

For information related to balance sheet offsetting of our securities lending and reverse repurchase agreements, see Note 6.

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

	For the Nine Months Ended September 30,	
	2013	2012
Collateral payable held for derivative investments	$ (1,610)	$ (27)
Securities pledged under securities lending agreements	(17)	(4)
Securities pledged under reverse repurchase agreements	250	-
Securities pledged for TALF	(1)	(136)
Investments pledged for FHLBI	750	1,000
Total increase (decrease) in payables for collateral on investments	$ (628)	$ 833

Investment Commitments

As of September 30, 2013, our investment commitments were $1.2 billion, which included $389 million of LPs, $517 million of private placement securities and $285 million of mortgage loans on real estate.

Concentrations of Financial Instruments

As of September 30, 2013, and December 31, 2012, 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 $2.8 billion and $3.8 billion, respectively, or 3% and 4% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of $1.8 billion and $2.2 billion, respectively, or 2% of our invested assets portfolio. These investments are included in corporate bonds in the tables above.

As of September 30, 2013, and December 31, 2012, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $8.7 billion, or 9% of our invested assets portfolio, and our investment securities in the banking industry with a fair value of $4.9 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.

6. 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 2012 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2012 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 13 for additional disclosures related to the fair value of our derivative instruments and Note 4 for derivative instruments related to our consolidated VIEs.

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

	As of September 30, 2013			As of December 31, 2012		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts [1]	$ 4,391	$ 573	$ 150	$ 3,214	$ 462	$ 224
Foreign currency contracts [1]	615	32	41	420	39	26
Total cash flow hedges	5,006	605	191	3,634	501	250
Fair value hedges:						
Interest rate contracts [1]	875	120	15	875	269	-
Non-Qualifying Hedges						
Interest rate contracts [1]	44,081	340	613	36,539	1,042	475
Foreign currency contracts [1]	89	-	-	48	-	-
Equity market contracts [1]	19,426	1,052	184	19,857	1,734	170
Equity collar [1]	-	-	-	9	1	-
Credit contracts [2]	126	-	5	148	-	11
Embedded derivatives:						
Indexed annuity and universal life contracts [3]	-	-	924	-	-	732
Guaranteed living benefit reserves ("GLB") [3]	-	711	-	-	-	909
Reinsurance related [4]	-	-	121	-	-	215
Total derivative instruments	$ 69,603	$ 2,828	$ 2,053	$ 61,110	$ 3,547	$ 2,762

[1] Reported in derivative investments on our Consolidated Balance Sheets.
[2] Reported in other liabilities on our Consolidated Balance Sheets.
[3] Reported in future contract benefits on our Consolidated Balance Sheets.
[4] Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

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

	Remaining Life as of September 30, 2013					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Interest rate contracts [1]	$ 4,522	$ 23,736	$ 10,284	$ 9,592	$ 1,213	$ 49,347

Foreign currency contracts (2)	135	137	243	189	-	704
Equity market contracts	10,485	3,798	5,119	22	2	19,426
Credit contracts	-	126	-	-	-	126
Total derivative instruments with notional amounts	$ 15,142	$ 27,797	$ 15,646	$ 9,803	$ 1,215	$ 69,603

(1) As of September 30, 2013, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.

(2) As of September 30, 2013, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2028.

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

	For the Nine Months Ended September 30,	
	2013	2012
Balance as of beginning-of-year	$ 163	$ 119
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the year:		
Cash flow hedges:		
Interest rate contracts	175	80
Foreign currency contracts	(17)	(3)
Fair value hedges:		
Interest rate contracts	3	3
Change in foreign currency exchange rate adjustment	(12)	(7)
Change in DAC, VOBA, DSI and DFEL	6	9
Income tax benefit (expense)	(54)	(30)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts [1]	(18)	(17)
Foreign currency contracts [1]	4	3
Fair value hedges:		
Interest rate contracts [2]	3	3
Associated amortization of DAC, VOBA, DSI and DFEL	1	2
Income tax benefit (expense)	4	3
Balance as of end-of-period	$ 270	$ 177

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts [1]	$ (7)	$ (6)	$ (17)	$ (17)
Foreign currency contracts [1]	2	2	2	4
Total cash flow hedges	(5)	(4)	(15)	(13)
Fair value hedges:				
Interest rate contracts [2]	9	5	26	28
Non-Qualifying Hedges				
Interest rate contracts [3]	(113)	(6)	(775)	183
Foreign currency contracts [3]	6	(4)	(7)	(8)
Equity market contracts [3]	(381)	(343)	(959)	(773)
Equity market contracts [4]	11	(136)	26	(246)
Credit contracts [3]	4	(7)	7	(3)
Embedded derivatives:				
Indexed annuity and universal life contracts [3]	(63)	(63)	(225)	(143)
GLB reserves [3]	419	570	1,620	861
Reinsurance related [3]	10	(30)	94	(48)
Total derivative instruments	$ (103)	$ (18)	$ (208)	$ (162)

[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 September 30,	For the Nine Months Ended September 30,

	2013	2012	2013	2012
Gain (loss) recognized as a component of OCI with the offset to net investment income	$ (5)	$ (5)	$ (14)	$ (15)

As of September 30, 2013, $25 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 the interest rate variances related to the interest rate swap agreements.

For the nine months ended September 30, 2013 and 2012, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Gain (loss) recognized as a component of OCI with the offset to interest expense	$ 1	$ 1	$ 3	$ 3

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

As of September 30, 2013

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

As of December 31, 2012

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation [1]	Number of Instruments	Fair Value [2]	Maximum Potential Payout
12/20/2016 [3]	[4]	[5]	BBB-	3	$ (4)	$ 68
3/20/2017 [3]	[4]	[5]	BBB-	4	(7)	80
				7	$ (11)	$ 148

(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 2012 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), are as follows:

	As of September 30, 2013	As of December 31, 2012
Maximum potential payout	$ 126	$ 148
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 126	$ 148

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 $5 million as of September 30, 2013, 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 use various derivative counterparties in executing our derivative transactions, which exposes us to credit losses in the event the counterparties do not perform in accordance with the terms of our derivative transactions, or non-performance risk ("NPR"). We reflect assumptions related to counterparty behavior and NPR in the fair values of our derivative instruments. The NPR is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of September 30, 2013, the NPR adjustment was $3 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 September 30, 2013, our exposure was $99 million.

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

	As of September 30, 2013		As of December 31, 2012	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA	$ -	$ -	$ 41	$ -
AA-	18	(7)	58	-
A+	150	-	605	-
A	396	(40)	770	(68)
A-	567	(92)	1,214	-
BBB	14	-	4	-
	$ 1,145	$ (139)	$ 2,692	$ (68)

Balance Sheet Offsetting

Information related to our derivative instruments, securities lending transactions and reverse repurchase agreements and the effects of offsetting on our Consolidated Balance Sheets (in millions) were as follows:

	As of September 30, 2013			
	Derivative Instruments	Embedded Derivative Instruments	Securities Lending and Reverse Repurchase Agreements	Total
Financial Assets				
Gross amount of recognized assets	$ 2,117	$ 711	$ -	$ 2,828
Gross amounts offset	(1,003)	-	-	(1,003)

Net amount of assets	1,114	711	-	1,825
Gross amounts not offset:				
Cash collateral received	(1,006)	-	-	(1,006)
Net amount	$ 108	$ 711	$ -	$ 819
Financial Liabilities				
Gross amount of recognized liabilities	$ 1,008	$ 1,045	$ 2,596	$ 4,649
Gross amounts offset	(1,003)	-	-	(1,003)
Net amount of liabilities	5	1,045	2,596	3,646
Gross amounts not offset:				
Financial instruments	-	-	(2,596)	(2,596)
Net amount	$ 5	$ 1,045	$ -	$ 1,050

	As of December 31, 2012			
	Derivative Instruments	Embedded Derivative Instruments	Securities Lending and Reverse Repurchase Agreements	Total
Financial Assets				
Gross amount of recognized assets	$ 3,547	$ -	$ -	$ 3,547
Gross amounts offset	(895)	-	-	(895)
Net amount of assets	2,652	-	-	2,652
Gross amounts not offset:				
Cash collateral received	(2,624)	-	-	(2,624)
Net amount	$ 28	$ -	$ -	$ 28
Financial Liabilities				
Gross amount of recognized liabilities	$ 906	$ 1,856	$ 1,614	$ 4,376
Gross amounts offset	(895)	-	-	(895)
Net amount of liabilities	11	1,856	1,614	3,481
Gross amounts not offset:				
Financial instruments	-	-	(1,614)	(1,614)
Net amount	$ 11	$ 1,856	$ -	$ 1,867

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). The effective tax rate was 24% and 23% for the three and nine months ended September 30, 2013, respectively. The effective tax rate was 4% and 17% for the three and nine months ended September 30, 2012, respectively. The effective tax rate on pre-tax income from continuing operations was lower than the prevailing corporate U.S. federal income statutory rate of 35% as a result of certain tax preferred investment income, separate account dividends-received deduction, foreign tax credits and other tax preference items. A benefit to the effective tax rate was recognized in 2012 from a release of liability for uncertain tax positions related to the lapse of statute of limitations for prior year tax returns.

8. Guaranteed Benefit Features

Information on the guaranteed death benefit ("GDB") features outstanding (dollars in millions) was as follows (our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	As of September 30, 2013	As of December 31, 2012
Return of Net Deposits		
Total account value	$ 74,277	$ 63,478
Net amount at risk [1]	200	392
Average attained age of contract holders	61 years	60 years
Minimum Return		
Total account value	$ 149	$ 149
Net amount at risk [1]	30	37
Average attained age of contract holders	73 years	73 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 24,719	$ 23,019
Net amount at risk [1]	649	1,133
Average attained age of contract holders	68 years	67 years

[1] Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing September 30, 2013, to December 31, 2012, was attributable primarily to the increase in the equity markets during the first nine months of 2013.

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

	For the Nine Months Ended September 30,	
	2013	2012
Balance as of beginning-of-year	$ 104	$ 84
Changes in reserves	(12)	54
Benefits paid	(16)	(36)
Balance as of end-of-period	$ 76	$ 102

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

	As of September 30, 2013	As of December 31, 2012
Domestic equity	$ 43,552	$ 37,899
International equity	17,097	14,850
Bonds	23,417	21,174
Money market	10,013	7,747
Total	$ 94,079	$ 81,670
Percent of total variable annuity separate account values	98%	98%

Future contract benefits also includes reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 28% of total life insurance in-force reserves as of September 30, 2013, and 32% of total sales for the nine months ended September 30, 2013.

9. Contingencies and Commitments

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

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

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

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of September 30, 2013. 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 position.

On June 13, 2009, a single named plaintiff filed a putative national class action in the Circuit Court of Allen County, 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. We dispute the allegations and are vigorously defending this matter. Plaintiffs have filed a motion for class certification. We expect a hearing on class certification in the first half of 2014.

On July 23, 2012, LNL was added as a noteholder defendant to a putative class action adversary proceeding ("adversary proceeding") captioned Lehman Brothers Special Financing, Inc. v. Bank of America, N.A. et al., Adv. Pro. No. 10-03547 (JMP) and instituted under In re Lehman Brothers Holdings Inc. in the United States Bankruptcy Court in the Southern District of New York. Plaintiff Lehman Brothers Special Financing Inc. seeks to (i) overturn the application of certain priority of payment provisions in 47 collateralized debt obligation transactions on the basis such provisions are unenforceable under the Bankruptcy Code; and (ii) recover funds paid out to noteholders in accordance with the note agreements. The adversary proceeding is stayed through January 20, 2014, and LNL's response is currently due by the middle of 2014.

See Note 13 to the consolidated financial statements in our 2012 Form 10-K for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

10. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Series A Preferred Stock				
Balance as of beginning-of-period	4,164	9,632	9,532	10,072
Conversion of convertible preferred stock [1]	(450)	(100)	(5,818)	(540)
Redemption of convertible preferred stock	(3,714)	-	(3,714)	-
Balance as of end-of-period	-	9,532	-	9,532

Common Stock

Balance as of beginning-of-period	264,316,340	279,168,971	271,402,586	291,319,222
Conversion of convertible preferred stock [1]	7,200	1,600	93,088	8,640
Stock issued for exercise of warrants	220,107	-	220,318	-
Stock compensation/issued for benefit plans	112,398	60,238	636,356	394,633
Retirement/cancellation of shares	(2,313,682)	(4,157,191)	(10,009,985)	(16,648,877)
Balance as of end-of-period	262,342,363	275,073,618	262,342,363	275,073,618
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	262,342,363	275,226,130	262,342,363	275,226,130
Diluted basis	272,503,337	282,361,186	272,503,337	282,361,186

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

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

Average Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted-average shares, as used in basic calculation	263,546,308	277,883,878	266,701,799	282,989,766
Shares to cover exercise of outstanding warrants	9,920,368	10,150,192	10,073,503	10,150,218
Shares to cover conversion of preferred stock	1,455	153,886	99,716	154,165
Shares to cover non-vested stock	1,601,684	1,141,821	1,411,833	1,087,724
Average stock options outstanding during the period	3,206,314	513,722	2,511,175	540,976
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(2,199,597)	(4,840,576)	(2,911,005)	(4,787,407)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(2,191,630)	(352,501)	(1,792,019)	(371,115)
Shares repurchaseable from measured but unrecognized stock option expense	(190,894)	(210)	(138,683)	(5,553)
Weighted-average shares, as used in diluted calculation	273,694,008	284,650,212	275,956,319	289,758,774

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.

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 accumulated OCI (in millions):

	For the Nine Months Ended September 30, 2013	2012
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 4,066	$ 2,947
Unrealized holding gains (losses) arising during the year	(5,145)	2,804
Change in foreign currency exchange rate adjustment	10	9
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	1,685	(724)
Income tax benefit (expense)	1,208	(779)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(51)	(148)
Associated amortization of DAC, VOBA, DSI and DFEL	(20)	1
Income tax benefit (expense)	25	51
Balance as of end-of-period	$ 1,870	$ 4,353
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ (107)	$ (110)
(Increases) attributable to:		
Gross OTTI recognized in OCI during the year	(10)	(96)
Change in DAC, VOBA, DSI and DFEL	1	14
Income tax benefit (expense)	3	31
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	51	112
Change in DAC, VOBA, DSI and DFEL	(6)	(14)
Income tax benefit (expense)	(16)	(35)
Balance as of end-of-period	$ (84)	$ (98)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 163	$ 119
Unrealized holding gains (losses) arising during the year	161	80
Change in foreign currency exchange rate adjustment	(12)	(7)
Change in DAC, VOBA, DSI and DFEL	6	9
Income tax benefit (expense)	(54)	(30)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(11)	(11)
Associated amortization of DAC, VOBA, DSI and DFEL	1	2
Income tax benefit (expense)	4	3
Balance as of end-of-period	$ 270	$ 177

Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ (4)	$ 1
Foreign currency translation adjustment arising during the year	(1)	(6)
Income tax benefit (expense)	-	2
Balance as of end-of-period	$ (5)	$ (3)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (310)	$ (278)
Adjustment arising during the year	17	(2)
Income tax benefit (expense)	(8)	1
Balance as of end-of-period	$ (301)	$ (279)

The following summarizes the reclassifications out of AOCI (in millions) for the nine months ended September 30, 2013, and the associated line item in the Consolidated Statements of Comprehensive Income (Loss):

Unrealized Gain (Loss) on AFS Securities		
Gross reclassification	$ (51)	Total realized gain (loss)
Change in DAC, VOBA, DSI, and DFEL	(20)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	(71)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	25	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (46)	Net income (loss)
Unrealized OTTI on AFS Securities		
Gross reclassification	$ 51	Total realized gain (loss)
Change in DAC, VOBA, DSI, and DFEL	(6)	Total realized gain (loss)
Reclassification before income tax benefit (expense)	45	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	(16)	Federal income tax expense (benefit)
Reclassification, net of income tax	$ 29	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments		
Gross reclassifications:		
Interest rate contracts	$ (18)	Net investment income
Interest rate contracts	3	Interest and debt expense
Foreign currency contracts	4	Net investment income
Total gross reclassifications	(11)	
Change in DAC, VOBA, DSI, and DFEL	1	Commissions and other expenses
Reclassifications before income tax benefit (expense)	(10)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)	4	Federal income tax expense (benefit)
Reclassification, net of income tax	$ (6)	Net income (loss)

11. Realized Gain (Loss)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Total realized gain (loss) related to certain investments [1]	$ (33)	$ (54)	$ (73)	$ (153)
Realized gain (loss) on the mark-to-market on certain instruments [2]	21	59	21	99
Indexed annuity and universal life net derivatives results: [3]				
Gross gain (loss)	(12)	(5)	(25)	14
Associated amortization of DAC, VOBA, DSI and DFEL	3	-	5	(6)
Variable annuity net derivatives results: [4]				
Gross gain (loss)	(4)	92	(29)	107
Associated amortization of DAC, VOBA, DSI and DFEL	(3)	(22)	(4)	(33)
Total realized gain (loss)	$ (28)	$ 70	$ (105)	$ 28

(1) See "Realized Gain (Loss) Related to Certain Investments" section in Note 5.

(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 products and the change in the fair value of the derivative instruments we own to hedge GDB and GLB products, including the cost of purchasing the hedging instruments.

12. Stock-Based Incentive Compensation Plans

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

LNC stock-based awards granted were as follows:

	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2013
10-year LNC stock options	-	1,019,968
Performance shares	-	260,114
SARs	-	112,990
RSUs	5,994	559,198
Non-employee:		
Agent stock options	-	82,317
Director stock options	-	58,720
Director RSUs	7,847	26,991

13. Fair Value of Financial Instruments

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

	As of September 30, 2013		As of December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 80,135	$ 80,135	$ 82,036	$ 82,036
VIEs' fixed maturity securities	699	699	708	708
Equity securities	185	185	157	157
Trading securities	2,354	2,354	2,554	2,554
Mortgage loans on real estate	7,127	7,456	7,029	7,704
Derivative investments	1,114	1,114	2,652	2,652
Other investments	1,219	1,219	1,098	1,098
Cash and invested cash	2,650	2,650	4,230	4,230
Future contract benefits – GLB reserves embedded derivatives	711	711	-	-
Separate account assets	109,376	109,376	95,373	95,373
Liabilities				
Future contract benefits:				
Indexed annuity and universal life contracts embedded derivatives	(924)	(924)	(732)	(732)
GLB reserves embedded derivatives	-	-	(909)	(909)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(846)	(846)	(867)	(867)
Account values of certain investment contracts	(28,936)	(30,519)	(28,540)	(32,688)
Short-term debt [1]	(503)	(507)	(200)	(204)
Long-term debt	(5,365)	(5,775)	(5,439)	(5,824)
Reinsurance related embedded derivatives	(121)	(121)	(215)	(215)
VIEs' liabilities – derivative instruments	(67)	(67)	(128)	(128)
Other liabilities – credit default swaps	(5)	(5)	(11)	(11)

(1) The difference between the carrying value and fair value of short-term debt as of September 30, 2013, and December 31, 2012, related to current maturities of long-term debt.

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 September 30, 2013, and December 31, 2012, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

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

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2013, or December 31, 2012, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in "Summary of Significant Accounting Policies" in Note 1 of our 2012 Form 10-K:

	As of September 30, 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	$ 66,785	$ 1,680	$ 68,525
U.S. government bonds	345	23	-	368
Foreign government bonds	-	480	96	576
RMBS	-	4,649	1	4,650
CMBS	-	776	19	795
CDOs	-	21	173	194
State and municipal bonds	-	3,947	29	3,976
Hybrid and redeemable preferred securities	40	945	66	1,051
VIEs' fixed maturity securities	105	594	-	699
Equity AFS securities	4	34	147	185
Trading securities	-	2,299	55	2,354
Derivative investments	-	(292)	1,406	1,114
Cash and invested cash	-	2,650	-	2,650
Future contract benefits – GLB reserves embedded derivatives	-	-	711	711
Separate account assets	1,672	107,704	-	109,376
Total assets	$ 2,226	$ 190,615	$ 4,383	$ 197,224
Liabilities				
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	$ -	$ -	$ (924)	$ (924)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(121)	-	(121)
VIEs' liabilities – derivative instruments	-	-	(67)	(67)
Other liabilities – credit default swaps	-	-	(5)	(5)
Total liabilities	$ -	$ (1,324)	$ (996)	$ (2,320)

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	As of December 31, 2012			
	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	$ 65	$ 66,446	$ 1,505	$ 68,016
U.S. government bonds	411	30	1	442
Foreign government bonds	-	608	46	654
RMBS	-	6,168	3	6,171
CMBS	-	976	27	1,003
CDOs	-	26	154	180
State and municipal bonds	-	4,321	32	4,353
Hybrid and redeemable preferred securities	30	1,069	118	1,217
VIEs' fixed maturity securities	110	598	-	708
Equity AFS securities	44	26	87	157
Trading securities	2	2,496	56	2,554
Derivative investments	-	626	2,026	2,652
Cash and invested cash	-	4,230	-	4,230
Separate account assets	1,519	93,854	-	95,373
Total assets	$ 2,181	$ 181,474	$ 4,055	$ 187,710
Liabilities				
Future contract benefits:				
Indexed annuity and universal life contracts embedded derivatives	$ -	$ -	$ (732)	$ (732)
GLB reserves embedded derivatives	-	-	(909)	(909)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(215)	-	(215)
VIEs' liabilities – derivative instruments	-	-	(128)	(128)
Other liabilities – credit default swaps	-	-	(11)	(11)
Total liabilities	$ -	$ (1,418)	$ (1,780)	$ (3,198)

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

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

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	For the Three Months Ended September 30, 2012					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other [1]	Issuances, Sales Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net [2]	Ending Fair Value
Investments: [3]						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,678	$ 1	$ 24	$ 225	$ (73)	$ 1,855
U.S. government bonds	1	-	-	-	-	1
Foreign government bonds	102	-	-	(2)	(24)	76
RMBS	184	-	-	-	(181)	3
CMBS	39	(2)	4	(2)	4	43
CDOs	120	(2)	2	27	-	147
State and municipal bonds	32	-	1	-	-	33
Hybrid and redeemable preferred securities	129	-	13	-	(29)	113
Equity AFS securities	85	-	1	-	-	86
Trading securities	72	-	4	(2)	(14)	60
Derivative investments	2,517	(268)	47	(63)	-	2,233
Future contract benefits: [4]						
Indexed annuity and universal life contracts embedded derivatives	(431)	(63)	-	(239)	-	(733)
GLB reserves embedded derivatives	(1,926)	570	-	-	-	(1,356)
VIEs' liabilities – derivative instruments [5]	(231)	57	-	-	-	(174)
Other liabilities – credit default swaps [6]	(11)	(5)	-	-	-	(16)
Total, net	$ 2,360	$ 288	$ 96	$ (56)	$ (317)	$ 2,371

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

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	For the Nine Months Ended September 30, 2012					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other [1]	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net [2]	Ending Fair Value
Investments: [3]						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,888	$ (16)	$ 14	$ 327	$ (358)	$ 1,855
U.S. government bonds	1	-	-	-	-	1
Foreign government bonds	97	-	-	(4)	(17)	76
RMBS	158	(3)	3	(8)	(147)	3
CMBS	34	(9)	15	(10)	13	43
CDOs	102	(2)	7	34	6	147
State and municipal bonds	-	-	1	32	-	33
Hybrid and redeemable preferred securities	100	(1)	19	-	(5)	113
Equity AFS securities	56	-	5	25	-	86
Trading securities	68	2	3	(2)	(11)	60
Derivative investments	2,470	(557)	114	206	-	2,233
Future contract benefits: [4]						
Indexed annuity and universal life contracts embedded derivatives	(399)	(143)	-	(191)	-	(733)
GLB reserves embedded derivatives	(2,217)	861	-	-	-	(1,356)
VIEs' liabilities – derivative instruments [5]	(291)	117	-	-	-	(174)
Other liabilities – credit default swaps [6]	(16)	-	-	-	-	(16)
Total, net	$ 2,051	$ 249	$ 181	$ 409	$ (519)	$ 2,371

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 6).

(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) 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).

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

(5) 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).

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

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

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

	For the Three Months Ended September 30, 2012					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 247	$ -	$ (7)	$ (14)	$ (1)	$ 225
Foreign government bonds	-	-	-	(2)	-	(2)
CMBS	-	-	-	(2)	-	(2)
CDOs	30	-	-	(3)	-	27
Trading securities	-	(1)	-	(1)	-	(2)
Derivative investments	55	(43)	(75)	-	-	(63)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(31)	-	-	(208)	-	(239)
Total, net	$ 301	$ (44)	$ (82)	$ (230)	$ (1)	$ (56)

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

	For the Nine Months Ended September 30, 2012					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 404	$ (27)	$ (5)	$ (41)	$ (4)	$ 327
Foreign government bonds	-	-	-	(4)	-	(4)
RMBS	-	-	(7)	(1)	-	(8)
CMBS	-	-	-	(10)	-	(10)
CDOs	47	-	-	(13)	-	34
State and municipal bonds	32	-	-	-	-	32
Equity AFS securities	25	-	-	-	-	25
Trading securities	-	-	-	(2)	-	(2)
Derivative investments	428	(40)	(182)	-	-	206
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(66)	-	-	(125)	-	(191)
Total, net	$ 870	$ (67)	$ (194)	$ (196)	$ (4)	$ 409

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Investments: [1]				
Derivative investments	$ (343)	$ (279)	$ (533)	$ (618)
Future contract benefits: [1]				
Indexed annuity and universal life contracts embedded derivatives	5	4	25	22
GLB reserves embedded derivatives	508	556	1,825	924
VIEs' liabilities – derivative instruments [1]	35	57	61	117
Other liabilities – credit default swaps [2]	4	(5)	6	-
Total, net	$ 209	$ 333	$ 1,384	$ 445

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

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

	For the Three Months Ended September 30, 2013			For the Three Months Ended September 30, 2012		
	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	$ 71	$ (197)	$ (126)	$ 241	$ (314)	$ (73)
Foreign government bonds	-	-	-	27	(51)	(24)
RMBS	-	-	-	-	(181)	(181)
CMBS	-	(8)	(8)	4	-	4
Hybrid and redeemable preferred securities	-	(18)	(18)	-	(29)	(29)
Trading securities	7	-	7	3	(17)	(14)
Total, net	$ 78	$ (223)	$ (145)	$ 275	$ (592)	$ (317)

For the Nine Months Ended September 30, 2013		For the Nine Months Ended September 30, 2012	
Transfers In to	Transfers Out of	Transfers In to	Transfers Out of