# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2019**

**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.)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock | LNC | New York Stock Exchange |

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

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

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

| | |
|---|---|
| Large Accelerated Filer ☒ | Accelerated Filer ☐ |
| Non-accelerated Filer ☐ | Smaller Reporting Company ☐ |
| | Emerging Growth Company ☐ |

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

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

As of October 28, 2019, there were 198,330,603 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, 2019 (Unaudited) | As of December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Investments: | | |
| Fixed maturity available-for-sale securities, at fair value (amortized cost: 2019 – $92,192; 2018 – $92,429) | $ 103,659 | $ 94,024 |
| Trading securities | 4,691 | 1,950 |
| Equity securities | 158 | 99 |
| Mortgage loans on real estate | 15,947 | 13,260 |
| Policy loans | 2,475 | 2,509 |
| Derivative investments | 2,201 | 1,107 |
| Other investments | 3,389 | 2,267 |
| Total investments | 132,520 | 115,216 |
| Cash and invested cash | 2,939 | 2,345 |
| Deferred acquisition costs and value of business acquired | 7,492 | 10,264 |
| Premiums and fees receivable | 440 | 570 |
| Accrued investment income | 1,182 | 1,119 |
| Reinsurance recoverables | 17,353 | 17,748 |
| Funds withheld reinsurance assets | 543 | 557 |
| Goodwill | 1,778 | 1,782 |
| Other assets | 15,939 | 15,713 |
| Separate account assets | 145,092 | 132,833 |
| Total assets | $ 325,278 | $ 298,147 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Future contract benefits | $ 36,108 | $ 34,648 |
| Other contract holder funds | 95,283 | 91,233 |
| Short-term debt | 300 | - |
| Long-term debt | 6,070 | 5,839 |
| Reinsurance related embedded derivatives | 339 | 3 |
| Funds withheld reinsurance liabilities | 1,817 | 1,740 |
| Payables for collateral on investments | 5,528 | 4,805 |
| Other liabilities | 14,742 | 12,696 |
| Separate account liabilities | 145,092 | 132,833 |
| Total liabilities | 305,279 | 283,797 |
| **Contingencies and Commitments (See Note 12)** | | |
| **Stockholders' Equity** | | |
| Preferred stock – 10,000,000 shares authorized | - | - |
| Common stock – 800,000,000 shares authorized; 198,327,250 and 205,862,760 shares issued and outstanding as of September 30, 2019, and December 31, 2018, respectively | 5,192 | 5,392 |
| Retained earnings | 8,559 | 8,551 |
| Accumulated other comprehensive income (loss) | 6,248 | 407 |
| Total stockholders' equity | 19,999 | 14,350 |
| Total liabilities and stockholders' equity | $ 325,278 | $ 298,147 |

**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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Revenues** | | | | |
| Insurance premiums | $ 1,325 | $ 1,323 | $ 4,170 | $ 3,265 |
| Fee income | 1,934 | 1,550 | 4,925 | 4,475 |
| Net investment income | 1,235 | 1,271 | 3,842 | 3,736 |
| Realized gain (loss): | | | | |
| Total other-than-temporary impairment losses on securities | (2) | (2) | (29) | (5) |
| Portion of loss recognized in other comprehensive income | - | - | 15 | - |
| Net other-than-temporary impairment losses on securities recognized in earnings | (2) | (2) | (14) | (5) |
| Realized gain (loss), excluding other-than-temporary impairment losses on securities | (9) | (53) | (477) | (46) |
| Total realized gain (loss) | (11) | (55) | (491) | (51) |
| Amortization of deferred gain on business sold through reinsurance | 8 | - | 23 | 1 |
| Other revenues | 147 | 175 | 444 | 467 |
| Total revenues | 4,638 | 4,264 | 12,913 | 11,893 |
| **Expenses** | | | | |
| Interest credited | 705 | 652 | 2,063 | 1,952 |
| Benefits | 2,502 | 1,626 | 6,112 | 4,646 |
| Commissions and other expenses | 1,552 | 1,367 | 3,999 | 3,600 |
| Interest and debt expense | 113 | 69 | 254 | 228 |
| Strategic digitization expense | 16 | 18 | 47 | 49 |
| Total expenses | 4,888 | 3,732 | 12,475 | 10,475 |
| Income (loss) before taxes | (250) | 532 | 438 | 1,418 |
| Federal income tax expense (benefit) | (89) | 42 | (16) | 176 |
| Net income (loss) | (161) | 490 | 454 | 1,242 |
| Other comprehensive income (loss), net of tax | 1,912 | (365) | 5,841 | (3,036) |
| Comprehensive income (loss) | $ 1,751 | $ 125 | $ 6,295 | $ (1,794) |
| | | | | |
| **Net Income (Loss) Per Common Share** | | | | |
| Basic | $ (0.81) | $ 2.27 | $ 2.25 | $ 5.71 |
| Diluted | (0.83) | 2.24 | 2.24 | 5.59 |
| | | | | |
| **Cash Dividends Declared Per Common Share** | $ 0.37 | $ 0.33 | $ 1.11 | $ 0.99 |

**LINCOLN NATIONAL CORPORATION**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
(Unaudited, in millions, except per share data)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Common Stock** | | | | |
| Balance as of beginning-of-period | $ 5,241 | $ 5,674 | $ 5,392 | $ 5,693 |
| Stock compensation/issued for benefit plans | 17 | 14 | 28 | 33 |
| Retirement of common stock/cancellation of shares | (66) | (69) | (228) | (107) |
| Balance as of end-of-period | 5,192 | 5,619 | 5,192 | 5,619 |
| **Retained Earnings** | | | | |
| Balance as of beginning-of-period | 8,878 | 8,302 | 8,551 | 8,399 |
| Cumulative effect from adoption of new accounting standards | - | - | - | (642) |
| Net income (loss) | (161) | 490 | 454 | 1,242 |
| Retirement of common stock | (84) | (106) | (222) | (168) |
| Common stock dividends declared | (74) | (71) | (224) | (216) |
| Balance as of end-of-period | 8,559 | 8,615 | 8,559 | 8,615 |
| **Accumulated Other Comprehensive Income (Loss)** | | | | |
| Balance as of beginning-of-period | 4,336 | 1,201 | 407 | 3,230 |
| Cumulative effect from adoption of new accounting standards | - | - | - | 642 |
| Other comprehensive income (loss), net of tax | 1,912 | (365) | 5,841 | (3,036) |
| Balance as of end-of-period | 6,248 | 836 | 6,248 | 836 |
| Total stockholders' equity as of end-of-period | $ 19,999 | $ 15,070 | $ 19,999 | $ 15,070 |

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, 2019 | 2018 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | $ 454 | $ 1,242 |
| 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 | (246) | 86 |
| Trading securities purchases, sales and maturities, net | (2,539) | 162 |
| Change in premiums and fees receivable | 130 | (109) |
| Change in accrued investment income | (63) | (66) |
| Change in future contract benefits and other contract holder funds | (600) | (997) |
| Change in reinsurance related assets and liabilities | (488) | 426 |
| Change in accrued expenses | (10) | 73 |
| Change in federal income tax accruals | (231) | 86 |
| Realized (gain) loss | 491 | 51 |
| Amortization of deferred gain on business sold through reinsurance | (23) | (1) |
| Other | 268 | 81 |
| Net cash provided by (used in) operating activities | (2,857) | 1,034 |
| **Cash Flows from Investing Activities** | | |
| Purchases of available-for-sale securities and equity securities | (11,315) | (8,816) |
| Sales of available-for-sale securities and equity securities | 6,480 | 2,678 |
| Maturities of available-for-sale securities | 5,027 | 4,714 |
| Purchase of common stock in acquisition, net of cash acquired | - | (1,410) |
| Sale of business, net | - | (12) |
| Purchases of alternative investments | (344) | (234) |
| Sales and repayments of alternative investments | 104 | 115 |
| Issuance of mortgage loans on real estate | (3,459) | (2,035) |
| Repayment and maturities of mortgage loans on real estate | 758 | 842 |
| Issuance and repayment of policy loans, net | 35 | 40 |
| Net change in collateral on investments, derivatives and related settlements | 623 | 22 |
| Other | (194) | (144) |
| Net cash provided by (used in) investing activities | (2,285) | (4,240) |
| **Cash Flows from Financing Activities** | | |
| Payment of long-term debt, including current maturities | (108) | (537) |
| Issuance of long-term debt, net of issuance costs | 495 | 1,094 |
| Payment related to early extinguishment of debt | (42) | (23) |
| Proceeds from sale-leaseback transactions | - | 51 |
| Proceeds from certain financing arrangements | 50 | - |
| Deposits of fixed account values, including the fixed portion of variable | 11,564 | 9,426 |
| Withdrawals of fixed account values, including the fixed portion of variable | (4,384) | (4,466) |
| Transfers to and from separate accounts, net | (1,142) | (2,008) |
| Common stock issued for benefit plans | (20) | (7) |
| Repurchase of common stock | (450) | (275) |
| Dividends paid to common stockholders | (227) | (217) |
| Net cash provided by (used in) financing activities | 5,736 | 3,038 |
| Net increase (decrease) in cash, invested cash and restricted cash | 594 | (168) |
| Cash, invested cash and restricted cash as of beginning-of-year | 2,345 | 1,628 |
| Cash, invested cash and restricted cash as of end-of-period | $ 2,939 | $ 1,460 |

See accompanying Notes to Consolidated Financial Statements

## 1. Nature of Operations and Basis of Presentation

### Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 15 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products primarily include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed universal life insurance ("IUL"), term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

### Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. As discussed in Note 3, on May 1, 2018, LNC and The Lincoln National Life Insurance Company ("LNL") completed the acquisition of Liberty Life Assurance Company of Boston ("Liberty Life"), which effective September 1, 2019, is now known as Lincoln Life Assurance Company of Boston. 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, 2018 ("2018 Form 10-K"), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial condition, results of operations and cash flows, are summarized in our 2018 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine months ended September 30, 2019, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2019. All material inter-company accounts and transactions have been eliminated in consolidation.

## 2. New Accounting Standards

### Adoption of New Accounting Standards

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

| Standard | Description | Date of Adoption | Effect on Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2016-02, Leases and all related amendments | This standard establishes a new accounting model for leases. Lessees will recognize most leases on the balance sheet as a right-of-use ("ROU") asset and a related lease liability. The lease liability is measured as the present value of the lease payments over the lease term with the ROU asset measured at the lease liability amount and including adjustments for certain lease incentives and initial direct costs. Lease expense recognition will continue to differentiate between finance leases and operating leases resulting in a similar pattern of lease expense recognition as under current GAAP. This ASU permits a modified retrospective adoption approach that includes a number of optional practical expedients that entities may elect upon adoption. Early adoption is permitted. | January 1, 2019 | We adopted this standard and all related amendments, which resulted in the recognition of $207 million in ROU assets and $214 million in operating lease liabilities reported in other assets and other liabilities, respectively, on our Consolidated Balance Sheets as of January 1, 2019. Comparative periods continue to be measured and presented under historical guidance, and only the period of adoption is subject to this ASU. Also, on transition, we have elected not to reassess: 1) whether expired or existing contracts contain a lease under the new definition of a lease; 2) lease classification for expired or existing leases; and 3) whether previously capitalized initial direct costs would qualify for capitalization under this ASU. Additionally, there is not a significant difference in our pattern of lease expense recognition under this ASU, and there is no impact on cash flows. For more information, see Note 12. |
| ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities | These amendments require an entity to shorten the amortization period for certain callable debt securities held at a premium so that the premium is amortized to the earliest call date. Early adoption is permitted, and the ASU requires adoption under a modified retrospective basis through a cumulative effect adjustment to the beginning balance of retained earnings. | January 1, 2019 | We adopted the provisions of this ASU, which did not result in a change to our existing practices; therefore, no cumulative effect adjustment was recorded. As such, there was no impact on our consolidated financial condition and results of operations. |
| ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities | These amendments change both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. These amendments retain the threshold of highly effective for hedging relationships, remove the requirement to bifurcate between the portions of the hedging relationship that are effective and ineffective, record hedge item and hedging instrument results in the same financial statement line item, require quantitative assessment initially for all hedging relationships unless the hedging relationship meets the definition of either the shortcut method or critical terms match method and allow the contractual specified index rate to be designated as the hedged risk in a cash flow hedge of interest rate risk of a variable rate financial instrument. These amendments also eliminate the benchmark interest rate concept for variable rate instruments. Early adoption is permitted. | January 1, 2019 | We adopted the provisions of this ASU, which did not have an impact on our consolidated financial condition and results of operations. This ASU does result in our modification of certain hedge documentation and effectiveness methods, which we have reflected in applicable disclosures in Note 6. |

**Future Adoption of New Accounting Standards**

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

| Standard | Description | Projected Date of Adoption | Effect on Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2016-13, Measurement of Credit Losses on Financial Instruments | These amendments adopt a new model to measure and recognize credit losses for most financial assets. The method used to measure estimated credit losses for available-for-sale ("AFS") debt securities will be unchanged from current GAAP; however, the amendments require credit losses to be recognized through an allowance rather than as a reduction to the amortized cost of those debt securities. The amendments will permit entities to recognize improvements in credit loss estimates on AFS debt securities by reducing the allowance account immediately through earnings. The amendments will be adopted through a cumulative effect adjustment to the beginning balance of retained earnings as of the first reporting period in which the amendments are effective. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods therein. | January 1, 2020 | We continue to evaluate the impact of adopting this ASU on our consolidated financial condition and results of operations. We are in the process of finalizing the development of our credit loss models for commercial and residential mortgage loans, as well as reinsurance recoverables, and preparing for the implementation of necessary changes to our processes, systems and controls. We continue to make significant progress in accounting policy documentation and model and systems testing and validation work. |
| ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments | These amendments clarify the measurement, recognition and presentation of the allowance for credit losses on accrued interest receivable balances; the inclusion of recoveries when estimating the allowance for credit losses; the inclusion of all Accounting Standards Codification ("ASC") Topic 944 – *Financial Services – Insurance* reinsurance recoverables within the scope of ASC 326-20; and provide additional targeted clarifications on the calculation of the allowance for credit losses.<br><br>These amendments also make targeted clarifications to ASC Topics 815 and 825. Early adoption is permitted. | January 1, 2020 | We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. |
| ASU 2019-05, Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief | The amendments provide entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments – Overall*, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASC Topic 326. | January 1, 2020 | We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. |

| Standard | Description | Projected Date of Adoption | Effect on Financial Statements or Other Significant Matters |
|---|---|---|---|
| ASU 2018-12, Targeted Improvements to the Accounting for Long-Duration Contracts | These amendments make changes to the accounting and reporting for long-duration contracts issued by an insurance entity that will significantly change how insurers account for long-duration contracts, including how they measure, recognize and make disclosures about insurance liabilities and deferred acquisition costs ("DAC"). Under this ASU, insurers will be required to review cash flow assumptions at least annually and update them if necessary. They also will have to make quarterly updates to the discount rate assumptions they use to measure the liability for future policyholder benefits. The ASU creates a new category of market risk benefits (i.e., features that protect the contract holder from capital market risk and expose the insurer to that risk) that insurers will have to measure at fair value. The ASU provides various transition methods by topic that entities may elect upon adoption. The ASU is currently effective January 1, 2021, and early adoption is permitted.<br><br>On October 16, 2019, the FASB approved their proposal to amend the effective date for large public SEC filers to January 1, 2022. The FASB is expected to issue a final amendment to the ASU later in 2019. Once amended, we will update our projected date of adoption accordingly. | January 1, 2021 | We are currently evaluating the impact of adopting this ASU on our consolidated financial condition and results of operations. |

**3. Acquisition**

On May 1, 2018, we completed the acquisition of 100% of the capital stock of Liberty Life, which operates a group benefits business ("Liberty Group Business") and individual life and individual and group annuity business (the "Liberty Life Business"), from Liberty Mutual Insurance Company in a transaction accounted for under the acquisition method of accounting pursuant to Business Combinations Topic 805. The acquisition expanded the scale and capabilities of the Group Protection business while further diversifying the Company's sources of earnings.

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

Since the May 1, 2018 acquisition date, we have adjusted assets acquired by $(5) million and liabilities acquired by $23 million for an increase in goodwill of $28 million. Under the terms of the MTA, a final balance sheet will be agreed upon at a later date. The following table presents the adjusted fair values (in millions) of the net assets acquired related to the Liberty Group Business:

| | Adjusted Fair Value |
|---|---|
| **Assets** | |
| Investments | $ 2,493 |
| Mortgage loans on real estate | 658 |
| Cash and invested cash | 107 |
| Reinsurance recoverables | 76 |
| Premiums and fees receivable | 83 |
| Accrued investment income | 24 |
| Other intangible assets acquired | 640 |
| Other assets acquired | 142 |
| Separate account assets | 99 |
| Total assets acquired | $ 4,322 |
| **Liabilities** | |
| Future contract benefits | $ 2,930 |
| Other contract holder funds | 46 |
| Other liabilities acquired | 140 |
| Separate account liabilities | 99 |
| Total liabilities assumed | $ 3,215 |
| Net identifiable assets acquired | $ 1,107 |
| Goodwill | 410 |
| Net assets acquired | $ 1,517 |

## 4. Variable Interest Entities

### Consolidated VIEs

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

| | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Number of Instruments | Notional Amounts | Carrying Value | Number of Instruments | Notional Amounts | Carrying Value |
| **Assets** | | | | | | |
| Fixed maturity securities: | | | | | | |
| Total return swap | 1 | $ 606 | $ - | 1 | $ 600 | $ - |
| Total assets | 1 | $ 606 | $ - | 1 | $ 600 | $ - |

As of September 30, 2019, and December 31, 2018, there were no gains or losses for consolidated VIEs recognized on our Consolidated Statements of Comprehensive Income (Loss).

### Unconsolidated VIEs

*Structured Securities*

Through our investment activities, we make passive investments in structured securities issued by VIEs for which we are not the manager. These structured securities include our asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and collateralized loan obligations ("CLOs"). We have not provided financial or other support with respect to these VIEs other than our original investment. We have determined that we are not the primary beneficiary of these VIEs due to the relative size of our investment in comparison to the principal amount of the structured securities issued by the VIEs and the level of credit subordination that reduces our obligation to absorb losses or right to receive benefits. Our maximum exposure to loss on these structured securities is limited to the amortized cost for these investments. We recognize our variable interest in these VIEs at fair value on our Consolidated Balance Sheets. For information about these structured securities, see Note 5.

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

The carrying amounts of our investments in the LPs and LLCs are recognized in other investments on our Consolidated Balance Sheets and were $2 billion and $1.7 billion as of September 30, 2019, and December 31, 2018, respectively. Included in these carrying amounts are our investments in qualified affordable housing projects, which were $14 million and $20 million as of September 30, 2019, and December 31, 2018, respectively. We do not have any contingent commitments to provide additional capital funding to these qualified affordable housing projects. We received returns from these qualified affordable housing projects in the form of income tax credits and other tax benefits of less than $1 million for the nine months ended September 30, 2019 and 2018, which were recognized in federal income tax expense (benefit) on our Consolidated Statements of Comprehensive Income (Loss).

Our exposure to loss is limited to the capital we invest in the LPs and LLCs, and there have been no indicators of impairment that would require us to recognize an impairment loss related to the LPs and LLCs as of September 30, 2019.

## 5. Investments

### Fixed Maturity AFS Securities

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

| | As of September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Amortized | Gross Unrealized | | | Fair |
| | Cost | Gains | Losses | OTTI (1) | Value |
| Fixed maturity AFS securities: | | | | | |
| Corporate bonds | $ 78,301 | $ 9,833 | $ 220 | $ 3 | $ 87,911 |
| U.S. government bonds | 375 | 63 | - | - | 438 |
| State and municipal bonds | 4,528 | 1,274 | 2 | - | 5,800 |
| Foreign government bonds | 378 | 66 | - | - | 444 |
| RMBS | 3,041 | 229 | 1 | (18) | 3,287 |
| CMBS | 975 | 56 | - | (1) | 1,032 |
| ABS | 4,074 | 76 | 11 | (33) | 4,172 |
| Hybrid and redeemable preferred securities | 520 | 79 | 24 | - | 575 |
| Total fixed maturity AFS securities | $ 92,192 | $ 11,676 | $ 258 | $ (49) | $ 103,659 |

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Amortized | Gross Unrealized | | | Fair |
| | Cost | Gains | Losses | OTTI (1) | Value |
| Fixed maturity AFS securities: | | | | | |
| Corporate bonds | $ 79,623 | $ 2,980 | $ 2,263 | $ (8) | $ 80,348 |
| U.S. government bonds | 390 | 29 | 2 | - | 417 |
| State and municipal bonds | 4,647 | 716 | 18 | - | 5,345 |
| Foreign government bonds | 406 | 42 | - | - | 448 |
| RMBS | 3,308 | 118 | 67 | (14) | 3,373 |
| CMBS | 811 | 6 | 16 | (3) | 804 |
| ABS | 2,662 | 45 | 30 | (19) | 2,696 |
| Hybrid and redeemable preferred securities | 582 | 45 | 34 | - | 593 |
| Total fixed maturity AFS securities | $ 92,429 | $ 3,981 | $ 2,430 | $ (44) | $ 94,024 |

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

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of September 30, 2019, were as follows:

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 2,936 | $ 2,911 |
| Due after one year through five years | 15,342 | 15,907 |
| Due after five years through ten years | 17,029 | 18,488 |
| Due after ten years | 48,795 | 57,862 |
| Subtotal | 84,102 | 95,168 |
| Structured securities (RMBS, CMBS, ABS) | 8,090 | 8,491 |
| Total fixed maturity AFS securities | $ 92,192 | $ 103,659 |

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 fixed maturity 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, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 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 AFS securities: | | | | | | |
| Corporate bonds | $ 1,743 | $ 39 | $ 1,735 | $ 190 | $ 3,478 | $ 229 |
| State and municipal bonds | 138 | 2 | 4 | - | 142 | 2 |
| RMBS | 238 | 1 | 19 | 1 | 257 | 2 |
| ABS | 846 | 3 | 278 | 9 | 1,124 | 12 |
| Hybrid and redeemable preferred securities | - | - | 113 | 24 | 113 | 24 |
| Total fixed maturity AFS securities | $ 2,965 | $ 45 | $ 2,149 | $ 224 | $ 5,114 | $ 269 |
| Total number of fixed maturity AFS securities in an unrealized loss position | | | | | | 684 |

| | As of December 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | 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 AFS securities: | | | | | | |
| Corporate bonds | $ 32,493 | $ 1,530 | $ 7,228 | $ 735 | $ 39,721 | $ 2,265 |
| U.S. government bonds | 70 | 1 | 23 | 1 | 93 | 2 |
| State and municipal bonds | 404 | 8 | 96 | 10 | 500 | 18 |
| RMBS | 472 | 10 | 863 | 60 | 1,335 | 70 |
| CMBS | 470 | 11 | 82 | 5 | 552 | 16 |
| ABS | 1,241 | 23 | 246 | 17 | 1,487 | 40 |
| Hybrid and redeemable preferred securities | 96 | 6 | 133 | 28 | 229 | 34 |
| Total fixed maturity AFS securities | $ 35,246 | $ 1,589 | $ 8,671 | $ 856 | $ 43,917 | $ 2,445 |
| Total number of fixed maturity AFS securities in an unrealized loss position | | | | | | 3,414 |

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

| | As of September 30, 2019 | | | |
|---|---|---|---|---|
| | Fair | Gross Unrealized | | Number of |
| | Value | Losses | OTTI | Securities (1) |
| Less than six months | $ 45 | $ 19 | $ - | 12 |
| Six months or greater, but less than nine months | 6 | 2 | - | 1 |
| Nine months or greater, but less than twelve months | 10 | 5 | - | 3 |
| Twelve months or greater | 167 | 95 | 9 | 35 |
| Total | $ 228 | $ 121 | $ 9 | 51 |

| | As of December 31, 2018 | | | |
|---|---|---|---|---|
| | Fair | Gross Unrealized | | Number of |
| | Value | Losses | OTTI | Securities (1) |
| Less than six months | $ 395 | $ 124 | $ 1 | 45 |
| Six months or greater, but less than nine months | 96 | 49 | - | 11 |
| Nine months or greater, but less than twelve months | 11 | 8 | - | 2 |
| Twelve months or greater | 143 | 74 | 8 | 32 |
| Total | $ 645 | $ 255 | $ 9 | 90 |

(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 fixed maturity AFS securities decreased by $2.2 billion for the nine months ended September 30, 2019. As discussed further below, we believe the unrealized loss position as of September 30, 2019, did not represent OTTI as (i) we did not intend to sell these 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; and (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities.

Based upon this evaluation as of September 30, 2019, 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, 2019, the unrealized losses associated with our corporate bond securities were attributable primarily to widening credit spreads and rising interest rates since purchase. We performed a detailed analysis of the financial performance of the underlying issuers and determined that we expected to recover the entire amortized cost of each temporarily-impaired security.

As of September 30, 2019, the unrealized losses associated with our mortgage-backed securities (“MBS”) and ABS were attributable primarily to widening credit spreads and rising interest rates since purchase. We assessed 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 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 of each temporarily-impaired security.

As of September 30, 2019, 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 underlying issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the underlying issuers based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each temporarily-impaired 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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as of beginning-of-period | $ 253 | $ 375 | $ 355 | $ 378 |
| Increases attributable to: | | | | |
| Credit losses on securities for which an OTTI was not previously recognized | 1 | 2 | 12 | 4 |
| Credit losses on securities for which an OTTI was previously recognized | 1 | - | 3 | 1 |
| Decreases attributable to: | | | | |
| Securities sold, paid down or matured | (39) | (5) | (154) | (11) |
| Balance as of end-of-period | $ 216 | $ 372 | $ 216 | $ 372 |

During the three and nine months ended September 30, 2019 and 2018, 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 fixed maturity AFS securities.

*Determination of Credit Losses on Corporate Bonds*

As of September 30, 2019, and December 31, 2018, we reviewed our corporate bond portfolio for potential shortfalls 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, those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service, are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2019, and December 31, 2018, 97% and 96%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2019, and December 31, 2018, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.1 billion and $3.2 billion, respectively, and a fair value of $3.1 billion and $3.0 billion, respectively. Based upon the analysis discussed above, we believe as of September 30, 2019, and December 31, 2018, that we would recover the amortized cost of each corporate bond.

*Determination of Credit Losses on MBS and ABS*

As of September 30, 2019, and December 31, 2018, default rates were projected by considering underlying MBS and ABS loan performance and collateral type. Projected default rates on existing delinquencies vary 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 loss severity, we derive the future expected credit losses.

**Mortgage Loans on Real Estate**

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

| | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Commercial | Residential | Total | Commercial | Residential | Total |
| Current | $ 15,200 | $ 690 | $ 15,890 | $ 13,029 | $ 230 | $ 13,259 |
| 30 to 59 days past due | 25 | 10 | 35 | - | 9 | 9 |
| 60 to 89 days past due | - | 10 | 10 | - | 1 | 1 |
| 90 or more days past due | 1 | 8 | 9 | - | - | - |
| Valuation allowance | - | (2) | (2) | - | - | - |
| Unamortized premium (discount) | (18) | 23 | 5 | (17) | 8 | (9) |
| Total carrying value | $ 15,208 | $ 739 | $ 15,947 | $ 13,012 | $ 248 | $ 13,260 |

We have determined, based upon our portfolio experience and common industry practice, that our portfolio of residential mortgage loans ("RMLs") are considered to be delinquent when the loan is greater than 90 days past due. As of September 30, 2019, we had 16 residential mortgage loans that were delinquent and/or in foreclosure. As of December 31, 2018, we had no loans that were greater than 90 days past due or in foreclosure.

We establish a valuation allowance to provide for the risk of credit losses inherent in our portfolio. The valuation allowance includes specific valuation allowances for loans that are deemed to be impaired as well as general valuation allowances for pools of loans with similar risk characteristics where a property risk or market specific risk has not been identified but for which we anticipate a loss has occurred.

For our commercial mortgage loans, there was one specifically identified impaired loan with a carrying value of less than $1 million as of September 30, 2019. There were no specifically identified impaired commercial mortgage loans as of December 31, 2018.

For our residential mortgage loans, there were four specifically identified impaired loans with an aggregate carrying value of less than $1 million as of September 30, 2019. There were no specifically identified impaired residential mortgage loans as of December 31, 2018. The general allowance established on residential mortgage loans was $2 million and less than $1 million as of September 30, 2019 and December 31, 2018, respectively.

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Balance as of beginning-of-period | $ - | $ 2 | $ - | $ 3 |
| Additions | - | - | - | - |
| Charge-offs, net of recoveries | - | (1) | - | (2) |
| Balance as of end-of-period | $ - | $ 1 | $ - | $ 1 |

Additional information related to impaired commercial mortgage loans on real estate (in millions) was as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Average carrying value for impaired commercial mortgage loans on real estate | $ - | $ 5 | $ - | $ 6 |
| Interest income recognized on impaired commercial mortgage loans on real estate | - | - | - | - |
| Interest income collected on impaired commercial mortgage loans on real estate | - | - | - | - |

We use the loan-to-value and debt-service coverage ratios as credit quality indicators for our commercial mortgage loans on real estate (dollars in millions) as follows:

| | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| **Loan-to-Value Ratio** | **Carrying Value** | **% of Total** | **Debt-Service Coverage Ratio** | **Carrying Value** | **% of Total** | **Debt-Service Coverage Ratio** |
| Less than 65% | $ 13,717 | 90.2% | 2.32 | $ 11,716 | 90.1% | 2.30 |
| 65% to 74% | 1,490 | 9.8% | 1.78 | 1,238 | 9.5% | 1.76 |
| 75% to 100% | 1 | 0.0% | 1.16 | 58 | 0.4% | 0.95 |
| Total | $ 15,208 | 100.0% | | $ 13,012 | 100.0% | |

We use loan performance status as the primary credit quality indicator for our residential mortgage loans on real estate (dollars in millions) as follows:

| | As of September 30, 2019 | | As of December 31, 2018 | |
|---|---|---|---|---|
| **Performance Indicator** | **Carrying Value** | **% of Total** | **Carrying Value** | **% of Total** |
| Performing | $ 731 | 98.9% | $ 247 | 99.6% |
| Nonperforming | 8 | 1.1% | 1 | 0.4% |
| Total | $ 739 | 100.0% | $ 248 | 100.0% |

Our commercial mortgage loan portfolio is geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 24% and 23% of commercial mortgage loans on real estate as of September 30, 2019, and December 31, 2018, respectively, and Texas, which accounted for 12% of commercial mortgage loans on real estate as of September 30, 2019, and December 31, 2018.

Our residential mortgage loan portfolio is geographically diversified throughout the U.S. with the largest concentrations in California, which accounted for 33% and 34% of residential mortgage loans on real estate as of September 30, 2019, and December 31, 2018, respectively, and Florida, which accounted for 20% and 19% of residential mortgage loans on real estate as of September 30, 2019, and December 31, 2018, respectively.

**Alternative Investments**

As of September 30, 2019, and December 31, 2018, alternative investments included investments in 259 and 237 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets.

**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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Fixed maturity AFS securities: | | | | |
| Gross gains | $ 8 | $ 14 | $ 40 | $ 30 |
| Gross losses | (14) | (19) | (58) | (60) |
| Gross OTTI | (2) | (2) | (15) | (5) |
| Gain (loss) on other investments (1) | (22) | 1 | (21) | 6 |
| Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds | (5) | (5) | (12) | (16) |
| Total realized gain (loss) related to certain investments | (35) | (11) | (66) | (45) |
| Realized gain (loss) on the mark-to-market on certain instruments (2) | 22 | (10) | (136) | 14 |
| Indexed annuity and IUL contracts net derivatives results: (3) | | | | |
| Gross gain (loss) | (21) | (7) | (97) | (14) |
| Associated amortization of DAC, VOBA, DSI and DFEL | (2) | (2) | 7 | (2) |
| Variable annuity net derivatives results: (4) | | | | |
| Gross gain (loss) | 28 | (32) | (230) | (10) |
| Associated amortization of DAC, VOBA, DSI and DFEL | (3) | 7 | 31 | 6 |
| Total realized gain (loss) | $ (11) | $ (55) | $ (491) | $ (51) |

(1) Includes market adjustments on equity securities still held of $(17) million and $(11) million for the three and nine months ended September 30, 2019, respectively, and less than $1 million and $2 million for the three and nine months ended September 30, 2018, respectively.

(2) Represents changes in the fair values of certain derivative investments (not including those associated with our variable and indexed annuity and IUL contracts net derivative results), reinsurance related embedded derivatives and trading securities. See Note 8 for information regarding modified coinsurance.

(3) Represents the net difference between the change in the fair value of the S&P 500 Index® ("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 IUL contracts 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 guaranteed living benefit ("GLB") riders and the change in the fair value of the derivative instruments we own to hedge the change in embedded derivative reserves on our GLB riders and the benefit ratio unlocking on our GLB and GDB riders, including the cost of purchasing the hedging instruments.

Details underlying write-downs taken as a result of OTTI that were recognized in net income (loss) and included in realized gain (loss) on fixed maturity 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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **OTTI Recognized in Net Income (Loss)** | | | | |
| Fixed maturity AFS securities: | | | | |
| Corporate bonds | $ (2) | $ (2) | $ (13) | $ (4) |
| ABS | - | - | (1) | - |
| RMBS | - | - | (1) | (1) |
| Gross OTTI recognized in net income (loss) | (2) | (2) | (15) | (5) |
| Associated amortization of DAC, VOBA, DSI and DFEL | - | - | 1 | - |
| Net OTTI recognized in net income (loss) | $ (2) | $ (2) | $ (14) | $ (5) |
| **OTTI Recognized in OCI** | | | | |
| Gross OTTI recognized in OCI | $ - | $ - | $ 16 | $ - |
| Change in DAC, VOBA, DSI and DFEL | - | - | (1) | - |
| Net OTTI recognized in OCI | $ - | $ - | $ 15 | $ - |

**Payables for Collateral on Investments**

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

| | As of September 30, 2019 | | As of December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Collateral payable for derivative investments [1] | $ 1,688 | $ 1,688 | $ 637 | $ 637 |
| Securities pledged under securities lending agreements [2] | 107 | 103 | 88 | 85 |
| Securities pledged under repurchase agreements [3] | 153 | 189 | 150 | 185 |
| Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") [4] | 3,580 | 5,469 | 3,930 | 5,923 |
| Total payables for collateral on investments | $ 5,528 | $ 7,449 | $ 4,805 | $ 6,830 |

(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 additional information.

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

(3) Our pledged securities under repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. The collateral requirements are generally 80% to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our repurchase program is typically invested in fixed maturity AFS securities.

(4) Our pledged 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.

Increase (decrease) in payables for collateral on investments (in millions) consisted of the following:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Collateral payable for derivative investments | $ 1,051 | $ (399) |
| Securities pledged under securities lending agreements | 19 | (105) |
| Securities pledged under repurchase agreements | 3 | (381) |
| Investments pledged for FHLBI | (350) | 680 |
| Total increase (decrease) in payables for collateral on investments | $ 723 | $ (205) |

We have elected not to offset our repurchase agreements and securities lending transactions in our financial statements. The remaining contractual maturities of repurchase agreements and securities lending transactions accounted for as secured borrowings (in millions) were as follows:

| | As of September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous | Up to 30 Days | 30 - 90 Days | Greater Than 90 Days | Total |
| **Securities Lending** | | | | | |
| Corporate bonds | $ 107 | $ - | $ - | $ - | $ 107 |
| **Repurchase Agreements** | | | | | |
| Corporate bonds | - | - | 153 | - | 153 |
| Total gross secured borrowings | $ 107 | $ - | $ 153 | $ - | $ 260 |

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | Overnight and Continuous | Up to 30 Days | 30 - 90 Days | Greater Than 90 Days | Total |
| **Securities Lending** | | | | | |
| Corporate bonds | $ 88 | $ - | $ - | $ - | $ 88 |
| **Repurchase Agreements** | | | | | |
| Corporate bonds | - | - | - | 150 | 150 |
| Total gross secured borrowings | $ 88 | $ - | $ - | $ 150 | $ 238 |

We accept collateral in the form of securities in connection with repurchase agreements. In instances where we are permitted to sell or re-pledge the securities received, we report the fair value of the collateral received and a related obligation to return the collateral in the financial statements. In addition, we receive securities in connection with securities borrowing agreements that we are permitted to sell or re-pledge. As of September 30, 2019, the fair value of all collateral received that we are permitted to sell or re-pledge was $178 million. As of September 30, 2019, we have re-pledged $178 million of this collateral to cover initial margin and over-the-counter collateral requirements on certain derivative investments.

**Investment Commitments**

As of September 30, 2019, our investment commitments were $1.9 billion, which included $960 million of LPs, $477 million of mortgage loans on real estate and $460 million of private placement securities.

**Concentrations of Financial Instruments**

As of September 30, 2019, and December 31, 2018, 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 $1.3 billion and $1.4 billion, respectively, or 1% of our invested assets portfolio, and our investments in securities issued by the Federal National Mortgage Association with a fair value of $1.3 billion or 1% of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

As of September 30, 2019, and December 31, 2018, our most significant investments in one industry were our investments in securities in the financial services industry with a fair value of $16.3 billion and $14.2 billion, respectively, or 12% of our invested assets portfolio, and our investments in securities in the consumer non-cyclical industry with a fair value of $16.0 billion and $14.5 billion, respectively, or 12% and 13%, respectively, of our invested assets portfolio. These concentrations include fixed maturity AFS, trading and equity securities.

## 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, basis risk and credit risk. We assess these risks by continually identifying and monitoring changes in our exposures that may adversely affect expected future cash flows and by evaluating hedging opportunities.

Derivative activities are monitored by various management committees. The committees are responsible for overseeing the implementation of various hedging strategies that are developed through the analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are incorporated into our overall risk management strategies.

See Note 14 for additional disclosures related to the fair value of our derivative instruments.

We adopted ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, in 2019. See Note 2 for additional information.

### Interest Rate Contracts

We use derivative instruments as part of our interest rate risk management strategy. These instruments are economic hedges unless otherwise noted and include:

*Forward-Starting Interest Rate Swaps*

We use forward-starting interest rate swaps designated and qualifying as cash flow hedges to hedge our exposure to interest rate fluctuations related to the forecasted purchases of certain assets and anticipated issuances of fixed-rate securities.

We also use forward-starting interest rate swaps to hedge the interest rate exposure within our life products related to the forecasted purchases of certain assets.

*Interest Rate Cap Corridors*

We use interest rate cap corridors to provide a level of protection from the effect of rising interest rates for certain life insurance products and annuity contracts. Interest rate cap corridors involve purchasing an interest rate cap at a specific cap rate and selling an interest rate cap with a higher cap rate. For each corridor, the amount of quarterly payments, if any, is determined by the rate at which the underlying index rate resets above the original capped rate. The corridor limits the benefit the purchaser can receive as the related interest rate index rises above the higher capped rate. There is no additional liability to us other than the purchase price associated with the interest rate cap corridor.

*Interest Rate Futures*

We use interest rate futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts require payment between our counterparty and us on a daily basis for changes in the futures index price.

*Interest Rate Swap Agreements*

We use interest rate swap agreements to hedge the liability exposure on certain options in variable annuity products.

We also use interest rate swap agreements designated and qualifying as cash flow hedges to hedge the interest rate risk of floating-rate bond coupon payments by replicating a fixed-rate bond.

Finally, we use interest rate swap agreements designated and qualifying as fair value hedges to hedge against changes in the fair value of certain fixed-rate long-term debt and fixed maturity securities due to interest rate risks.

*Treasury and Reverse Treasury Locks*

We use treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to our issuance of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. In addition, we use reverse treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to the anticipated purchase of fixed-rate securities or the anticipated future cash flows of floating-rate fixed maturity securities due to changes in interest rates. These derivatives are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities.

**Foreign Currency Contracts**

We use derivative instruments as part of our foreign currency risk management strategy. These instruments are economic hedges unless otherwise noted and include:

*Currency Futures*

We use currency futures to hedge foreign exchange risk associated with certain options in variable annuity products. Currency futures exchange one currency for another at a specified date in the future at a specified exchange rate.

*Foreign Currency Swaps*

We use foreign currency swaps to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency swap is a contractual agreement to exchange one currency for another at specified dates in the future at a specified exchange rate.

We also use foreign currency swaps designated and qualifying as cash flow hedges to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies.

*Foreign Currency Forwards*

We use foreign currency forwards to hedge foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency forward is a contractual agreement to exchange one currency for another at specified dates in the future at a specified current exchange rate.

**Equity Market Contracts**

We use derivative instruments as part of our equity market risk management strategy that are economic hedges and include:

*Call Options Based on the S&P 500*

We use call options to hedge the liability exposure on certain options in variable annuity products.

Our indexed annuity and IUL contracts permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to rebalance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. We purchase call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period.

*Consumer Price Index Swaps*

We use consumer price index swaps to hedge the liability exposure on certain options in fixed annuity products. Consumer price index swaps are contracts entered into at no cost and whose payoff is the difference between the consumer price index inflation rate and the fixed-rate determined as of inception.

*Equity Futures*

We use equity futures contracts to hedge the liability exposure on certain options in variable annuity products. These futures contracts require payment between our counterparty and us on a daily basis for changes in the futures index price.

*Put Options*

We use put options to hedge the liability exposure on certain options in variable annuity products. Put options are contracts that require counterparties to pay us at a specified future date the amount, if any, by which a specified equity index is less than the strike rate stated in the agreement, applied to a notional amount.

*Total Return Swaps*

We use total return swaps to hedge the liability exposure on certain options in variable annuity products.

In addition, we use total return swaps to hedge a portion of the liability related to our deferred compensation plans. We receive the total return on a portfolio of indexes and pay a floating-rate of interest.

*Variance Swaps*

We use variance swaps to hedge the liability exposure on certain options in variable annuity products. Variance swaps are contracts entered into at no cost whose payoff is the difference between the realized variance rate of an underlying index and the fixed variance rate determined as of inception of the contract.

**Credit Contracts**

We use derivative instruments as part of our credit risk management strategy that are economic hedges and include:

*Credit Default Swaps – Buying Protection*

We use credit default swaps to hedge the liability exposure on certain options in variable annuity products.

We buy credit default swaps to hedge against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows us to put the bond back to the counterparty at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

*Credit Default Swaps – Selling Protection*

We use credit default swaps to hedge the liability exposure on certain options in variable annuity products.

We sell credit default swaps to offer credit protection to contract holders and investors. The credit default swaps hedge the contract holders and investors against a drop in bond prices due to credit concerns of certain bond issuers. A credit default swap allows the investor to put the bond back to us at par upon a default event by the bond issuer. A default event is defined as bankruptcy, failure to pay, obligation acceleration or restructuring.

**Embedded Derivatives**

We have embedded derivatives that include:

*GLB Reserves Embedded Derivatives*

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with GLBs offered in our variable annuity products, including products with GWB and GIB features. Changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities hedge the income statement effect of changes in embedded derivative GLB reserves caused by those same factors. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these hedge positions may not be totally effective in offsetting changes in the embedded derivative reserve due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets and interest rates, market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices, divergence between the actual and expected performance of the hedge instruments and our ability to purchase hedging instruments at prices consistent with our desired risk and return trade-off.

Certain features of these guarantees have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the benefit reserves and the embedded derivative reserves based on the specific characteristics of each GLB feature.

*Indexed Annuity and IUL Contracts Embedded Derivatives*

Our indexed annuity and IUL contracts permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to rebalance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, caps, spreads and specified rates, subject to contractual guarantees. We purchase S&P 500 call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period.

*Reinsurance Related Embedded Derivatives*

We have certain modified coinsurance arrangements and coinsurance with funds withheld reinsurance arrangements with embedded derivatives related to the withheld assets of the related funds. These derivatives are considered total return swaps with contractual returns that are attributable to various assets and liabilities associated with these reinsurance arrangements.

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

| | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Notional | Fair Value | | Notional | Fair Value | |
| | Amounts | Asset | Liability | Amounts | Asset | Liability |
| **Qualifying Hedges** | | | | | | |
| Cash flow hedges: | | | | | | |
| Interest rate contracts (1) | $ 2,352 | $ 197 | $ 402 | $ 2,741 | $ 70 | $ 9 |
| Foreign currency contracts (1) | 2,714 | 320 | 32 | 2,326 | 167 | 39 |
| Total cash flow hedges | 5,066 | 517 | 434 | 5,067 | 237 | 48 |
| Fair value hedges: | | | | | | |
| Interest rate contracts (1) | 1,261 | 160 | 244 | 1,268 | 55 | 137 |
| **Non-Qualifying Hedges** | | | | | | |
| Interest rate contracts (1) | 108,732 | 1,330 | 319 | 100,628 | 464 | 138 |
| Foreign currency contracts (1) | 333 | 4 | 1 | 47 | - | - |
| Equity market contracts (1) | 40,217 | 976 | 372 | 30,487 | 676 | 162 |
| Embedded derivatives: | | | | | | |
| GLB direct (2) (3) | - | - | 846 | - | 123 | - |
| GLB ceded (2) | - | 241 | - | - | 72 | - |
| Reinsurance related (4) | - | - | 339 | - | - | 3 |
| Indexed annuity and IUL contracts (2) (5) | - | 891 | 2,098 | - | 902 | 1,305 |
| Total derivative instruments | $ 155,609 | $ 4,119 | $ 4,653 | $ 137,497 | $ 2,529 | $ 1,793 |

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

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

| | Remaining Life as of September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less Than 1 Year | 1 - 5 Years | 6 - 10 Years | 11 - 30 Years | Over 30 Years | Total |
| Interest rate contracts (1) | $ 10,664 | $ 17,545 | $ 54,294 | $ 28,129 | $ 1,713 | $ 112,345 |
| Foreign currency contracts (2) | 290 | 318 | 863 | 1,520 | 56 | 3,047 |
| Equity market contracts | 26,976 | 6,529 | 3,448 | 13 | 3,251 | 40,217 |
| Total derivative instruments with notional amounts | $ 37,930 | $ 24,392 | $ 58,605 | $ 29,662 | $ 5,020 | $ 155,609 |

(1) As of September 30, 2019, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 20, 2067.
(2) As of September 30, 2019, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was February 20, 2050.

The following amounts (in millions) were recorded on the Consolidated Balance Sheets related to cumulative basis adjustments for fair value hedges:

| | As of September 30, 2019 | |
|---|---|---|
| **Line Items in which the Hedged Items are Recorded** | **Amortized Cost of the Hedged Assets (Liabilities)** | **Cumulative Fair Value Hedging Adjustment Included in the Amortized Cost of the Hedged Assets (Liabilities)** |
| Fixed maturity AFS securities, at fair value | $ 816 | $ 240 |
| Long-term debt [(1)] | (1,087) | (212) |

(1) The balance includes $(119) million of unamortized adjustments from discontinued hedges as of September 30, 2019.

The change in our unrealized gain (loss) on derivative instruments within accumulated other comprehensive income (loss) ("AOCI") (in millions) was as follows:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| **Unrealized Gain (Loss) on Derivative Instruments** | | |
| Balance as of beginning-of-year | $ 139 | $ (29) |
| Other comprehensive income (loss): | | |
| Unrealized holding gains (losses) arising during the period: | | |
| Cumulative effect from adoption of new accounting standard | - | (6) |
| Cash flow hedges: | | |
| Interest rate contracts | (266) | 117 |
| Foreign currency contracts | 114 | (19) |
| Change in foreign currency exchange rate adjustment | 80 | 69 |
| Change in DAC, VOBA, DSI and DFEL | (3) | 8 |
| Income tax benefit (expense) | 15 | (37) |
| Less: | | |
| Reclassification adjustment for gains (losses) included in net income (loss): | | |
| Cash flow hedges: | | |
| Interest rate contracts [(1)] | 2 | 3 |
| Interest rate contracts [(2)] | (2) | (6) |
| Foreign currency contracts [(1)] | 25 | 18 |
| Foreign currency contracts [(3)] | 9 | - |
| Associated amortization of DAC, VOBA, DSI and DFEL | (1) | (1) |
| Income tax benefit (expense) | (7) | (3) |
| Balance as of end-of-period | $ 53 | $ 92 |

(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).
(3) The OCI offset is reported within realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

The effects of qualifying and non-qualifying hedges (in millions) on the Consolidated Statements of Comprehensive Income (Loss) were as follows:

| | Gain (Loss) Recognized in Income For the Three Months Ended September 30, 2019 | | |
|---|---|---|---|
| | Realized Gain (Loss) | Net Investment Income | Interest and Debt Expense |
| **Total Line Items in which the Effects of Fair Value or Cash Flow Hedges are Recorded** | $ (11) | $ 1,235 | $ 113 |
| **Qualifying Hedges** | | | |
| Gain or (loss) on fair value hedging relationships: | | | |
| Interest rate contracts: | | | |
| Hedged items | - | 44 | (62) |
| Derivatives designated as hedging instruments | - | (44) | 62 |
| Gain or (loss) on cash flow hedging relationships: | | | |
| Interest rate contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | - | - | (1) |
| Foreign currency contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | 5 | 10 | - |
| **Non-Qualifying Hedges** | | | |
| Interest rate contracts | 699 | - | - |
| Equity market contracts | 173 | - | - |
| Embedded derivatives: | | | |
| GLB | (715) | - | - |
| Reinsurance related | (30) | - | - |
| Indexed annuity and IUL contracts | (23) | - | - |

| | Gain (Loss) Recognized in Income For the Nine Months Ended September 30, 2019 | | |
|---|---|---|---|
| | Realized Gain (Loss) | Net Investment Income | Interest and Debt Expense |
| **Total Line Items in which the Effects of Fair Value or Cash Flow Hedges are Recorded** | $ (491) | $ 3,842 | $ 254 |
| **Qualifying Hedges** | | | |
| Gain or (loss) on fair value hedging relationships: | | | |
| Interest rate contracts: | | | |
| Hedged items | - | 101 | (145) |
| Derivatives designated as hedging instruments | - | (101) | 145 |
| Gain or (loss) on cash flow hedging relationships: | | | |
| Interest rate contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | - | 2 | (2) |
| Foreign currency contracts: | | | |
| Amount of gain or (loss) reclassified from AOCI into income | 9 | 25 | - |
| **Non-Qualifying Hedges** | | | |
| Interest rate contracts | 1,625 | - | - |
| Equity market contracts | (241) | - | - |
| Embedded derivatives: | | | |
| GLB | (800) | - | - |
| Reinsurance Related | (336) | - | - |
| Indexed annuity and IUL contracts | (372) | - | - |

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, 2018 | For the Nine Months Ended September 30, 2018 |
|---|---|---|
| **Qualifying Hedges** | | |
| Cash flow hedges: | | |
| Interest rate contracts [1] | $ 1 | $ 3 |
| Interest rate contracts [2] | (4) | (6) |
| Foreign currency contracts [1] | 7 | 18 |
| Total cash flow hedges | 4 | 15 |
| Fair value hedges: | | |
| Interest rate contracts [1] | (2) | (11) |
| Interest rate contracts [2] | 5 | 11 |
| Interest rate contracts [3] | 17 | 64 |
| Total fair value hedges | 20 | 64 |
| **Non-Qualifying Hedges** | | |
| Interest rate contracts [3] | (167) | (577) |
| Foreign currency contracts [3] | - | 2 |
| Equity market contracts [3] | (199) | (280) |
| Equity market contracts [4] | 10 | 11 |
| Embedded derivatives: | | |
| GLB [3] | 333 | 603 |
| Reinsurance related [3] | 5 | 37 |
| Indexed annuity and IUL contracts [3] | (164) | (175) |
| Total derivative instruments | $ (158) | $ (300) |

(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) recognized as a component of OCI (in millions) on derivative instruments designated and qualifying as cash flow hedges were as follows:

| | For the Three Months Ended September 30, 2018 | For the Nine Months Ended September 30, 2018 |
|---|---|---|
| Offset to net investment income | $ 8 | $ 21 |
| Offset to interest and debt expense | (4) | (6) |

As of September 30, 2019, $38 million of the deferred net gains (losses) on derivative instruments in AOCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to interest rate variances related to our interest rate swap agreements.

For the nine months ended September 30, 2019 and 2018, 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.

As of September 30, 2019, and December 31, 2018, we did not have any exposure related to credit default swaps for which we are the seller.

**Credit Risk**

We are exposed to credit losses in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk ("NPR"). The NPR is based upon assumptions for each counterparty's credit spread over the estimated weighted-average life of the counterparty exposure less collateral held. As of September 30, 2019, the NPR adjustment was zero. The credit risk associated with such agreements is minimized by entering into agreements with financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2019, and December 31, 2018, our exposure was zero.

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, 2019 | | As of December 31, 2018 | |
|---|---|---|---|---|
| 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- | $ 379 | $ (309) | $ 33 | $ (3) |
| A+ | 760 | (421) | 296 | (96) |
| A | 47 | - | 106 | (56) |
| A- | 26 | - | 4 | - |
| BBB+ | 474 | (87) | 197 | - |
| | $ 1,686 | $ (817) | $ 636 | $ (155) |

**Balance Sheet Offsetting**

Information related to the effects of offsetting (in millions) was as follows:

| | As of September 30, 2019 | | |
|---|---|---|---|
| | Derivative Instruments | Embedded Derivative Instruments | Total |
| **Financial Assets** | | | |
| Gross amount of recognized assets | $ 2,636 | $ 1,132 | $ 3,768 |
| Gross amounts offset | (435) | - | (435) |
| Net amount of assets | 2,201 | 1,132 | 3,333 |
| Gross amounts not offset: | | | |
| Cash collateral | (1,686) | - | (1,686) |
| Non-cash collateral | (183) | - | (183) |
| Net amount | $ 332 | $ 1,132 | $ 1,464 |
| **Financial Liabilities** | | | |
| Gross amount of recognized liabilities | $ 1,324 | $ 3,283 | $ 4,607 |
| Gross amounts offset | (195) | - | (195) |
| Net amount of liabilities | 1,129 | 3,283 | 4,412 |
| Gross amounts not offset: | | | |
| Cash collateral | (817) | - | (817) |
| Non-cash collateral | - | - | - |
| Net amount | $ 312 | $ 3,283 | $ 3,595 |

| As of December 31, 2018 | | | |
| --- | --- | --- | --- |
| | Derivative Instruments | Embedded Derivative Instruments | Total |
| **Financial Assets** | | | |
| Gross amount of recognized assets | $ 1,330 | $ 1,097 | $ 2,427 |
| Gross amounts offset | (223) | - | (223) |
| Net amount of assets | 1,107 | 1,097 | 2,204 |
| Gross amounts not offset: | | | |
| Cash collateral | (636) | - | (636) |
| Non-cash collateral | (58) | - | (58) |
| Net amount | $ 413 | $ 1,097 | $ 1,510 |
| **Financial Liabilities** | | | |
| Gross amount of recognized liabilities | $ 784 | $ 1,308 | $ 2,092 |
| Gross amounts offset | (103) | - | (103) |
| Net amount of liabilities | 681 | 1,308 | 1,989 |
| Gross amounts not offset: | | | |
| Cash collateral | (155) | - | (155) |
| Non-cash collateral | (190) | - | (190) |
| Net amount | $ 336 | $ 1,308 | $ 1,644 |

## 7. Federal Income Taxes

The effective tax rate is the ratio of tax expense (benefit) over pre-tax income (loss). The effective tax rate was 36% and -4% for the three and nine months ended September 30, 2019, respectively, compared to 8% and 12%, respectively, for the corresponding periods in 2018. The effective tax rate on pre-tax income is typically lower than the prevailing corporate federal income tax rate of 21% due to benefits from preferential tax items including the separate accounts dividends-received deduction and tax credits. For the three months ended September 30, 2019, the effective tax rate was higher than the marginal tax rate principally due to the effect of these preferential tax items being additive to the tax benefit at 21% from pre-tax losses associated with the third quarter annual comprehensive review of assumptions and unfavorable investment income on alternative investments. The effective tax rate for the nine months ended September 30, 2019, was also affected by these same pre-tax losses as well as realized losses and the associated tax benefit resulting from the application of the 21% corporate tax rate.

## 8. Reinsurance

*Modified Coinsurance Reinsurance Transaction*

Some portions of our annuity business have been reinsured on a modified coinsurance (“Modco”) basis with other companies. In a Modco program, we as the ceding company retain the reserves, as well as the assets backing those reserves, and the reinsurer shares proportionally in all financial terms of the reinsured policies based on their respective percentage of the risk. Effective October 1, 2018, we entered into one such Modco agreement with Athene Holding Ltd. to reinsure fixed and fixed indexed annuity products. We held investments of $7.2 billion as of September 30, 2019, in support of reserves associated with the transaction in a Modco portfolio. As of September 30, 2019, the portfolio included fixed maturity AFS securities, trading securities, equity securities, commercial mortgage loans, derivative investments, other investments, cash, accrued investment income and other assets that had carrying values of $2.7 billion, $3.3 billion, $64 million, $652 million, $114 million, $65 million, $167 million, $60 million and $60 million, respectively, as of September 30, 2019. In addition, the portfolio was supported by $210 million of over-collateralization and a $200 million letter of credit as of September 30, 2019.

In repositioning the Modco investment portfolio, purchases of securities classified as trading during 2019 primarily resulted in negative cash flows from operating activities that were largely offset by sales of securities classified as AFS within investing activities in our Consolidated Statements of Cash Flows.

See “Realized Gain (Loss)” in Note 5 for information on reinsurance related embedded derivatives.

## 9. Guaranteed Benefit Features

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

| | As of September 30, 2019 (1) | As of December 31, 2018 (1) |
|---|---|---|
| **Return of Net Deposits** | | |
| Total account value | $ 96,690 | $ 89,783 |
| Net amount at risk (2) | 134 | 1,002 |
| Average attained age of contract holders | 65 years | 65 years |
| **Minimum Return** | | |
| Total account value | $ 89 | $ 88 |
| Net amount at risk (2) | 14 | 18 |
| Average attained age of contract holders | 77 years | 77 years |
| Guaranteed minimum return | 5% | 5% |
| **Anniversary Contract Value** | | |
| Total account value | $ 24,594 | $ 23,365 |
| Net amount at risk (2) | 496 | 2,007 |
| Average attained age of contract holders | 71 years | 71 years |

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

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

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, 2019 | For the Nine Months Ended September 30, 2018 |
|---|---|---|
| Balance as of beginning-of-year | $ 161 | $ 100 |
| Changes in reserves | (16) | 18 |
| Benefits paid | (15) | (11) |
| Balance as of end-of-period | $ 130 | $ 107 |

*Variable Annuity Contracts*

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

| | As of September 30, 2019 | As of December 31, 2018 |
|---|---|---|
| **Asset Type** | | |
| Domestic equity | $ 60,018 | $ 54,060 |
| International equity | 18,740 | 18,359 |
| Fixed income | 40,226 | 37,942 |
| Total | $ 118,984 | $ 110,361 |
| Percent of total variable annuity separate account values | 98% | 99% |

*Secondary Guarantee Products*

Future contract benefits and other contract holder funds include reserves for our secondary guarantee products sold through our Life Insurance segment. Reserves on UL and VUL products with secondary guarantees represented 37% and 35% of total life insurance in-force reserves as of September 30, 2019, and December 31, 2018, respectively. UL and VUL products with secondary guarantees represented 25% and 28% of total life insurance sales for the three and nine months ended September 30, 2019, respectively, compared to 38% and 34%, respectively, for the corresponding periods in 2018.

## 10. Liability for Unpaid Claims

The liability for unpaid claims consists primarily of long-term disability claims and is reported in future contract benefits on our Consolidated Balance Sheets. Changes in the liability for unpaid claims (in millions) were as follows:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Balance as of beginning-of-year | $ 5,335 | $ 2,222 |
| Reinsurance recoverable | 143 | 57 |
| Net balance as of beginning-of-year | 5,192 | 2,165 |
| Business acquired (1) | - | 2,842 |
| Incurred related to: | | |
| Current year | 2,370 | 1,640 |
| Prior years: | | |
| Interest | 117 | 85 |
| All other incurred (2) | (203) | (159) |
| Total incurred | 2,284 | 1,566 |
| Paid related to: | | |
| Current year | (1,046) | (663) |
| Prior years | (1,091) | (796) |
| Total paid | (2,137) | (1,459) |
| Net balance as of end-of-period | 5,339 | 5,114 |
| Reinsurance recoverable | 148 | 141 |
| Balance as of end-of-period | $ 5,487 | $ 5,255 |

(1) Represents Liberty group life and disability reserves, net, as of May 1, 2018. See Note 3 for additional information.

(2) All other incurred is primarily impacted by the level of claim resolutions in the period compared to that which is expected by the reserve assumption. A negative number implies a favorable result where claim resolutions were more favorable than assumed. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the long-term life of the block of claims. It will vary from actual experience in any one period, both favorably and unfavorably.

The interest rate assumption used for discounting long-term claim reserves is an important part of the reserving process due to the long benefit period for these claims. Interest accrued on prior years' reserves has been calculated on the opening reserve balance less one-half of the prior years' incurred claim payments at our average reserve discount rate.

Long-term disability benefits may extend for many years, and claim development schedules do not reflect these longer benefit periods. As a result, we use longer term retrospective runoff studies, experience studies and prospective studies to develop our liability estimates.

## 11. Long-Term Debt

Changes in long-term debt, excluding current portion, (in millions) were as follows:

| | For the Nine Months Ended September 30, 2019 |
|---|---|
| Balance as of beginning-of-year | $ 5,839 |
| Senior notes issued: | |
| 3.05% notes, due 2030 | 500 |
| Early extinguishment of senior notes: | |
| 4.85% notes, due 2021 | (4) |
| 6.15% notes, due 2036 | (105) |
| Reclassification of long-term debt to current maturities | (300) |
| Unamortized debt issuance costs | (1) |
| Unamortized adjustments from discontinued hedges | (4) |
| Fair value hedge on interest rate swap agreements | 145 |
| Balance as of end-of-period | $ 6,070 |

Details underlying the recognition of a gain (loss) on the early extinguishment of debt (in millions) reported within interest expense on our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2019, were as follows:

| | | |
|---|---|---|
| Principal balance outstanding prior to payoff [(1)] | $ | 109 |
| Unamortized debt issuance costs and discounts | | (1) |
| Amount paid to retire debt | | (150) |
| Gain (loss) on early extinguishment of debt, pre-tax | $ | (42) |

(1) During the third quarter of 2019, we repurchased $105 million of our 6.15% senior notes due 2036 and $4 million of our 4.85% senior notes due 2021.

**Credit Facilities and Letters of Credit**

On July 31, 2019, we refinanced our existing credit facility with a syndicate of banks. This facility (the "credit facility") allows for the issuance of LOCs and borrowing of up to $2.25 billion. The credit facility is unsecured and has a commitment termination date of July 31, 2024. The LOCs under the credit facility are used primarily to satisfy reserve credit requirements of (i) our domestic insurance companies for which reserve credit is provided by our affiliated reinsurance companies and (ii) certain ceding companies of our legacy reinsurance business.

The credit agreement governing the credit facility contains or includes:

- Customary terms and conditions, including covenants restricting our ability to incur liens, merge or consolidate with another entity where we are not the surviving entity and dispose of all or substantially all of our assets;
- Financial covenants including maintenance of a minimum consolidated net worth (as defined in the credit agreement) equal to the sum of $10.6 billion plus 50% of the aggregate net proceeds of equity issuances received by us as set forth in the credit agreement; and a debt-to-capital ratio as defined in accordance with the credit facility not to exceed 0.35 to 1.00;
- A cap on secured non-operating indebtedness and non-operating indebtedness of our subsidiaries equal to 7.5% of total capitalization, as defined in accordance with the credit agreement; and
- Customary events of default, subject to certain materiality thresholds and grace periods for certain of those events of default.

Upon an event of default, the credit agreement provides that, among other things, the commitments may be terminated and the loans then outstanding may be declared due and payable. As of September 30, 2019, we were in compliance with all such covenants.

**12. Contingencies and Commitments**

**Contingencies**

*Regulatory and Litigation Matters*

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 advisers and unclaimed property laws.

LNC is 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 verdicts obtained 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, 2019. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial condition.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of September 30, 2019, we estimate the aggregate range of reasonably possible losses to be up to approximately $50 million.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts and the progress of settlement negotiations. On a quarterly and annual basis, we review relevant information with respect to litigation contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

Certain reinsurers have sought rate increases on certain yearly renewable term treaties. We are disputing the requested rate increases under these treaties. We have initiated and will initiate arbitration proceedings, as necessary, under these treaties in order to protect our contractual rights. Additionally, reinsurers may initiate arbitration proceedings against us. We believe it is unlikely the outcome of these disputes will have a material adverse effect on our financial condition.

*Cost of Insurance Litigation*

*Glover v. Connecticut General Life Insurance Company and The Lincoln National Life Insurance Company*, filed in the U.S. District Court for the District of Connecticut, No. 3:16-cv-00827, is a putative class action that was served on LNL on June 8, 2016. Plaintiff is the owner of a universal life insurance policy who alleges that LNL charged more for non-guaranteed cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who owned policies containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on behalf of all such policyholders. On January 11, 2019, the court dismissed Plaintiff's complaint in its entirety. In response, Plaintiff filed a motion for leave to amend the complaint, which we have opposed.

*Hanks v. The Lincoln Life and Annuity Company of New York ("LLANY") and Voya Retirement Insurance and Annuity Company ("Voya")*, filed in the U.S. District Court for the Southern District of New York, No. 1:16-cv-6399, is a putative class action that was served on LLANY on August 12, 2016. Plaintiff owns a universal life policy originally issued by Aetna (now Voya) and alleges that (i) Voya breached the terms of the policy when it increased non-guaranteed cost of insurance rates on Plaintiff's policy; and (ii) LLANY, as reinsurer and administrator of Plaintiff's policy, engaged in wrongful conduct related to the cost of insurance increase and was unjustly enriched as a result. Plaintiff seeks to represent all owners of Aetna life insurance policies that were subject to non-guaranteed cost of insurance rate increases in 2016 and seeks damages on their behalf. On March 13, 2019, the court issued an order granting plaintiff's motion for class certification for the breach of contract claim and denying such motion with respect to the unjust enrichment claim against LLANY, and, on September 12, 2019, the court issued an order approving the parties' joint stipulation of dismissal with respect to the unjust enrichment claim and dismissed LLANY as a defendant in the case. In light of LLANY's role as reinsurer and administrator under the 1998 coinsurance agreement with Aetna (now Voya), and of the parties' rights and obligations thereunder, LLANY continues to be actively engaged in the vigorous defense of this action.

*EFG Bank AG, Cayman Branch, et al. v. The Lincoln National Life Insurance Company*, pending in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:17-cv-02592, is a civil action filed on February 1, 2017. Plaintiffs own Legend Series universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL breached the terms of policyholders' contracts when it increased non-guaranteed cost of insurance rates beginning in 2016. We are vigorously defending this matter.

*In re: Lincoln National COI Litigation*, pending in the U.S. District Court for the Eastern District of Pennsylvania, Master File No. 2:16-cv-06605-GJP, is a consolidated litigation matter related to multiple putative class action filings that were consolidated by an order dated March 20, 2017. In addition to consolidating a number of existing matters, the order also covers any future cases filed in the same district related to the same subject matter. Plaintiffs own universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL and LNC breached the terms of policyholders' contracts by increasing non-guaranteed cost of insurance rates beginning in 2016. Plaintiffs seek to represent classes of policyowners and seek damages on their behalf. We are vigorously defending this matter.

*In re: Lincoln National 2017 COI Rate Litigation*, Master File No. 2:17-cv-04150 is a consolidated litigation matter related to multiple putative class action filings that were consolidated by an order of the court in March 2018. Plaintiffs own universal life insurance policies originally issued by former Jefferson-Pilot (now LNL). Plaintiffs allege that LNL and LNC breached the terms of policyholders' contracts by increasing non-guaranteed cost of insurance rates beginning in 2017. Plaintiffs seek to represent classes of policyholders and seek damages on their behalf. We are vigorously defending this matter.

*Iwanski v. First Penn-Pacific Life Insurance Company* ("FPP"), No. 2:18-cv-01573 filed in the U.S. District Court for the District Court, Eastern District of Pennsylvania is a putative class action that was filed on April 13, 2018. Plaintiff alleges that defendant FPP breached the terms of his life insurance policy by deducting non-guaranteed cost of insurance charges in excess of what is permitted by the policies. Plaintiff seeks to represent all owners of universal life insurance policies issued by FPP containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on their behalf. Breach of contract is the only cause of action asserted. We are vigorously defending this matter.

*TVPX ARS INC., as Securities Intermediary for Consolidated Wealth Management, LTD. v. The Lincoln National Life Insurance Company*, filed in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:18-cv-02989, is a putative class action that was filed on July 17, 2018. Plaintiff alleges that LNL charged more for non-guaranteed cost of insurance than permitted by the policy. Plaintiff seeks to represent all universal life and variable universal life policyholders who own policies issued by LNL or its predecessors containing non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policy and seeks damages on behalf of all such policyholders. We are vigorously defending this matter.

*LSH Co. and Wells Fargo Bank, National Association, as securities intermediary for LSH Co. v. Lincoln National Corporation and The Lincoln National Life Insurance Company*, pending in the U.S. District Court for the Eastern District of Pennsylvania, No. 2:18-cv-05529, is a civil action filed on December 21, 2018. Plaintiffs own universal life insurance policies originally issued by Jefferson-Pilot (now LNL). Plaintiffs allege that LNL breached the terms of policyholders' contracts when it increased non-guaranteed cost of insurance rates in 2016 and 2017. We are vigorously defending this matter.

*Vida Longevity Fund, LP v. Lincoln Life & Annuity Company of New York*, pending in the U.S. District Court for the Southern District of New York, No. 1:19-cv-06004, is a putative class action that was filed on June 27, 2019. Plaintiff alleges that LLANY charged more for non-guaranteed cost of insurance than was permitted by the policies. Plaintiff seeks to represent all current and former owners of universal life (including variable universal life) policies who own or owned policies issued by LLANY and its predecessors in interest that were in force at any time on or after June 27, 2013, and which contain non-guaranteed cost of insurance provisions that are similar to those of Plaintiff's policies. Plaintiff also seeks to represent a sub-class of such policyholders who own or owned "life insurance policies issued in the State of New York." Plaintiff seeks damages on behalf of the policyholder class and sub-class. We are vigorously defending this matter.

**Commitments**

*Leases*

Effective January 1, 2019, we adopted ASU 2016-02, which resulted in a new measurement and recognition of our long-term operating leases on our Consolidated Balance Sheets. See Note 2 for additional information.

We lease office space and certain equipment under various long-term lease agreements, and we also enter into sale-leaseback transactions. We determine if an arrangement is a lease at inception. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Our leases do not provide an implicit rate; therefore, we use our incremental borrowing rate at the commencement date in determining the present value of future payments. The ROU asset is calculated using the initial lease liability amount, plus any lease payments made at or before the commencement date, minus any lease incentives received, plus any initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise such options. Our lease agreements may contain both lease and non-lease components, which are accounted for separately. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

We recognized operating lease ROU assets of $205 million and associated lease liabilities of $211 million as of September 30, 2019. We classified the operating lease ROU assets within other assets and the lease liabilities within other liabilities on our Consolidated Balance Sheets. The weighted-average discount rate and remaining lease term on our operating leases was 3.2% and 6 years, respectively, as of September 30, 2019. Operating lease expense for the three and nine months ended September 30, 2019, was $13 million and $40 million, respectively, and reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

As of September 30, 2019, the net book value of assets recorded as finance leases under sale-leaseback transactions was $143 million, and the associated accumulated amortization was $330 million. These transactions have been classified as other assets on our Consolidated Balance Sheets. These assets will continue to be amortized on a straight-line basis over the assets' remaining lives. The weighted-average discount rate and remaining lease term on our sale-leaseback transactions was 2.5% and 3 years, respectively, as of September 30, 2019.

Finance lease expense (in millions) was as follows:

| | For the Three Months Ended September 30, 2019 | For the Nine Months Ended September 30, 2019 |
|---|---|---|
| Amortization of ROU assets (1) | $ 15 | $ 52 |
| Interest on lease liabilities (2) | 4 | 11 |
| Total | $ 19 | $ 63 |

(1) Amortization of ROU assets is reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).
(2) Interest on lease liabilities is reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).

The table below presents cash flow information (in millions) related to leases:

| | For the Nine Months Ended September 30, 2019 |
|---|---|
| **Supplemental Cash Flow Information** | |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | $ 40 |
| Financing cash flows from finance leases | 11 |
| | |
| **Supplemental Non-cash Information** | |
| ROU assets obtained in exchange for new lease obligations: | |
| Operating leases | $ 32 |

Our future minimum lease payments (in millions) under non-cancellable leases as of September 30, 2019, were as follows:

| | Operating Leases | Finance Leases |
|---|---|---|
| Remainder of 2019 | $ 11 | $ 85 |
| 2020 | 43 | 57 |
| 2021 | 43 | 67 |
| 2022 | 38 | 68 |
| 2023 | 36 | 94 |
| Thereafter | 70 | 30 |
| Total future minimum lease payments | 241 | 401 |
| Less: Amount representing interest | 30 | 37 |
| Present value of minimum lease payments | $ 211 | $ 364 |

As of September 30, 2019, we had additional office space leases that had not yet commenced totaling $37 million. These leases will commence in the fourth quarter of 2019 and have lease terms of 7 to 11 years.

## 13. Shares and Stockholders' Equity

*Common Shares*

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Common Stock** | | | | |
| Balance as of beginning-of-period | 200,775,731 | 217,294,051 | 205,862,760 | 218,090,114 |
| Stock issued for exercise of warrants | 36,610 | 97,076 | 258,633 | 119,942 |
| Stock compensation/issued for benefit plans | 41,006 | 38,642 | 934,081 | 675,608 |
| Retirement/cancellation of shares | (2,526,097) | (2,652,963) | (8,728,224) | (4,108,858) |
| Balance as of end-of-period | 198,327,250 | 214,776,806 | 198,327,250 | 214,776,806 |
| **Common Stock as of End-of-Period** | | | | |
| Basic basis | 198,327,250 | 214,776,806 | 198,327,250 | 214,776,806 |
| Diluted basis | 200,724,744 | 217,390,897 | 200,724,744 | 217,390,897 |

Our common stock is 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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Weighted-average shares, as used in basic calculation | 199,200,811 | 215,901,268 | 201,644,591 | 217,413,480 |
| Shares to cover exercise of outstanding warrants | 4,033 | 579,882 | 78,353 | 620,580 |
| Shares to cover non-vested stock | 935,823 | 1,467,953 | 938,920 | 1,512,297 |
| Average stock options outstanding during the period | 1,443,508 | 1,700,026 | 1,536,738 | 1,807,340 |
| Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants | (588) | (86,040) | (12,791) | (86,335) |
| Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period) | (988,853) | (1,082,651) | (1,050,065) | (1,090,868) |
| Shares repurchasable from measured but unrecognized stock option expense | - | (11,209) | (289) | (17,381) |
| Average deferred compensation shares | 966,444 | - | - | 936,355 |
| Weighted-average shares, as used in diluted calculation (1) | 201,561,178 | 218,469,229 | 203,135,457 | 221,095,468 |

(1) Due to reporting a net loss for the three months ended September 30, 2019, basic shares were used in the diluted earnings per share ("EPS") calculation for that period as the use of diluted shares would have resulted in a lower loss per share.

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 EPS, such options will be shown in the table above.

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to all or a portion of their deferral amounts. For the three months ended September 30, 2019 and the nine months ended September 30, 2018, the effect of settling this obligation in LNC stock ("equity classification") was more dilutive than the scenario of settling in cash ("liability classification"). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was $3 million for the three months ended September 30, 2019 and $6 million for the nine months ended September 30, 2018.

**AOCI**

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

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| **Unrealized Gain (Loss) on AFS Securities** | | |
| Balance as of beginning-of-year | $ 557 | $ 3,486 |
| Cumulative effect from adoption of new accounting standards | - | 674 |
| Unrealized holding gains (losses) arising during the period | 9,849 | (5,520) |
| Change in foreign currency exchange rate adjustment | (80) | (68) |
| Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds | (2,271) | 1,538 |
| Income tax benefit (expense) | (1,596) | 858 |
| Less: | | |
| Reclassification adjustment for gains (losses) included in net income (loss) | (18) | (35) |
| Associated amortization of DAC, VOBA, DSI and DFEL | (11) | (15) |
| Income tax benefit (expense) | 6 | 11 |
| Balance as of end-of-period | $ 6,482 | $ 1,007 |
| **Unrealized OTTI on AFS Securities** | | |
| Balance as of beginning-of-year | $ 33 | $ 44 |
| (Increases) attributable to: | | |
| Cumulative effect from adoption of new accounting standards | - | 9 |
| Gross OTTI recognized in OCI during the period | (16) | - |
| Change in DAC, VOBA, DSI and DFEL | 1 | - |
| Income tax benefit (expense) | 3 | - |
| Decreases attributable to: | | |
| Changes in fair value, sales, maturities or other settlements of AFS securities | 21 | (8) |
| Change in DAC, VOBA, DSI and DFEL | (2) | (10) |
| Income tax benefit (expense) | (4) | 4 |
| Balance as of end-of-period | $ 36 | $ 39 |
| **Unrealized Gain (Loss) on Derivative Instruments** | | |
| Balance as of beginning-of-year | $ 139 | $ (29) |
| Cumulative effect from adoption of new accounting standard | - | (6) |
| Unrealized holding gains (losses) arising during the period | (152) | 98 |
| Change in foreign currency exchange rate adjustment | 80 | 69 |
| Change in DAC, VOBA, DSI and DFEL | (3) | 8 |
| Income tax benefit (expense) | 15 | (37) |
| Less: | | |
| Reclassification adjustment for gains (losses) included in net income (loss) | 34 | 15 |
| Associated amortization of DAC, VOBA, DSI and DFEL | (1) | (1) |
| Income tax benefit (expense) | (7) | (3) |
| Balance as of end-of-period | $ 53 | $ 92 |
| **Foreign Currency Translation Adjustment** | | |
| Balance as of beginning-of-year | $ (23) | $ (14) |
| Foreign currency translation adjustment arising during the period | (5) | (6) |
| Balance as of end-of-period | $ (28) | $ (20) |
| **Funded Status of Employee Benefit Plans** | | |
| Balance as of beginning-of-year | $ (299) | $ (257) |
| Cumulative effect from adoption of new accounting standard | - | (35) |
| Adjustment arising during the period | 4 | 10 |
| Balance as of end-of-period | $ (295) | $ (282) |

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

| | For the Nine Months Ended September 30, 2019 | For the Nine Months Ended September 30, 2018 | |
|---|---|---|---|
| **Unrealized Gain (Loss) on AFS Securities** | | | |
| Gross reclassification | $ (18) | $ (35) | Total realized gain (loss) |
| Associated amortization of DAC, VOBA, DSI and DFEL | (11) | (15) | Total realized gain (loss) |
| Reclassification before income tax benefit (expense) | (29) | (50) | Income (loss) from continuing operations before taxes |
| Income tax benefit (expense) | 6 | 11 | Federal income tax expense (benefit) |
| Reclassification, net of income tax | $ (23) | $ (39) | Net income (loss) |
| **Unrealized OTTI on AFS Securities** | | | |
| Gross reclassification | $ 4 | $ (1) | Total realized gain (loss) |
| Change in DAC, VOBA, DSI and DFEL | - | - | Total realized gain (loss) |
| Reclassification before income tax benefit (expense) | 4 | (1) | Income (loss) from continuing operations before taxes |
| Income tax benefit (expense) | (1) | - | Federal income tax expense (benefit) |
| Reclassification, net of income tax | $ 3 | $ (1) | Net income (loss) |
| **Unrealized Gain (Loss) on Derivative Instruments** | | | |
| Gross reclassifications: | | | |
| Interest rate contracts | $ 2 | $ 3 | Net investment income |
| Interest rate contracts | (2) | (6) | Interest and debt expense |
| Foreign currency contracts | 25 | 18 | Net investment income |
| Foreign currency contracts | 9 | - | Total realized gain (loss) |
| Total gross reclassifications | 34 | 15 | |
| Associated amortization of DAC, VOBA, DSI and DFEL | (1) | (1) | Commissions and other expenses |
| Reclassifications before income tax benefit (expense) | 33 | 14 | Income (loss) from continuing operations before taxes |
| Income tax benefit (expense) | (7) | (3) | Federal income tax expense (benefit) |
| Reclassifications, net of income tax | $ 26 | $ 11 | Net income (loss) |

## 14. 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, 2019 | | As of December 31, 2018 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| **Assets** | | | | |
| Fixed maturity AFS securities | $ 103,659 | $ 103,659 | $ 94,024 | $ 94,024 |
| Trading securities | 4,691 | 4,691 | 1,950 | 1,950 |
| Equity securities | 158 | 158 | 99 | 99 |
| Mortgage loans on real estate | 15,947 | 16,757 | 13,260 | 13,092 |
| Derivative investments [(1)] | 2,201 | 2,201 | 1,107 | 1,107 |
| Other investments | 3,377 | 3,377 | 2,255 | 2,255 |
| Cash and invested cash | 2,939 | 2,939 | 2,345 | 2,345 |
| Other assets: | | | | |
| GLB direct embedded derivatives | - | - | 123 | 123 |
| GLB ceded embedded derivatives | 241 | 241 | 72 | 72 |
| Indexed annuity ceded embedded derivatives | 891 | 891 | 902 | 902 |
| Separate account assets | 145,092 | 145,092 | 132,833 | 132,833 |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (2,098) | (2,098) | (1,305) | (1,305) |
| Other contract holder funds: | | | | |
| Remaining guaranteed interest and similar contracts | (1,947) | (1,947) | (542) | (542) |
| Account values of certain investment contracts | (37,508) | (47,276) | (34,535) | (36,358) |
| Short-term debt | (300) | (304) | - | - |
| Long-term debt | (6,070) | (6,047) | (5,839) | (5,604) |
| Reinsurance related embedded derivatives | (339) | (339) | (3) | (3) |
| Other liabilities: | | | | |
| Derivative liabilities [(1)] | (584) | (584) | (160) | (160) |
| GLB direct embedded derivatives | (846) | (846) | - | - |

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

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

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

*Mortgage Loans on Real Estate*

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

*Other Investments*

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. Other investments also includes Federal Home Loan Bank ("FHLB") stock carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The inputs used to measure the fair value of our LPs, other privately held investments and FHLB stock are classified as Level 3 within the fair value hierarchy. The remaining assets in other investments include cash collateral receivables and securities that are not LPs or other privately held investments. The inputs used to measure the fair value of these assets are classified as Level 1 within the fair value hierarchy.

*Separate Account Assets*

Separate account assets are primarily carried at fair value. A portion of our separate account assets includes LPs, which are accounted for using the equity method of accounting. The carrying value is based on our proportional share of the net assets of the LPs and approximates fair value. The inputs used to measure the fair value of the separate account asset LPs 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, 2019, and December 31, 2018, 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 short-term and long-term debt is based on quoted market prices. 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, 2019, or December 31, 2018, 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:

| | As of September 30, 2019 | | | |
|---|---|---|---|---|
| | **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 | $ - | $ 84,002 | $ 3,909 | $ 87,911 |
| U.S. government bonds | 421 | 17 | - | 438 |
| State and municipal bonds | - | 5,800 | - | 5,800 |
| Foreign government bonds | - | 329 | 115 | 444 |
| RMBS | - | 3,277 | 10 | 3,287 |
| CMBS | - | 1,023 | 9 | 1,032 |
| ABS | - | 3,955 | 217 | 4,172 |
| Hybrid and redeemable preferred securities | 77 | 420 | 78 | 575 |
| Trading securities | 50 | 4,075 | 566 | 4,691 |
| Equity securities | 47 | 57 | 54 | 158 |
| Derivative investments (1) | - | 1,667 | 1,320 | 2,987 |
| Other investments | 153 | - | - | 153 |
| Cash and invested cash | - | 2,939 | - | 2,939 |
| Other assets: | | | | |
| GLB ceded embedded derivatives | - | - | 241 | 241 |
| Indexed annuity ceded embedded derivatives | - | - | 891 | 891 |
| Separate account assets | 571 | 144,508 | - | 145,079 |
| Total assets | $ 1,319 | $ 252,069 | $ 7,410 | $ 260,798 |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | $ - | $ - | $ (2,098) | $ (2,098) |
| Reinsurance related embedded derivatives | - | (339) | - | (339) |
| Other liabilities: | | | | |
| Derivative liabilities (1) | - | (841) | (529) | (1,370) |
| GLB direct embedded derivatives | - | - | (846) | (846) |
| Total liabilities | $ - | $ (1,180) | $ (3,473) | $ (4,653) |

| | As of December 31, 2018 | | | |
|---|---|---|---|---|
| | 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 | $ - | $ 77,079 | $ 3,269 | $ 80,348 |
| U.S. government bonds | 399 | 18 | - | 417 |
| State and municipal bonds | - | 5,345 | - | 5,345 |
| Foreign government bonds | - | 339 | 109 | 448 |
| RMBS | - | 3,366 | 7 | 3,373 |
| CMBS | - | 802 | 2 | 804 |
| ABS | - | 2,562 | 134 | 2,696 |
| Hybrid and redeemable preferred securities | 67 | 451 | 75 | 593 |
| Trading securities | 43 | 1,840 | 67 | 1,950 |
| Equity securities | 16 | 58 | 25 | 99 |
| Derivative investments (1) | - | 727 | 705 | 1,432 |
| Other investments | 150 | - | - | 150 |
| Cash and invested cash | - | 2,345 | - | 2,345 |
| Other assets: | | | | |
| GLB direct embedded derivatives | - | - | 123 | 123 |
| GLB ceded embedded derivatives | - | - | 72 | 72 |
| Indexed annuity ceded embedded derivatives | - | - | 902 | 902 |
| Separate account assets | 665 | 132,135 | - | 132,800 |
| Total assets | $ 1,340 | $ 227,067 | $ 5,490 | $ 233,897 |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | $ - | $ - | $ (1,305) | $ (1,305) |
| Reinsurance related embedded derivatives | - | (3) | - | (3) |
| Other liabilities – derivative liabilities (1) | - | (314) | (171) | (485) |
| Total liabilities | $ - | $ (317) | $ (1,476) | $ (1,793) |

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

The following summarizes changes to our financial instruments carried at fair value (in millions) and classified within Level 3 of the fair value hierarchy. This summary excludes any effect of amortization of DAC, value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("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, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Fair Value | Items Included in Net Income | Gains (Losses) in OCI and Other (1) | Issuances, Sales, Maturities, Settlements, Calls, Net | Transfers Into or Out of Level 3, Net (3) | Ending Fair Value |
| Investments: (5) | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 3,648 | $ 3 | $ (49) | $ 256 | $ 51 | $ 3,909 |
| Foreign government bonds | 113 | - | 2 | - | - | 115 |
| RMBS | - | - | - | 10 | - | 10 |
| CMBS | 2 | - | - | 7 | - | 9 |
| ABS | 320 | - | 1 | 69 | (173) | 217 |
| Hybrid and redeemable preferred securities | 78 | - | - | - | - | 78 |
| Trading securities | 523 | 10 | - | 146 | (113) | 566 |
| Equity securities | 68 | (11) | - | (3) | - | 54 |
| Derivative investments | 466 | 184 | 119 | 22 | - | 791 |
| Other assets: (6) | | | | | | |
| GLB ceded embedded derivatives | 111 | 130 | - | - | - | 241 |
| Indexed annuity ceded embedded derivatives | 903 | 7 | - | (19) | - | 891 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6) | (1,973) | (30) | - | (95) | - | (2,098) |
| Other liabilities – GLB direct embedded derivatives (6) | (1) | (845) | - | - | - | (846) |
| Total, net | $ 4,258 | $ (552) | $ 73 | $ 393 | $ (235) | $ 3,937 |

| | For the Three Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Fair Value | Items Included in Net Income | Gains (Losses) in OCI and Other [1] | Issuances, Sales Maturities, Settlements, Calls, Net | Transfers Into or Out of Level 3, Net [3] | Ending Fair Value |
| Investments: [5] | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 3,181 | $ 1 | $ (30) | $ 88 | $ (31) | $ 3,209 |
| Foreign government bonds | 108 | - | - | - | - | 108 |
| RMBS | - | - | - | 7 | - | 7 |
| CMBS | 5 | - | - | 18 | - | 23 |
| ABS | 176 | - | - | 17 | (111) | 82 |
| Hybrid and redeemable preferred securities | 78 | - | (1) | - | - | 77 |
| Trading securities | 22 | - | - | 2 | (6) | 18 |
| Equity securities | 26 | - | - | - | - | 26 |
| Derivative investments | 93 | (115) | (55) | 431 | - | 354 |
| Other assets: [6] | | | | | | |
| GLB direct embedded derivatives | 1,248 | 400 | - | - | - | 1,648 |
| GLB ceded embedded derivatives | 41 | (6) | - | - | - | 35 |
| Indexed annuity ceded embedded derivatives | 29 | 4 | - | 11 | - | 44 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives [6] | (1,400) | (164) | - | (7) | - | (1,571) |
| Other liabilities – GLB ceded embedded derivatives [6] | (131) | (62) | - | - | - | (193) |
| Total, net | $ 3,476 | $ 58 | $ (86) | $ 567 | $ (148) | $ 3,867 |

| | For the Nine Months Ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Fair Value | Items Included in Net Income | Gains (Losses) in OCI and Other (1) | Issuances, Sales, Maturities, Settlements, Calls, Net | Transfers Into or Out of Level 3, Net (3) | Ending Fair Value |
| Investments: (5) | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 3,269 | $ 3 | $ 45 | $ 627 | $ (35) | $ 3,909 |
| Foreign government bonds | 109 | - | 6 | - | - | 115 |
| RMBS | 7 | - | - | 10 | (7) | 10 |
| CMBS | 2 | - | - | 7 | - | 9 |
| ABS | 134 | - | 2 | 477 | (396) | 217 |
| Hybrid and redeemable preferred securities | 75 | - | 3 | - | - | 78 |
| Trading securities | 67 | 12 | - | 723 | (236) | 566 |
| Equity securities | 25 | (11) | - | 40 | - | 54 |
| Derivative investments | 534 | (128) | 234 | 151 | - | 791 |
| Other assets: (6) | | | | | | |
| GLB direct embedded derivatives | 123 | (123) | - | - | - | - |
| GLB ceded embedded derivatives | 72 | 169 | - | - | - | 241 |
| Indexed annuity ceded embedded derivatives | 902 | 128 | - | (139) | - | 891 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives (6) | (1,305) | (500) | - | (293) | - | (2,098) |
| Other liabilities – GLB direct embedded derivatives (6) | - | (846) | - | - | - | (846) |
| Total, net | $ 4,014 | $ (1,296) | $ 290 | $ 1,603 | $ (674) | $ 3,937 |

| | For the Nine Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Beginning Fair Value | Items Included in Net Income | Gains (Losses) in OCI and Other [1] | Issuances, Sales, Maturities, Settlements, Calls, Net [2] | Transfers Into or Out of Level 3, Net [3][4] | Ending Fair Value |
| Investments: [5] | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 3,091 | $ 7 | $ (137) | $ 319 | $ (71) | $ 3,209 |
| U.S. government bonds | 5 | - | - | (5) | - | - |
| Foreign government bonds | 110 | - | (2) | - | - | 108 |
| RMBS | 12 | - | - | 7 | (12) | 7 |
| CMBS | 6 | 1 | - | 37 | (21) | 23 |
| ABS | 118 | - | (1) | 169 | (204) | 82 |
| Hybrid and redeemable preferred securities | 76 | - | 1 | - | - | 77 |
| Equity AFS securities | 162 | - | - | - | (162) | - |
| Trading securities | 49 | (5) | - | (20) | (6) | 18 |
| Equity securities | - | - | - | - | 26 | 26 |
| Derivative investments | 30 | 106 | (113) | 331 | - | 354 |
| Other assets: [6] | | | | | | |
| GLB direct embedded derivatives | 903 | 745 | - | - | - | 1,648 |
| GLB ceded embedded derivatives | 51 | (16) | - | - | - | 35 |
| Indexed annuity ceded embedded derivatives | 11 | 4 | - | 29 | - | 44 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives [6] | (1,418) | (175) | - | 22 | - | (1,571) |
| Other liabilities – GLB ceded embedded derivatives [6] | (67) | (126) | - | - | - | (193) |
| Total, net | $ 3,139 | $ 541 | $ (252) | $ 889 | $ (450) | $ 3,867 |

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

(2) Issuances, sales, maturities, settlements, calls, net, includes financial instruments acquired in the Liberty Life transaction as follows: corporate bonds of $67 million and asset-backed securities of $17 million.

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

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

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

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

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

| | For the Three Months Ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | **Issuances** | **Sales** | **Maturities** | **Settlements** | **Calls** | **Total** |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 337 | $ - | $ (21) | $ (44) | $ (16) | $ 256 |
| RMBS | 10 | - | - | - | - | 10 |
| CMBS | 7 | - | - | - | - | 7 |
| ABS | 79 | - | - | (10) | - | 69 |
| Trading securities | 150 | - | - | (4) | - | 146 |
| Equity securities | - | (3) | - | - | - | (3) |
| Derivative investments | 132 | (36) | (74) | - | - | 22 |
| Other assets – indexed annuity ceded embedded derivatives | 9 | - | - | (28) | - | (19) |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (124) | - | - | 29 | - | (95) |
| Total, net | $ 600 | $ (39) | $ (95) | $ (57) | $ (16) | $ 393 |

| | For the Three Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | **Issuances** | **Sales** | **Maturities** | **Settlements** | **Calls** | **Total** |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 162 | $ - | $ (1) | $ (65) | $ (8) | $ 88 |
| RMBS | 7 | - | - | - | - | 7 |
| CMBS | 18 | - | - | - | - | 18 |
| ABS | 17 | - | - | - | - | 17 |
| Trading securities | 2 | - | - | - | - | 2 |
| Derivative investments | 96 | 455 | (120) | - | - | 431 |
| Other assets – indexed annuity ceded embedded derivatives | 11 | - | - | - | - | 11 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (83) | - | - | 76 | - | (7) |
| Total, net | $ 230 | $ 455 | $ (121) | $ 11 | $ (8) | $ 567 |

| | For the Nine Months Ended September 30, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Issuances | Sales | Maturities | Settlements | Calls | Total |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 872 | $ (18) | $ (75) | $ (129) | $ (23) | $ 627 |
| RMBS | 10 | - | - | - | - | 10 |
| CMBS | 7 | - | - | - | - | 7 |
| ABS | 489 | - | - | (12) | - | 477 |
| Trading securities | 728 | - | - | (5) | - | 723 |
| Equity securities | 43 | (3) | - | - | - | 40 |
| Derivative investments | 403 | (47) | (205) | - | - | 151 |
| Other assets – indexed annuity ceded embedded derivatives | 50 | - | - | (189) | - | (139) |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (420) | - | - | 127 | - | (293) |
| Total, net | $ 2,182 | $ (68) | $ (280) | $ (208) | $ (23) | $ 1,603 |

| | For the Nine Months Ended September 30, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Issuances | Sales | Maturities | Settlements | Calls | Total |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 785 | $ (156) | $ (3) | $ (238) | $ (69) | $ 319 |
| U.S. government bonds | - | (5) | - | - | - | (5) |
| RMBS | 7 | - | - | - | - | 7 |
| CMBS | 39 | - | - | (2) | - | 37 |
| ABS | 186 | (17) | - | - | - | 169 |
| Trading securities | 4 | (24) | - | - | - | (20) |
| Equity securities | 1 | (1) | - | - | - | - |
| Derivative investments | 225 | 460 | (354) | - | - | 331 |
| Other assets – indexed annuity ceded embedded derivatives | 29 | - | - | - | - | 29 |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (158) | - | - | 180 | - | 22 |
| Total, net | $ 1,118 | $ 257 | $ (357) | $ (60) | $ (69) | $ 889 |

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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Derivative investments | $ 204 | $ (1) | $ (65) | $ 105 |
| Embedded derivatives: | | | | |
| Indexed annuity and IUL contracts | (11) | (11) | (87) | (18) |
| GLB | (665) | 576 | (452) | 1,264 |
| Total, net [(1)] | $ (472) | $ 564 | $ (604) | $ 1,351 |

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

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

| | For the Three Months Ended September 30, 2019 | | | For the Three Months Ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Transfers Into Level 3 | Transfers Out of Level 3 | Total | Transfers Into Level 3 | Transfers Out of Level 3 | Total |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 51 | $ - | $ 51 | $ 11 | $ (42) | $ (31) |
| ABS | - | (173) | (173) | - | (111) | (111) |
| Trading securities | - | (113) | (113) | - | (6) | (6) |
| Total, net | $ 51 | $ (286) | $ (235) | $ 11 | $ (159) | $ (148) |

| | For the Nine Months Ended September 30, 2019 | | | For the Nine Months Ended September 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Transfers Into Level 3 | Transfers Out of Level 3 | Total | Transfers Into Level 3 | Transfers Out of Level 3 | Total |
| Investments: | | | | | | |
| Fixed maturity AFS securities: | | | | | | |
| Corporate bonds | $ 136 | $ (171) | $ (35) | $ 54 | $ (125) | $ (71) |
| RMBS | - | (7) | (7) | - | (12) | (12) |
| CMBS | - | - | - | - | (21) | (21) |
| ABS | - | (396) | (396) | - | (204) | (204) |
| Equity AFS securities | - | - | - | - | (162) | (162) |
| Trading securities | 5 | (241) | (236) | - | (6) | (6) |
| Equity securities | - | - | - | 26 | - | 26 |
| Total, net | $ 141 | $ (815) | $ (674) | $ 80 | $ (530) | $ (450) |

Transfers into and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the three and nine months ended September 30, 2019 and 2018, transfers in and out of Level 3 were attributable primarily to the securities' observable market information no longer being available or becoming available. In 2018, transfers into or out of Level 3 also included FHLB stock between equity securities and other investments at cost on our Consolidated Balance Sheets. Transfers into and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the three and nine months ended September 30, 2019 and 2018, the transfers between Levels 1 and 2 of the fair value hierarchy were less than $1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of September 30, 2019:

| | Fair Value | Valuation Technique | Significant Unobservable Inputs | Assumption or Input Ranges |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments: | | | | |
| Fixed maturity AFS and trading securities: | | | | |
| Corporate bonds | $ 2,827 | Discounted cash flow | Liquidity/duration adjustment (1) | 0.4% - 24.0% |
| Foreign government bonds | 76 | Discounted cash flow | Liquidity/duration adjustment (1) | 1.1% - 3.8% |
| ABS | 24 | Discounted cash flow | Liquidity/duration adjustment (1) | 3.0% - 3.0% |
| Hybrid and redeemable preferred securities | 4 | Discounted cash flow | Liquidity/duration adjustment (1) | 1.5% - 1.5% |
| Equity securities | 21 | Discounted cash flow | Liquidity/duration adjustment (1) | 4.5% - 5.2% |
| Other assets: | | | | |
| GLB ceded embedded derivatives | 241 | Discounted cash flow | Long-term lapse rate (2) | 1% - 30% |
| | | | Utilization of guaranteed withdrawals (3) | 85% - 100% |
| | | | Claims utilization factor (4) | 60% - 100% |
| | | | Premiums utilization factor (4) | 80% - 115% |
| | | | NPR (5) | 0.02% - 0.35% |
| | | | Mortality rate (6) | (8) |
| | | | Volatility (7) | 1% - 29% |
| Indexed annuity ceded embedded derivatives | 891 | Discounted cash flow | Lapse rate (2) | 1% - 9% |
| | | | Mortality rate (6) | (8) |
| **Liabilities** | | | | |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | $ (2,098) | Discounted cash flow | Lapse rate (2) | 1% - 9% |
| | | | Mortality rate (6) | (8) |
| Other liabilities – GLB direct embedded derivatives | (846) | Discounted cash flow | Long-term lapse rate (2) | 1% - 30% |
| | | | Utilization of guaranteed withdrawals (3) | 85% - 100% |
| | | | Claims utilization factor (4) | 60% - 100% |
| | | | Premiums utilization factor (4) | 80% - 115% |
| | | | NPR (5) | 0.02% - 0.35% |
| | | | Mortality rate (6) | (8) |
| | | | Volatility (7) | 1% - 29% |

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

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

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

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

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

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

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

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

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

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

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

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

As part of our ongoing valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary.

**15. Segment Information**

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. As discussed in Note 3, we completed the acquisition of Liberty Life during the second quarter of 2018. Related results are included within the Group Protection segment. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. A discussion of these segments and Other Operations is found in Note 21 of our 2018 Form 10-K.

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

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

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

- Excluded realized gain (loss);
- Revenue adjustments from the initial adoption of new accounting standards;

- Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking; and
- Amortization of deferred gains arising from reserve changes on business sold through reinsurance.

The tables below reconcile our segment measures of performance to the GAAP measures presented in our Consolidated Statements of Comprehensive Income (Loss) (in millions):

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Revenues** | | | | |
| Operating revenues: | | | | |
| Annuities | $ 1,117 | $ 1,118 | $ 3,447 | $ 3,297 |
| Retirement Plan Services | 298 | 294 | 890 | 878 |
| Life Insurance | 2,098 | 1,766 | 5,600 | 5,106 |
| Group Protection | 1,137 | 1,128 | 3,430 | 2,618 |
| Other Operations | 50 | 56 | 166 | 182 |
| Excluded realized gain (loss), pre-tax | (61) | (98) | (623) | (188) |
| Amortization of DFEL associated with benefit ratio unlocking, pre-tax | (1) | - | 3 | - |
| Total revenues | $ 4,638 | $ 4,264 | $ 12,913 | $ 11,893 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Income (Loss)** | | | | |
| Income (loss) from operations: | | | | |
| Annuities | $ 169 | $ 302 | $ 686 | $ 844 |
| Retirement Plan Services | 44 | 40 | 125 | 125 |
| Life Insurance | (245) | 176 | 79 | 470 |
| Group Protection | 61 | 63 | 184 | 137 |
| Other Operations | (75) | (71) | (201) | (171) |
| Excluded realized gain (loss), after-tax | (49) | (77) | (492) | (149) |
| Gain (loss) on early extinguishment of debt, after-tax | (33) | - | (33) | (18) |
| Benefit ratio unlocking, after-tax | (2) | 33 | 186 | 32 |
| Net impact from the Tax Cuts and Jobs Act | - | 32 | - | 19 |
| Acquisition and integration costs related to mergers and acquisitions, after-tax | (31) | (8) | (80) | (47) |
| Net income (loss) | $ (161) | $ 490 | $ 454 | $ 1,242 |

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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of September 30, 2019, compared with December 31, 2018, and the results of operations for the three and nine months ended September 30, 2019, compared with the corresponding periods in 2018 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. On May 1, 2018, we completed our acquisition of Liberty Life Assurance Company of Boston ("Liberty Life" or "LLACB"), which effective September 1, 2019, is now known as Lincoln Life Assurance Company of Boston. Beginning on May 1, 2018, the results of operations and financial condition of Liberty Life were consolidated with LNC. Accordingly, all financial information presented herein for the three and nine months ended September 30, 2018, includes the accounts of LNC for these periods and the accounts of Liberty Life since May 1, 2018.

The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K"); and other reports filed with the Securities and Exchange Commission ("SEC"). For more detailed information on the risks and uncertainties associated with the Company's business activities, see the risks described in "Part I – Item 1A. Risk Factors" in our 2018 Form 10-K and "Part II – Item 1A. Risk Factors" herein.

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

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 15. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

### FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

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

Forward-looking statements are subject to risks and uncertainties. Actual results could differ materially from those expressed in or implied by such forward-looking statements due to a variety of factors, including:

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

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

The risks and uncertainties included here are not exhaustive. Our most recent Form 10-K and "Part II – Item 1A. Risk Factors" herein as well as other reports that we file with the SEC include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

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

## INTRODUCTION

### *Executive Summary*

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

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

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary" of our 2018 Form 10-K.

### *Critical Accounting Policies and Estimates*

The MD&A included in our 2018 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the "Critical Accounting Policies and Estimates" provided in our 2018 Form 10-K, and therefore, should be read in conjunction with that disclosure.

**DAC, VOBA, DSI and DFEL**

*Unlocking*

As stated in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – Unlocking" in our 2018 Form 10-K, we conduct our annual comprehensive review of the assumptions and projection models underlying the amortization of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products in the third quarter of each year. As a result of this review, we recorded unlocking that resulted in increases and decreases to the carrying values of these items. See "DAC, VOBA, DSI and DFEL" in Note 1 of our 2018 Form 10-K for a detailed discussion of our unlocking process.

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

| | For the Three Months Ended September 30, | |
|---|---|---|
| | **2019** | **2018** |
| Income (loss) from operations: | | |
| Annuities | $ (93) | $ 13 |
| Retirement Plan Services | - | (2) |
| Life Insurance | (320) | (20) |
| Excluded realized gain (loss) | 3 | 8 |
| Net income (loss) | $ (410) | $ (1) |

Unlocking was driven primarily by the following:

*2019*

As part of our annual comprehensive review in the third quarter, we updated our interest rate assumptions. These updates included lowering starting new money rates to reflect the current interest rate environment; reducing our long-term new money investment yield assumption by 25 basis points, resulting in an ultimate long-term assumption of 3.5% for a 10-year U.S. Treasury; and extending the grade-in period from current rates to long-term rates from five years to seven years. As a result of these updates, we recorded unfavorable after-tax unlocking of $225 million for Life Insurance, $63 million for Annuities and $3 million for Retirement Plan Services.

- For Annuities, unfavorable unlocking was driven by updates to interest rate assumptions and other items, partially offset by favorable updates to separate account fees and policyholder behavior assumptions.
- For Retirement Plan Services, the unfavorable unlocking impact from updates to interest rate assumptions was entirely offset by favorable updates to separate account fees, maintenance expense and policyholder behavior assumptions.
- For Life Insurance, unfavorable unlocking was driven by updates to mortality margin, interest rate and reinsurance assumptions, partially offset by favorable updates to investment allocation and reserve discount rate assumptions and other items.
- For excluded realized gain (loss), favorable unlocking was driven by updates to capital markets, separate account fees and policyholder behavior assumptions, partially offset by unfavorable updates to other items.

*2018*

- For Annuities, favorable unlocking was driven by updates to capital markets and policyholder behavior assumptions and other items, partially offset by unfavorable updates to interest rate assumptions.

- For Retirement Plan Services, unfavorable unlocking was driven by updates to interest rate and maintenance expense assumptions, partially offset by favorable updates to policyholder behavior assumptions and other items.
- For Life Insurance, unfavorable unlocking was driven by updates to mortality margin and reinsurance assumptions and other items, partially offset by favorable updates to investment allocation and performance, morbidity and policyholder behavior assumptions.
- For excluded realized gain (loss), favorable unlocking was driven by updates to policyholder behavior and capital markets assumptions and other items, partially offset by unfavorable updates to separate account fees assumptions.

*Reversion to the Mean*

As variable fund returns do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our reversion to the mean ("RTM") process, as discussed in our 2018 Form 10-K.

If we had unlocked our RTM assumption as of September 30, 2019, we would have recorded a favorable unlocking of approximately $105 million, pre-tax, for Annuities, approximately $45 million, pre-tax, for Life Insurance and approximately $20 million, pre-tax, for Retirement Plan Services.

**Investments**

*Investment Valuation*

The following summarizes investments on our Consolidated Balance Sheets carried at fair value by pricing source and fair value hierarchy level (in millions) as of September 30, 2019:

| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Fair Value |
|---|---|---|---|---|
| Priced by third-party pricing services | $ 748 | $ 90,303 | $ 252 | $ 91,303 |
| Priced by independent broker quotations | - | - | 2,545 | 2,545 |
| Priced by matrices | - | 13,478 | - | 13,478 |
| Priced by other methods (1) | - | - | 2,952 | 2,952 |
| Total | $ 748 | $ 103,781 | $ 5,749 | $ 110,278 |
| Percent of total | 1% | 94% | 5% | 100% |

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

For more information about the valuation of our financial instruments carried at fair value, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation" in our 2018 Form 10-K and Note 14 herein.

**Derivatives**

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 6 of this report and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2018 Form 10-K.

*Guaranteed Living Benefits*

Within our individual annuity business, 63% and 64% of our variable annuity account values contained guaranteed living benefits ("GLB") features as of September 30, 2019 and 2018, respectively. Underperforming equity markets increase our exposure to potential benefits with the GLB features. A contract with a GLB feature is "in the money" if the contract holder's account balance falls below the present value of guaranteed withdrawal or income benefits, assuming no lapses. As of September 30, 2019 and 2018, 16% and 7%, respectively, of all in-force contracts with a GLB feature were "in the money," and our exposure, after reinsurance, as of September 30, 2019 and 2018, was $853 million and $451 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will continue to receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account value.

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

For information on our estimates of the potential instantaneous effect to net income (loss) that could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities, see our discussion in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Derivatives – GLB" in our 2018 Form 10-K.

### *Acquisitions and Dispositions*

For information about acquisitions and dispositions, see Note 3 in our 2018 Form 10-K and Note 3 herein.

## RESULTS OF CONSOLIDATED OPERATIONS

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Income (Loss)** | | | | |
| Income (loss) from operations: | | | | |
| Annuities | $ 169 | $ 302 | $ 686 | $ 844 |
| Retirement Plan Services | 44 | 40 | 125 | 125 |
| Life Insurance | (245) | 176 | 79 | 470 |
| Group Protection | 61 | 63 | 184 | 137 |
| Other Operations | (75) | (71) | (201) | (171) |
| Excluded realized gain (loss), after-tax | (49) | (77) | (492) | (149) |
| Gain (loss) on early extinguishment of debt, after-tax | (33) | - | (33) | (18) |
| Benefit ratio unlocking, after-tax | (2) | 33 | 186 | 32 |
| Net impact from the Tax Cuts and Jobs Act | - | 32 | - | 19 |
| Acquisition and integration costs related to mergers and acquisitions, after-tax | (31) | (8) | (80) | (47) |
| Net income (loss) | $ (161) | $ 490 | $ 454 | $ 1,242 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Deposits** | | | | |
| Annuities | $ 3,461 | $ 3,080 | $ 10,623 | $ 8,589 |
| Retirement Plan Services | 2,234 | 3,328 | 6,803 | 7,905 |
| Life Insurance | 1,685 | 1,523 | 4,907 | 4,575 |
| Total deposits | $ 7,380 | $ 7,931 | $ 22,333 | $ 21,069 |
| **Net Flows** | | | | |
| Annuities | $ 253 | $ (81) | $ 1,122 | $ (814) |
| Retirement Plan Services | 272 | 1,411 | 199 | 2,373 |
| Life Insurance | 1,227 | 1,080 | 3,464 | 3,240 |
| Total net flows | $ 1,752 | $ 2,410 | $ 4,785 | $ 4,799 |

| | As of September 30, | |
|---|---|---|
| | 2019 | 2018 |
| **Account Values** | | |
| Annuities | $ 134,035 | $ 139,285 |
| Retirement Plan Services | 74,564 | 72,505 |
| Life Insurance | 52,229 | 50,587 |
| Total account values | $ 260,828 | $ 262,377 |

*Comparison of the Three Months Ended September 30, 2019 to 2018*

Net income decreased due primarily to the following:

- The effect of unlocking.
- Unfavorable mortality in our Life Insurance segment.
- Unfavorable investment income on alternative investments due primarily to the write-down of a large private equity investment.
- Loss on the early extinguishment of debt.
- Higher acquisition and integration costs incurred as part of our 2018 acquisition.
- The effect of the modified coinsurance ("Modco") reinsurance transaction in the Annuities segment.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

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

- Federal income tax benefit in 2019 as compared to expense in 2018.
- Higher realized losses in 2018.
- Growth in business in force and group earned premiums.

*Comparison of the Nine Months Ended September 30, 2019 to 2018*

Net income decreased due primarily to the following:

- The effect of unlocking.
- Higher realized losses in 2019.
- Unfavorable investment income on alternative investments due primarily to the write-down of a large private equity investment.
- The effect of the Modco reinsurance transaction in the Annuities segment.
- Unfavorable mortality in our Life Insurance segment.
- Spread compression due to average new money rates trailing our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.
- Higher acquisition and integration costs incurred as part of our 2018 acquisition.
- Higher loss on early extinguishment of debt.

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

- Federal income tax benefit in 2019 as compared to expense in 2018.
- The inclusion of the results of the Liberty Group Business.
- Growth in business in force and group earned premiums.

## RESULTS OF ANNUITIES

**Income (Loss) from Operations**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Operating Revenues** | | | | |
| Insurance premiums [(1)] | $ 79 | $ 102 | $ 424 | $ 282 |
| Fee income | 596 | 598 | 1,751 | 1,771 |
| Net investment income | 287 | 251 | 831 | 743 |
| Operating realized gain (loss) [(2)] | 51 | 46 | 137 | 142 |
| Amortization of deferred gain on business sold through reinsurance | 8 | - | 23 | - |
| Other revenues [(3)] | 96 | 121 | 281 | 359 |
| Total operating revenues | 1,117 | 1,118 | 3,447 | 3,297 |
| **Operating Expenses** | | | | |
| Interest credited | 183 | 145 | 508 | 437 |
| Benefits [(1)] | 273 | 149 | 775 | 477 |
| Commissions and other expenses | 476 | 474 | 1,383 | 1,398 |
| Total operating expenses | 932 | 768 | 2,666 | 2,312 |
| Income (loss) from operations before taxes | 185 | 350 | 781 | 985 |
| Federal income tax expense (benefit) | 16 | 48 | 95 | 141 |
| Income (loss) from operations | $ 169 | $ 302 | $ 686 | $ 844 |

(1) Insurance premiums include primarily our income annuities that have a corresponding offset in benefits. Benefits include changes in income annuity reserves driven by premiums.
(2) See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.
(3) Consists primarily of revenues attributable to broker-dealer services that are subject to market volatility and the net settlement related to the Modco reinsurance transaction.

*Comparison of the Three Months Ended September 30, 2019 to 2018*

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

- Higher benefits due to the effect of unlocking.
- Lower other revenues as a result of the Modco reinsurance transaction.

The decrease in income from operations was partially offset by amortization of deferred gain on business sold through reinsurance in 2019 as a result of the Modco reinsurance transaction.

*Comparison of the Nine Months Ended September 30, 2019 to 2018*

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

- Higher benefits due to the effect of unlocking.
- Lower other revenues as a result of the Modco reinsurance transaction.
- Lower fee income driven by lower average daily variable account values.

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

- Amortization of deferred gain on business sold through reinsurance in 2019 as a result of the Modco reinsurance transaction.
- Higher net investment income, net of interest credited, driven by higher average gross fixed account values, partially offset by lower surplus earnings as a result of the Modco reinsurance transaction and unfavorable investment income on alternative investments.
- Lower commissions and other expenses driven by a decrease in amortization expense as a result of lower actual gross profits and lower average account values, resulting in lower trail commissions, partially offset by the effect of unlocking.

See "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" above for more information about unlocking. See "Additional Information" below for more information about the Modco reinsurance transaction.

*Additional Information*

Effective October 1, 2018, we entered into an agreement with Athene Holding Ltd. to reinsure approximately $7.7 billion of in-force fixed and fixed indexed annuity products on a Modco basis. The capital generated from this transaction was primarily used to fund the December 2018 accelerated share repurchase program of $450 million. We expect an ongoing reduction in income from operations in future periods as a result of this Modco reinsurance transaction. We continue to remain focused on the continued growth of both our fixed and variable annuity business. For additional information on our annuity reinsurance agreement and this accelerated share repurchase program, see Note 8 herein and "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities – (c) Issuer Purchases of Equity Securities" in our 2018 Form 10-K, respectively.

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

The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused by full surrenders, deaths and other contract benefits. These outflows as a percentage of average gross account values were 9% for the three and nine months ended September 30, 2019 and 2018.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2018 Form 10-K.

**Fee Income**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Fee Income** | | | | |
| Mortality, expense and other assessments | $ 592 | $ 595 | $ 1,735 | $ 1,754 |
| Surrender charges | 6 | 7 | 20 | 23 |
| DFEL: | | | | |
| Deferrals | (10) | (10) | (29) | (29) |
| Amortization, net of interest: | | | | |
| Amortization, net of interest, excluding unlocking | 8 | 8 | 25 | 25 |
| Unlocking | - | (2) | - | (2) |
| Total fee income | $ 596 | $ 598 | $ 1,751 | $ 1,771 |

| | As of or For the Three Months Ended September 30, | | As of or For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Variable Account Value Information** | | | | |
| Variable annuity deposits (1) | $ 1,391 | $ 1,305 | $ 3,696 | $ 3,902 |
| Increases (decreases) in variable annuity account values: | | | | |
| Net flows (1) | (1,178) | (1,097) | (3,805) | (3,425) |
| Change in market value (1) | 201 | 3,378 | 12,465 | 4,886 |
| Contract holder assessments (1) | (635) | (629) | (1,854) | (1,865) |
| Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products | 385 | 721 | 1,446 | 2,238 |
| Variable annuity account values (1) | 112,991 | 116,177 | 112,991 | 116,177 |
| Average daily variable annuity account values (1) | 113,575 | 115,672 | 112,049 | 115,140 |
| Average daily S&P 500 (2) | 2,958 | 2,849 | 2,855 | 2,762 |

(1) Excludes the fixed portion of variable.

(2) We generally use the Standard & Poor's ("S&P") 500 Index® ("S&P 500") as a benchmark for the performance of our variable account values. The account values of our variable annuity contracts are invested by our policyholders in a variety of investment options including, but not limited to, domestic and international equity securities and fixed income, which do not necessarily align with S&P 500 performance. See Note 9 for additional information.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily variable account values are driven by net flows and variable fund returns. Charges on GLB riders are assessed based on a contractual rate that is applied either to the account value or the guaranteed amount. We may collect surrender charges when our fixed and variable annuity contract holders surrender their contracts during the surrender charge period to protect us from premature withdrawals. Fee income includes charges on both our variable and fixed annuity products, but excludes the attributed fees on our GLB riders; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2018 Form 10-K for discussion of these attributed fees.

**Net Investment Income and Interest Credited**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Investment Income** | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | $ 262 | $ 208 | $ 739 | $ 616 |
| Commercial mortgage loan prepayment and bond make-whole premiums (1) | 6 | 6 | 15 | 18 |
| Surplus investments (2) | 19 | 37 | 77 | 109 |
| Total net investment income | $ 287 | $ 251 | $ 831 | $ 743 |
| **Interest Credited** | | | | |
| Amount provided to contract holders | $ 177 | $ 149 | $ 504 | $ 446 |
| DSI deferrals | (3) | (11) | (18) | (33) |
| Interest credited before DSI amortization | 174 | 138 | 486 | 413 |
| DSI amortization: | | | | |
| Amortization, excluding unlocking | 6 | 7 | 19 | 24 |
| Unlocking | 3 | - | 3 | - |
| Total interest credited | $ 183 | $ 145 | $ 508 | $ 437 |

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.

(2) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities. See "Consolidated Investments – Alternative Investments" below for more information on alternative investments.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Interest Rate Spread** | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 4.04% | 3.89% | 4.03% | 3.86% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.09% | 0.13% | 0.08% | 0.11% |
| Net investment income yield on reserves | 4.13% | 4.02% | 4.11% | 3.97% |
| Interest rate credited to contract holders | 2.46% | 2.24% | 2.40% | 2.26% |
| Interest rate spread | 1.67% | 1.78% | 1.71% | 1.71% |

| | As of or For the Three Months Ended September 30, | | As of or For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Fixed Account Value Information** | | | | |
| Fixed annuity deposits [(1)] | $ 2,070 | $ 1,775 | $ 6,927 | $ 4,687 |
| Increases (decreases) in fixed annuity account values: | | | | |
| Net flows [(1)] | 1,431 | 1,016 | 4,927 | 2,611 |
| Contract holder assessments [(1)] | (11) | (8) | (31) | (25) |
| Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products | (385) | (721) | (1,446) | (2,238) |
| Reinvested interest credited [(1)] | 219 | 252 | 946 | 545 |
| Fixed annuity account values [(1)(2)] | 21,044 | 23,108 | 21,044 | 23,108 |
| Average fixed account values [(1)(2)] | 20,347 | 22,967 | 18,892 | 22,775 |
| Average invested assets on reserves | 22,398 | 18,308 | 21,471 | 18,417 |

(1) Includes the fixed portion of variable.
(2) Net of reinsurance ceded.

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

**Benefits**

Details underlying benefits (in millions) were as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Benefits** | | | | |
| Net death and other benefits, excluding unlocking | $ 169 | $ 175 | $ 671 | $ 503 |
| Unlocking | 104 | (26) | 104 | (26) |
| Total benefits | $ 273 | $ 149 | $ 775 | $ 477 |

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

**Commissions and Other Expenses**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Commissions and Other Expenses** | | | | |
| Commissions: | | | | |
| Deferrable | $ 156 | $ 129 | $ 433 | $ 353 |
| Non-deferrable | 139 | 149 | 417 | 434 |
| General and administrative expenses | 110 | 107 | 328 | 309 |
| Inter-segment reimbursement associated with reserve financing and LOC expenses (1) | 1 | 1 | 3 | 3 |
| Taxes, licenses and fees | 9 | 8 | 29 | 25 |
| Total expenses incurred, excluding broker-dealer | 415 | 394 | 1,210 | 1,124 |
| DAC deferrals | (175) | (147) | (484) | (401) |
| Total pre-broker-dealer expenses incurred, excluding amortization, net of interest | 240 | 247 | 726 | 723 |
| DAC and VOBA amortization, net of interest: | | | | |
| Amortization, net of interest, excluding unlocking | 104 | 103 | 288 | 318 |
| Unlocking | 12 | 7 | 12 | 7 |
| Broker-dealer expenses incurred | 120 | 117 | 357 | 350 |
| Total commissions and other expenses | $ 476 | $ 474 | $ 1,383 | $ 1,398 |
| **DAC Deferrals** | | | | |
| As a percentage of sales/deposits | 5.1% | 4.8% | 4.6% | 4.7% |

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

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

## RESULTS OF RETIREMENT PLAN SERVICES

**Income (Loss) from Operations**

Details underlying the results for Retirement Plan Services (in millions) were as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Operating Revenues** | | | | |
| Fee income | $ 63 | $ 65 | $ 187 | $ 194 |
| Net investment income | 229 | 223 | 686 | 668 |
| Other revenues [(1)] | 6 | 6 | 17 | 16 |
| Total operating revenues | 298 | 294 | 890 | 878 |
| **Operating Expenses** | | | | |
| Interest credited | 147 | 140 | 437 | 414 |
| Benefits | 1 | - | 1 | 1 |
| Commissions and other expenses | 101 | 107 | 311 | 317 |
| Total operating expenses | 249 | 247 | 749 | 732 |
| Income (loss) from operations before taxes | 49 | 47 | 141 | 146 |
| Federal income tax expense (benefit) | 5 | 7 | 16 | 21 |
| Income (loss) from operations | $ 44 | $ 40 | $ 125 | $ 125 |

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

*Comparison of the Three Months Ended September 30, 2019 to 2018*

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

- Lower commissions and other expenses due to the effect of unlocking and lower incentive compensation as a result of production performance.
- Lower federal income tax expense (benefit) due to more favorable tax return true-ups in 2019.

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

- Lower fee income driven by lower average daily variable account values.
- Lower net investment income, net of interest credited, driven by unfavorable investment income on alternative investments within our surplus portfolio and spread compression due to average new money rates trailing our current portfolio yields, partially offset by higher prepayment and bond make-whole premiums and higher average fixed account values.

*Comparison of the Nine Months Ended September 30, 2019 to 2018*

Income from operations for this segment remained flat, as lower commissions and other expenses and lower federal income tax expense (benefit) entirely offset lower fee income and lower net investment income, net of interest credited. These changes were due primarily to the following:

- Lower commissions and other expenses due to the effect of unlocking.
- Lower federal income tax expense (benefit) due to more favorable tax return true-ups in 2019.
- Lower fee income driven by lower average daily variable account values.
- Lower net investment income, net of interest credited, driven by unfavorable investment income on alternative investments within our surplus portfolio and higher spread compression due to average new money rates trailing our current portfolio yields, partially offset by higher average fixed account values.

See "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" above for information about unlocking.

*Additional Information*

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

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they can significantly impact future income from operations. The other component of net flows relates to the retention of the business. An important measure of retention is the reduction in account values caused primarily by plan sponsor terminations and participant withdrawals. These outflows as a percentage of average account values were 11% and 12% for the three and nine months ended September 30, 2019, respectively, compared to 11% for the corresponding periods in 2018.

Our net flows are negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Net Flows By Market table below as "*Multi-Fund*® and other"), which are among our higher margin product lines in this segment, due to the fact that they are mature blocks with low distribution and servicing costs. The proportion of these products to our total account values was 22% and 23% as of September 30, 2019 and 2018, respectively. Due to this expected overall shift in business mix toward products with lower returns, new deposit production continues to be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on either a quarterly or semi-annual basis. Our ability to retain quarterly or semi-annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2018 Form 10-K.

**Fee Income**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Fee Income** | | | | |
| Annuity expense assessments | $ 46 | $ 49 | $ 137 | $ 145 |
| Mutual fund fees | 17 | 16 | 49 | 48 |
| Total expense assessments | 63 | 65 | 186 | 193 |
| Surrender charges | - | - | 1 | 1 |
| Total fee income | $ 63 | $ 65 | $ 187 | $ 194 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Net Flows By Market** | | | | |
| Small market | $ 117 | $ 110 | $ 330 | $ 42 |
| Mid – large market | 436 | 1,573 | 685 | 3,137 |
| *Multi-Fund*® and other | (281) | (272) | (816) | (806) |
| Total net flows | $ 272 | $ 1,411 | $ 199 | $ 2,373 |

| | As of or For the Three Months Ended September 30, | | As of or For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Variable Account Value Information** | | | | |
| Variable annuity deposits [1] | $ 488 | $ 402 | $ 1,409 | $ 1,321 |
| Increases (decreases) in variable annuity account values: | | | | |
| Net flows [1] | (135) | (135) | (338) | (403) |
| Change in market value [1] | 64 | 688 | 2,250 | 1,036 |
| Contract holder assessments [1] | (39) | (40) | (115) | (121) |
| Variable annuity account values [1] | 16,044 | 16,487 | 16,044 | 16,487 |
| Average daily variable annuity account values [1] | 16,098 | 16,385 | 15,796 | 16,240 |
| Average daily S&P 500 | 2,958 | 2,849 | 2,855 | 2,762 |

(1) Excludes the fixed portion of variable.

| | As of or For the Three Months Ended September 30, | | As of or For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Mutual Fund Account Value Information** | | | | |
| Mutual fund deposits | $ 1,277 | $ 2,222 | $ 4,075 | $ 5,027 |
| Mutual fund net flows | 428 | 1,284 | 697 | 2,624 |
| Mutual fund account values [1] | 38,183 | 36,507 | 38,183 | 36,507 |

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

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

**Net Investment Income and Interest Credited**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Investment Income** | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | $ 209 | $ 200 | $ 624 | $ 601 |
| Commercial mortgage loan prepayment and bond make-whole premiums [1] | 8 | 5 | 14 | 15 |
| Surplus investments [2] | 12 | 18 | 48 | 52 |
| Total net investment income | $ 229 | $ 223 | $ 686 | $ 668 |
| **Interest Credited** | $ 147 | $ 140 | $ 437 | $ 414 |

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.
(2) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities. See "Consolidated Investments – Alternative Investments" below for more information on alternative investments.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Interest Rate Spread** | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 4.13% | 4.19% | 4.15% | 4.24% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.16% | 0.10% | 0.09% | 0.11% |
| Net investment income yield on reserves | 4.29% | 4.29% | 4.24% | 4.35% |
| Interest rate credited to contract holders | 2.90% | 2.90% | 2.91% | 2.90% |
| Interest rate spread | 1.39% | 1.39% | 1.33% | 1.45% |

| | As of or For the Three Months Ended September 30, | | As of or For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Fixed Account Value Information** | | | | |
| Fixed annuity deposits (1) | $ 469 | $ 704 | $ 1,319 | $ 1,557 |
| Increases (decreases) in fixed annuity account values: | | | | |
| Net flows (1) | (21) | 262 | (160) | 152 |
| Reinvested interest credited (1) | 149 | 140 | 436 | 413 |
| Contract holder assessments (1) | (3) | (3) | (8) | (8) |
| Fixed annuity account values (1) | 20,337 | 19,511 | 20,337 | 19,511 |
| Average fixed account values (1) | 20,177 | 19,294 | 20,004 | 19,015 |
| Average invested assets on reserves | 20,176 | 19,114 | 20,036 | 18,874 |

(1) Includes the fixed portion of variable.

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

**Benefits**

Benefits for this segment include changes in annuity benefit reserves.

**Commissions and Other Expenses**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Commissions and Other Expenses** | | | | |
| Commissions: | | | | |
| Deferrable | $ 2 | $ 1 | $ 4 | $ 5 |
| Non-deferrable | 18 | 19 | 56 | 55 |
| General and administrative expenses | 76 | 79 | 234 | 236 |
| Taxes, licenses and fees | 4 | 4 | 14 | 14 |
| Total expenses incurred | 100 | 103 | 308 | 310 |
| DAC deferrals | (5) | (5) | (15) | (15) |
| Total expenses recognized before amortization | 95 | 98 | 293 | 295 |
| DAC and VOBA amortization, net of interest: | | | | |
| Amortization, net of interest, excluding unlocking | 7 | 6 | 19 | 19 |
| Unlocking | (1) | 3 | (1) | 3 |
| Total commissions and other expenses | $ 101 | $ 107 | $ 311 | $ 317 |
| **DAC Deferrals** | | | | |
| As a percentage of annuity sales/deposits | 0.5% | 0.5% | 0.5% | 0.5% |

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

## RESULTS OF LIFE INSURANCE

### Income (Loss) from Operations

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Operating Revenues** | | | | |
| Insurance premiums [1] | $ 219 | $ 205 | $ 656 | $ 606 |
| Fee income | 1,275 | 886 | 2,985 | 2,510 |
| Net investment income | 601 | 671 | 1,952 | 1,979 |
| Operating realized gain (loss) [2] | (1) | (3) | (5) | (5) |
| Other revenues | 4 | 7 | 12 | 16 |
| Total operating revenues | 2,098 | 1,766 | 5,600 | 5,106 |
| **Operating Expenses** | | | | |
| Interest credited | 360 | 352 | 1,069 | 1,057 |
| Benefits | 1,426 | 742 | 3,240 | 2,431 |
| Commissions and other expenses | 630 | 455 | 1,206 | 1,044 |
| Total operating expenses | 2,416 | 1,549 | 5,515 | 4,532 |
| Income (loss) from operations before taxes | (318) | 217 | 85 | 574 |
| Federal income tax expense (benefit) | (73) | 41 | 6 | 104 |
| Income (loss) from operations | $ (245) | $ 176 | $ 79 | $ 470 |

[1] Includes term insurance premiums, which have a corresponding partial offset in benefits for changes in reserves.
[2] See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

*Comparison of the Three and Nine Months Ended September 30, 2019 to 2018*

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

- Higher benefits due to the effect of unlocking, unfavorable mortality and growth in business in force.
- Higher commissions and other expenses due to the effect of unlocking and investments in the business and technology.
- Lower net investment income, net of interest credited, driven by unfavorable investment income on alternative investments, partially offset by growth in invested assets on reserves.

The decrease in income from operations was partially offset by higher fee income due to the effect of unlocking and growth in business in force.

See "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" above for more information about unlocking.

*Strategies to Address Statutory Reserve Strain*

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

*Additional Information*

During the third quarter of 2019, we experienced unfavorable mortality relative to our 2019 expectation for claims seasonality.

For information on interest rate spreads and interest rate risk, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2018 Form 10-K.

**Insurance Premiums**

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

**Fee Income**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Fee Income** | | | | |
| Cost of insurance assessments | $ 573 | $ 544 | $ 1,703 | $ 1,583 |
| Expense assessments | 409 | 375 | 1,177 | 1,119 |
| Surrender charges | 9 | 11 | 32 | 33 |
| DFEL: | | | | |
| Deferrals | (255) | (204) | (704) | (595) |
| Amortization, net of interest: | | | | |
| Amortization, net of interest, excluding unlocking | 113 | 106 | 351 | 316 |
| Unlocking | 426 | 54 | 426 | 54 |
| Total fee income | $ 1,275 | $ 886 | $ 2,985 | $ 2,510 |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Sales by Product** | | | | |
| UL | $ 11 | $ 9 | $ 37 | $ 29 |
| *MoneyGuard®* | 67 | 53 | 174 | 168 |
| IUL | 37 | 13 | 79 | 41 |
| VUL | 54 | 62 | 159 | 164 |
| Term | 37 | 26 | 105 | 80 |
| Total individual life sales | 206 | 163 | 554 | 482 |
| Executive Benefits | 28 | 4 | 81 | 20 |
| Total sales | $ 234 | $ 167 | $ 635 | $ 502 |
| **Net Flows** | | | | |
| Deposits | $ 1,685 | $ 1,523 | $ 4,907 | $ 4,575 |
| Withdrawals and deaths | (458) | (443) | (1,443) | (1,335) |
| Net flows | $ 1,227 | $ 1,080 | $ 3,464 | $ 3,240 |
| **Contract Holder Assessments** | $ 1,291 | $ 1,211 | $ 3,827 | $ 3,608 |

| | As of September 30, | |
|---|---|---|
| | 2019 | 2018 |
| **Account Values** | | |
| General account | $ 36,922 | $ 36,371 |
| Separate account | 15,307 | 14,216 |
| Total account values | $ 52,229 | $ 50,587 |
| **In-Force Face Amount** | | |
| UL and other | $ 348,836 | $ 342,455 |
| Term insurance | 451,117 | 393,839 |
| Total in-force face amount | $ 799,953 | $ 736,294 |

Fee income relates only to interest-sensitive products and includes cost of insurance assessments, expense assessments and surrender charges. Both cost of insurance and expense assessments can have deferrals and amortization related to DFEL. Cost of insurance and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Business in force, in turn, is driven by sales, persistency and mortality experience.

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

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

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

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

**Net Investment Income and Interest Credited**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Net Investment Income** | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | $ 616 | $ 586 | $ 1,826 | $ 1,766 |
| Commercial mortgage loan prepayment and bond make-whole premiums (1) | 8 | 9 | 25 | 24 |
| Alternative investments (2) | (52) | 34 | (8) | 67 |
| Surplus investments (3) | 29 | 42 | 109 | 122 |
| Total net investment income | $ 601 | $ 671 | $ 1,952 | $ 1,979 |
| **Interest Credited** | $ 360 | $ 352 | $ 1,069 | $ 1,057 |

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.
(2) See "Consolidated Investments – Alternative Investments" below for additional information.
(3) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Interest Rate Yields and Spread** | | | | |
| <u>Attributable to interest-sensitive products:</u> | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 4.86% | 4.85% | 4.86% | 4.93% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.06% | 0.07% | 0.07% | 0.07% |
| Alternative investments | -0.44% | 0.31% | -0.03% | 0.20% |
| Net investment income yield on reserves | 4.48% | 5.23% | 4.90% | 5.20% |
| Interest rate credited to contract holders (1) | 3.71% | 3.72% | 3.69% | 3.72% |
| Interest rate spread (1) | 0.77% | 1.51% | 1.21% | 1.48% |

(1) Prior year interest rate spreads have been restated to conform to the current year presentation.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Averages** | | | | |
| Attributable to interest-sensitive products: | | | | |
| Invested assets on reserves | $ 46,526 | $ 44,239 | $ 45,993 | $ 43,718 |
| General account values | 37,220 | 36,724 | 37,099 | 36,633 |
| Attributable to traditional products: | | | | |
| Invested assets on reserves | 4,290 | 4,154 | 4,223 | 4,122 |

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

**Benefits**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Benefits** | | | | |
| Death claims direct and assumed | $ 1,195 | $ 1,010 | $ 3,509 | $ 3,195 |
| Death claims ceded | (460) | (399) | (1,315) | (1,229) |
| Reserves released on death | (142) | (136) | (452) | (447) |
| Net death benefits | 593 | 475 | 1,742 | 1,519 |
| Change in secondary guarantee life insurance product reserves: | | | | |
| Change in reserves, excluding unlocking | 157 | 175 | 443 | 500 |
| Unlocking | 445 | (61) | 445 | (61) |
| Change in *MoneyGuard*® reserves: | | | | |
| Change in reserves, excluding unlocking | 113 | 99 | 329 | 283 |
| Unlocking | 48 | (24) | 48 | (24) |
| Other benefits [1] | 70 | 78 | 233 | 214 |
| Total benefits | $ 1,426 | $ 742 | $ 3,240 | $ 2,431 |
| Death claims per $1,000 of in-force | 3.00 | 2.59 | 3.01 | 2.78 |

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

Benefits for this segment include claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits include the change in secondary guarantee and linked-benefit life insurance product reserves. These reserves are affected by changes in expected future trends of assessments and benefits causing unlocking adjustments to these liabilities similar to DAC, VOBA and DFEL. Generally, we have higher mortality in the first quarter of the year due to the seasonality of claims. See "Future Contract Benefits and Other Contract Holder Funds" in Note 1 of our 2018 Form 10-K for additional information.

**Commissions and Other Expenses**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Commissions and Other Expenses** | | | | |
| Commissions | $ 212 | $ 173 | $ 595 | $ 519 |
| General and administrative expenses | 145 | 137 | 439 | 400 |
| Expenses associated with reserve financing | 24 | 23 | 70 | 68 |
| Taxes, licenses and fees | 46 | 42 | 131 | 132 |
| Total expenses incurred | 427 | 375 | 1,235 | 1,119 |
| DAC and VOBA deferrals | (246) | (199) | (697) | (596) |
| Total expenses recognized before amortization | 181 | 176 | 538 | 523 |
| DAC and VOBA amortization, net of interest: | | | | |
| Amortization, net of interest, excluding unlocking | 110 | 114 | 327 | 354 |
| Unlocking | 338 | 164 | 338 | 164 |
| Other intangible amortization | 1 | 1 | 3 | 3 |
| Total commissions and other expenses | $ 630 | $ 455 | $ 1,206 | $ 1,044 |
| **DAC and VOBA Deferrals** | | | | |
| As a percentage of sales | 105.1% | 119.2% | 109.8% | 118.7% |

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the life of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business. When comparing DAC and VOBA deferrals as a percentage of sales for the three and nine months ended September 30, 2019, to the corresponding periods in 2018, the decrease was primarily a result of changes in sales mix to products with lower commission rates.

## RESULTS OF GROUP PROTECTION

**Income (Loss) from Operations**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Operating Revenues** | | | | |
| Insurance premiums | $ 1,024 | $ 1,011 | $ 3,079 | $ 2,366 |
| Net investment income | 72 | 76 | 226 | 179 |
| Other revenues [1] | 41 | 41 | 125 | 73 |
| Total operating revenues | 1,137 | 1,128 | 3,430 | 2,618 |
| **Operating Expenses** | | | | |
| Interest credited | 2 | 1 | 4 | 3 |
| Benefits | 756 | 744 | 2,267 | 1,686 |
| Commissions and other expenses | 301 | 304 | 926 | 756 |
| Total operating expenses | 1,059 | 1,049 | 3,197 | 2,445 |
| Income (loss) from operations before taxes | 78 | 79 | 233 | 173 |
| Federal income tax expense (benefit) | 17 | 16 | 49 | 36 |
| Income (loss) from operations | $ 61 | $ 63 | $ 184 | $ 137 |

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Income (Loss) from Operations by Product Line** | | | | |
| Life | $ 22 | $ 32 | $ 44 | $ 69 |
| Disability | 40 | 38 | 145 | 79 |
| Dental | (1) | (7) | (5) | (12) |
| Total non-medical | 61 | 63 | 184 | 136 |
| Medical | - | - | - | 1 |
| Income (loss) from operations | $ 61 | $ 63 | $ 184 | $ 137 |

*Comparison of the Three Months Ended September 30, 2019 to 2018*

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

- Higher benefits driven by growth in the business and unfavorable claims severity in both our long-term disability and life businesses, partially offset by an increase in favorable reserve adjustments due to modifying certain assumptions on the reserves in these businesses.
- Lower net investment income, net of interest credited, driven by unfavorable investment income on alternative investments within our surplus portfolio.

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

- Higher insurance premiums driven by growth in business.
- Lower commissions and other expenses driven by integration synergies and expense efficiencies, partially offset by higher amortization.

*Comparison of the Nine Months Ended September 30, 2019 to 2018*

Income from operations for this segment increased due primarily to the inclusion of the results of the Liberty Group Business (see “Additional Information” below for more information).

Income from operations for the nine months ended September 30, 2019, includes activity from the Liberty Group Business acquired on May 1, 2018. The acquisition resulted in increases in all pre-tax line items presented in the Income (Loss) from Operations table above. For more information about our acquisition, see Note 3 in our 2018 Form 10-K and Note 3 herein.

For information about the effect of the loss ratio sensitivity on our income (loss) from operations, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Group Protection – Additional Information" in our 2018 Form 10-K.

For information on the effects of current interest rates on our long-term disability claim reserves, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Effect of Interest Rate Sensitivity" in our 2018 Form 10-K.

**Insurance Premiums**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| **Insurance Premiums by Product Line** | | | | |
| Life | $ 375 | $ 367 | $ 1,120 | $ 877 |
| Disability | 576 | 569 | 1,737 | 1,266 |
| Dental | 73 | 75 | 222 | 223 |
| Total insurance premiums | $ 1,024 | $ 1,011 | $ 3,079 | $ 2,366 |
| **Sales by Product Line** | | | | |
| Life | $ 131 | $ 69 | $ 237 | $ 122 |
| Disability | 96 | 73 | 179 | 134 |
| Dental | 15 | 16 | 40 | 52 |
| Total sales | $ 242 | $ 158 | $ 456 | $ 308 |

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

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

**Net Investment Income**

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

**Benefits and Interest Credited**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Benefits and Interest Credited by Product Line** | | | | |
| Life | $ 265 | $ 259 | $ 796 | $ 596 |
| Disability | 440 | 432 | 1,312 | 929 |
| Dental | 53 | 54 | 163 | 164 |
| Total benefits and interest credited | $ 758 | $ 745 | $ 2,271 | $ 1,689 |
| **Loss Ratios by Product Line** | | | | |
| Life | 70.5% | 70.6% | 71.0% | 68.0% |
| Disability | 76.4% | 75.8% | 75.6% | 73.5% |
| Dental | 73.4% | 72.2% | 73.5% | 73.4% |
| Total | 74.1% | 73.6% | 73.8% | 71.4% |

Generally, we experience higher mortality in the first quarter of the year and higher disability claims in the fourth quarter of the year due to the seasonality of claims. The total loss ratio for the nine months ended September 30, 2019, increased due to an additional four months of Liberty Group Business results in 2019 as we combined two blocks of business with different loss characteristics.

**Commissions and Other Expenses**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Commissions and Other Expenses** | | | | |
| Commissions | $ 88 | $ 89 | $ 272 | $ 238 |
| General and administrative expenses | 185 | 189 | 540 | 430 |
| Taxes, licenses and fees | 27 | 29 | 84 | 69 |
| Total expenses incurred | 300 | 307 | 896 | 737 |
| DAC deferrals | (29) | (25) | (72) | (55) |
| Total expenses recognized before amortization | 271 | 282 | 824 | 682 |
| DAC and VOBA amortization, net of interest (1) | 24 | 20 | 85 | 71 |
| Other intangible amortization (1) | 6 | 2 | 17 | 3 |
| Total commissions and other expenses | $ 301 | $ 304 | $ 926 | $ 756 |
| **DAC Deferrals** | | | | |
| As a percentage of insurance premiums | 2.8% | 2.5% | 2.3% | 2.3% |

(1) See Note 3 in our 2018 Form 10-K for information regarding intangible assets acquired as part of the Liberty Life acquisition.

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized as a level percent of insurance premiums of the related contracts, depending on the block of business. Certain broker commissions that vary with and are related to paid premiums are expensed as incurred rather than deferred and amortized. Generally, we have higher amortization in the first quarter of the year due to a significant number of policies renewing in the quarter.

## RESULTS OF OTHER OPERATIONS

### Income (Loss) from Operations

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Operating Revenues** | | | | |
| Insurance premiums [1] | $ 3 | $ 4 | $ 10 | $ 12 |
| Net investment income | 46 | 50 | 147 | 167 |
| Amortization of deferred gain on business sold through reinsurance | - | - | - | 1 |
| Other revenues | 1 | 2 | 9 | 2 |
| Total operating revenues | 50 | 56 | 166 | 182 |
| **Operating Expenses** | | | | |
| Interest credited | 14 | 14 | 44 | 43 |
| Benefits | 42 | 38 | 88 | 85 |
| Other expenses | 5 | 11 | 46 | 28 |
| Interest and debt expense | 71 | 69 | 212 | 205 |
| Strategic digitization expense | 16 | 18 | 47 | 49 |
| Total operating expenses | 148 | 150 | 437 | 410 |
| Income (loss) from operations before taxes | (98) | (94) | (271) | (228) |
| Federal income tax expense (benefit) | (23) | (23) | (70) | (57) |
| Income (loss) from operations | $ (75) | $ (71) | $ (201) | $ (171) |

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

*Comparison of the Three Months Ended September 30, 2019 to 2018*

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

- Higher benefits attributable to unfavorable experience in our run-off disability income business.
- Lower net investment income, net of interest credited, related to lower average invested assets driven by a decline in excess capital retained by Other Operations.
- Higher interest and debt expense driven by an increase in average balances of outstanding debt.

The increase in loss from operations was partially offset by lower other expenses due to the effect of changes in our stock price on our deferred compensation plans, as our stock price decreased during the three months ended September 30, 2019, compared to an increase during the three months ended September 30, 2018.

*Comparison of the Nine Months Ended September 30, 2019 to 2018*

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

- Lower net investment income, net of interest credited, related to lower average invested assets driven by a decline in excess capital retained by Other Operations.
- Higher other expenses due to the effect of changes in our stock price on our deferred compensation plans, as our stock price increased during the nine months ended September 30, 2019, compared to a decrease during the nine months ended September 30, 2018.
- Higher interest and debt expense driven by an increase in average balances of outstanding debt.

The increase in loss from operations was partially offset by more favorable federal income tax benefits due to excess tax benefits associated with stock option exercises.

*Additional Information*

Benefits for the three and nine months ended September 30, 2019 and 2018, were elevated due to modifying certain assumptions on the reserves supporting our run-off institutional pension business.

For information on our strategic digitization initiative, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Significant Operational Matters – Strategic Digitization Initiative" in our 2018 Form 10-K.

**Net Investment Income and Interest Credited**

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

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

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

**Benefits**

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

**Other Expenses**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| General and administrative expenses: | | | | |
| Legal | $ - | $ - | $ - | $ 1 |
| Branding | 8 | 8 | 29 | 27 |
| Other [1] | 1 | 8 | 29 | 16 |
| Total general and administrative expenses | 9 | 16 | 58 | 44 |
| Taxes, licenses and fees [2] | (1) | (2) | (3) | (7) |
| Inter-segment reimbursement associated with reserve financing and LOC expenses [3] | (3) | (3) | (9) | (9) |
| Total other expenses | $ 5 | $ 11 | $ 46 | $ 28 |

(1) Includes expenses that are corporate in nature including charitable contributions, the portion of our deferred compensation plan expense attributable to participants' selection of LNC stock as the measure for their investment return and other expenses not allocated to our business segments.
(2) Includes state guaranty funds assessments to cover losses to contract holders of insolvent or rehabilitated insurance companies. Mandatory assessments may be partially recovered through a reduction in future premium taxes in some states.
(3) Consists of reimbursements to Other Operations from the Life Insurance segment for the use of proceeds from certain issuances of senior notes that were used as long-term structured solutions, net of expenses incurred by Other Operations for its use of LOCs.

**Interest and Debt Expense**

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

## REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Components of Realized Gain (Loss), Pre-Tax** | | | | |
| Total operating realized gain (loss) | $ 50 | $ 43 | $ 132 | $ 137 |
| Total excluded realized gain (loss) | (61) | (98) | (623) | (188) |
| Total realized gain (loss), pre-tax | $ (11) | $ (55) | $ (491) | $ (51) |
| **Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax** | | | | |
| Total excluded realized gain (loss) | $ (49) | $ (77) | $ (492) | $ (149) |
| Benefit ratio unlocking | (2) | 33 | 186 | 32 |
| Excluded realized gain (loss) net of benefit ratio unlocking, after-tax | $ (51) | $ (44) | $ (306) | $ (117) |
| **Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax** | | | | |
| Realized gain (loss) related to certain investments | $ (28) | $ (8) | $ (52) | $ (36) |
| Gain (loss) on the mark-to-market on certain instruments [2] | 19 | (7) | (103) | 15 |
| Variable annuity net derivatives results: | | | | |
| Hedge program performance, including unlocking for GLB reserves hedged | (65) | (19) | (99) | (85) |
| GLB NPR component | 43 | (5) | 14 | 2 |
| Total variable annuity net derivatives results | (22) | (24) | (85) | (83) |
| Indexed annuity forward-starting option | (20) | (5) | (66) | (13) |
| Excluded realized gain (loss) net of benefit ratio unlocking, after-tax | $ (51) | $ (44) | $ (306) | $ (117) |

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

(2) As of September 30, 2019, the Modco investment portfolio included fixed maturity securities classified as AFS with changes in fair value recorded in OCI. Since the corresponding and offsetting changes in fair value of the embedded derivatives related to the Modco investment portfolio are recorded in realized gain (loss), volatility can occur within net income (loss). We expect the Modco investments classified as AFS will be sold and replaced with securities classified as trading securities, with changes in fair value recorded in realized gain (loss), consistent with the recorded fair value changes in the Modco embedded derivatives. See Note 8 for more information.

*Comparison of the Three Months Ended September 30, 2019 to 2018*

We had lower realized losses due primarily to the following:

- Gains due primarily to favorable changes in the fair value of embedded derivatives related to certain Modco arrangements.
- Favorable variable annuity net derivatives results attributable to favorable GLB non-performance risk ("NPR") component due to a widening of our credit spread and our associated reserves increasing, partially offset by unfavorable hedge program performance due to more volatile capital markets.

The lower realized losses were partially offset by higher losses on indexed annuity forward starting option due to a decrease in discount rates and growth in new business.

*Comparison of the Nine Months Ended September 30, 2019 to 2018*

We had higher realized losses due primarily to the following:

- Losses due primarily to unfavorable changes in the fair value of embedded derivatives related to certain Modco arrangements.
- Higher losses on indexed annuity forward starting option due to a decrease in discount rates and growth in new business.
- Unfavorable variable annuity net derivatives results attributable to unfavorable hedge program performance due to more volatile capital markets, partially offset by favorable GLB NPR component due to our associated reserves increasing.

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

See "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" above for more information about unlocking.

**Operating Realized Gain (Loss)**

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2018 Form 10-K for a discussion of our operating realized gain (loss).

**Realized Gain (Loss) Related to Certain Investments**

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

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

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Gain (Loss) on the Mark-to-Market on Certain Instruments" in our 2018 Form 10-K for a discussion of the mark-to-market on certain instruments and Note 4 for information about consolidated variable interest entities ("VIEs").

**Variable Annuity Net Derivatives Results**

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" in our 2018 Form 10-K for a discussion of our variable annuity net derivatives results and how our NPR adjustment is determined.

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

| | As of September 30, 2019 | As of June 30, 2019 | As of March 31, 2019 | As of December 31, 2018 | As of September 30, 2018 |
|---|---|---|---|---|---|
| Variable annuity hedge program assets (liabilities) | $ 3,292 | $ 2,418 | $ 1,967 | $ 2,357 | $ 770 |
| Variable annuity reserves – asset (liability): | | | | | |
| Embedded derivative reserves, pre-NPR (1) | $ (568) | $ 211 | $ 578 | $ 252 | $ 1,630 |
| NPR | (37) | (101) | (98) | (57) | (140) |
| Embedded derivative reserves | (605) | 110 | 480 | 195 | 1,490 |
| Insurance benefit reserves | (1,026) | (911) | (916) | (1,060) | (757) |
| Total variable annuity reserves – asset (liability) | $ (1,631) | $ (801) | $ (436) | $ (865) | $ 733 |
| 10-year credit default swap ("CDS") spread | 1.36% | 1.17% | 1.43% | 1.67% | 1.35% |
| NPR factor related to 10-year CDS spread | 0.19% | 0.15% | 0.18% | 0.25% | 0.18% |

(1) Embedded derivative reserves in an asset (liability) position indicate that we estimate the present value of future benefits to be less (greater) than the present value of future net valuation premiums.

For information about the effect of changes in the NPR factor on our net income (loss), see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" in our 2018 Form 10-K.

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

**Indexed Annuity Forward-Starting Option**

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Indexed Annuity Forward-Starting Option" in our 2018 Form 10-K for a discussion of our indexed annuity forward-starting option.

## CONSOLIDATED INVESTMENTS

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

| | | | Percentage of Total Investments | |
|---|---|---|---|---|
| | As of September 30, 2019 | As of December 31, 2018 | As of September 30, 2019 | As of December 31, 2018 |
| **Investments** | | | | |
| Fixed maturity AFS securities | $ 103,659 | $ 94,024 | 78.2% | 81.6% |
| Trading securities | 4,691 | 1,950 | 3.5% | 1.7% |
| Equity securities | 158 | 99 | 0.1% | 0.1% |
| Mortgage loans on real estate | 15,947 | 13,260 | 12.0% | 11.5% |
| Real estate | 12 | 12 | 0.0% | 0.0% |
| Policy loans | 2,475 | 2,509 | 1.9% | 2.2% |
| Derivative investments | 2,201 | 1,107 | 1.7% | 1.0% |
| Alternative investments | 1,805 | 1,725 | 1.4% | 1.4% |
| Other investments | 1,572 | 530 | 1.2% | 0.5% |
| Total investments | $ 132,520 | $ 115,216 | 100.0% | 100.0% |

**Investment Objective**

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion of our risk management process, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2018 Form 10-K.

**Investment Portfolio Composition and Diversification**

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

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

**Fixed Maturity and Equity Securities Portfolios**

Fixed maturity securities consist of portfolios classified as available-for-sale ("AFS") and trading. Details underlying our fixed maturity AFS securities by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of fixed maturity AFS securities in Note 5; however, the categories below represent a more detailed breakout of the fixed maturity AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

| | As of September 30, 2019 | | | | |
|---|---|---|---|---|---|
| | | Gross Unrealized | | | |
| | Amortized Cost | Gains | Losses and OTTI (1) | Fair Value | % Fair Value |
| **Fixed Maturity AFS Securities** | | | | | |
| Industry corporate bonds: | | | | | |
| Financial services | $ 13,923 | $ 1,623 | $ 54 | $ 15,492 | 14.9% |
| Basic industry | 4,483 | 478 | 9 | 4,952 | 4.8% |
| Capital goods | 6,579 | 808 | 6 | 7,381 | 7.1% |
| Communications | 4,216 | 639 | 3 | 4,852 | 4.7% |
| Consumer cyclical | 5,383 | 563 | 9 | 5,937 | 5.7% |
| Consumer non-cyclical | 13,827 | 1,880 | 43 | 15,664 | 15.1% |
| Energy | 6,125 | 636 | 60 | 6,701 | 6.5% |
| Technology | 3,798 | 378 | 3 | 4,173 | 4.0% |
| Transportation | 3,284 | 333 | 3 | 3,614 | 3.5% |
| Industrial other | 1,487 | 129 | 1 | 1,615 | 1.6% |
| Utilities | 13,250 | 2,054 | 11 | 15,293 | 14.8% |
| Government related entities | 1,946 | 312 | 21 | 2,237 | 2.2% |
| Collateralized mortgage and other obligations ("CMOs"): | | | | | |
| Agency backed | 1,838 | 141 | 1 | 1,978 | 1.9% |
| Non-agency backed | 572 | 53 | (18) | 643 | 0.6% |
| Mortgage pass through securities ("MPTS"): | | | | | |
| Agency backed | 631 | 35 | - | 666 | 0.6% |
| Commercial mortgage-backed securities ("CMBS"): | | | | | |
| Agency backed | 20 | - | - | 20 | 0.0% |
| Non-agency backed | 955 | 56 | (1) | 1,012 | 1.0% |
| Asset-backed securities ("ABS"): | | | | | |
| Collateralized loan obligations ("CLOs") | 2,975 | 8 | 3 | 2,980 | 2.9% |
| Credit card | 77 | 26 | - | 103 | 0.1% |
| Equipment receivables | 21 | 1 | - | 22 | 0.0% |
| Home equity | 387 | 18 | (25) | 430 | 0.4% |
| Manufactured housing | 9 | 1 | - | 10 | 0.0% |
| Student loans | 34 | 1 | - | 35 | 0.0% |
| Other | 571 | 21 | - | 592 | 0.6% |
| Municipals: | | | | | |
| Taxable | 4,425 | 1,251 | 2 | 5,674 | 5.5% |
| Tax-exempt | 103 | 23 | - | 126 | 0.1% |
| Government: | | | | | |
| United States | 375 | 63 | - | 438 | 0.4% |
| Foreign | 378 | 66 | - | 444 | 0.4% |
| Hybrid and redeemable preferred securities | 520 | 79 | 24 | 575 | 0.6% |
| Total fixed maturity AFS securities | 92,192 | 11,676 | 209 | 103,659 | 100.0% |
| **Trading Securities (2)** | 4,348 | 354 | 11 | 4,691 | |
| **Equity Securities** | 185 | 3 | 30 | 158 | |
| Total fixed maturity AFS, trading and equity securities | $ 96,725 | $ 12,033 | $ 250 | $ 108,508 | |

| | As of December 31, 2018 | | | | |
|---|---|---|---|---|---|
| | | Gross Unrealized | | | % |
| | Amortized Cost | Gains | Losses and OTTI [(1)] | Fair Value | Fair Value |
| **Fixed Maturity AFS Securities** | | | | | |
| Industry corporate bonds: | | | | | |
| Financial services | $ 13,762 | $ 465 | $ 352 | $ 13,875 | 14.8% |
| Basic industry | 4,542 | 137 | 152 | 4,527 | 4.8% |
| Capital goods | 6,531 | 236 | 182 | 6,585 | 7.0% |
| Communications | 4,686 | 210 | 133 | 4,763 | 5.1% |
| Consumer cyclical | 5,475 | 160 | 180 | 5,455 | 5.8% |
| Consumer non-cyclical | 14,307 | 543 | 507 | 14,343 | 15.3% |
| Energy | 6,383 | 217 | 227 | 6,373 | 6.8% |
| Technology | 3,698 | 64 | 81 | 3,681 | 3.9% |
| Transportation | 3,289 | 91 | 99 | 3,281 | 3.5% |
| Industrial other | 1,328 | 24 | 30 | 1,322 | 1.4% |
| Utilities | 13,330 | 692 | 249 | 13,773 | 14.6% |
| Government related entities | 2,292 | 141 | 63 | 2,370 | 2.5% |
| CMOs: | | | | | |
| Agency backed | 1,747 | 52 | 56 | 1,743 | 1.9% |
| Non-agency backed | 732 | 48 | (13) | 793 | 0.8% |
| MPTS: | | | | | |
| Agency backed | 829 | 18 | 10 | 837 | 0.9% |
| CMBS: | | | | | |
| Agency backed | 20 | - | - | 20 | 0.0% |
| Non-agency backed | 791 | 6 | 13 | 784 | 0.8% |
| ABS: | | | | | |
| CLOs | 1,746 | 3 | 19 | 1,730 | 1.8% |
| Credit card | 78 | 16 | - | 94 | 0.1% |
| Equipment receivables | 37 | 1 | - | 38 | 0.0% |
| Home equity | 508 | 17 | (9) | 534 | 0.6% |
| Manufactured housing | 15 | 1 | - | 16 | 0.0% |
| Student loans | 38 | - | - | 38 | 0.0% |
| Other | 240 | 7 | 1 | 246 | 0.3% |
| Municipals: | | | | | |
| Taxable | 4,551 | 711 | 18 | 5,244 | 5.6% |
| Tax-exempt | 96 | 5 | - | 101 | 0.1% |
| Government: | | | | | |
| United States | 390 | 29 | 2 | 417 | 0.5% |
| Foreign | 406 | 42 | - | 448 | 0.5% |
| Hybrid and redeemable preferred securities | 582 | 45 | 34 | 593 | 0.6% |
| Total fixed maturity AFS securities | 92,429 | 3,981 | 2,386 | 94,024 | 100.0% |
| **Trading Securities** [(2)] | 1,823 | 137 | 10 | 1,950 | |
| **Equity Securities** | 116 | 1 | 18 | 99 | |
| Total fixed maturity AFS, trading and equity securities | $ 94,368 | $ 4,119 | $ 2,414 | $ 96,073 | |

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

(2) Certain of our trading securities support our Modco reinsurance agreements and the investment results are passed directly to the reinsurers. Refer to "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Fixed Maturity and Equity Securities Portfolios – Trading Securities" in our 2018 Form 10-K for further details.

*Fixed Maturity AFS Securities*

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

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

| | Rating Agency | As of September 30, 2019 | | | As of December 31, 2018 | | |
|---|---|---|---|---|---|---|---|
| NAIC Designation [(1)] | Equivalent Designation [(1)] | Amortized Cost | Fair Value | % of Total | Amortized Cost | Fair Value | % of Total |
| **Investment Grade Securities** | | | | | | | |
| 1 | AAA / AA / A | $ 49,774 | $ 57,239 | 55.2% | $ 49,086 | $ 51,118 | 54.4% |
| 2 | BBB | 39,084 | 43,091 | 41.6% | 39,872 | 39,641 | 42.1% |
| Total investment grade securities | | 88,858 | 100,330 | 96.8% | 88,958 | 90,759 | 96.5% |
| **Below Investment Grade Securities** | | | | | | | |
| 3 | BB | 2,362 | 2,406 | 2.3% | 2,565 | 2,448 | 2.6% |
| 4 | B | 787 | 769 | 0.8% | 803 | 741 | 0.8% |
| 5 | CCC and lower | 157 | 125 | 0.1% | 95 | 63 | 0.1% |
| 6 | In or near default | 28 | 29 | 0.0% | 8 | 13 | 0.0% |
| Total below investment grade securities | | 3,334 | 3,329 | 3.2% | 3,471 | 3,265 | 3.5% |
| Total fixed maturity AFS securities | | $ 92,192 | $ 103,659 | 100.0% | $ 92,429 | $ 94,024 | 100.0% |
| Total securities below investment grade as a percentage of total fixed maturity AFS securities | | 3.6% | 3.2% | | 3.8% | 3.5% | |

(1) Based upon the rating designations determined and provided by the National Association of Insurance Commissioners ("NAIC") or the major credit rating agencies (Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P). For securities where the ratings assigned by the major credit rating agencies are not equivalent, the second lowest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings. The average credit quality was A- as of September 30, 2019.

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

As of September 30, 2019, and December 31, 2018, 82% and 95%, respectively, of the total fixed maturity AFS securities in an unrealized loss position were investment grade. Our gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) ("OCI"), on fixed maturity AFS securities as of September 30, 2019, decreased by $2.2 billion since December 31, 2018. For further information on our unrealized losses on fixed maturity AFS securities, see "Composition by Industry Categories of our Unrealized Losses on Fixed Maturity AFS Securities" below.

As more fully described in Note 1 in our 2018 Form 10-K, we regularly review our investment holdings for OTTI. We concluded the unrealized loss position as of September 30, 2019, does not represent OTTI as: (i) we do not intend to sell the debt securities; (ii) it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis; and (iii) the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities. This conclusion is consistent with our asset-liability management process. Management considers the following as part of the evaluation of OTTI:

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

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

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

As reported on our Consolidated Balance Sheets, we had $135.4 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled $114.0 billion as of September 30, 2019. If it were necessary to liquidate fixed maturity AFS securities prior to maturity or call to meet cash flow needs, we would first look to those fixed maturity AFS securities that are in an unrealized gain position, which had a fair value of $98.5 billion as of September 30, 2019, rather than selling fixed maturity AFS securities in an unrealized loss position. The amount of cash that we have on hand at any point in time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the ongoing cash flows from new and existing business.

See "Fixed Maturity AFS Securities – Evaluation for Recovery of Amortized Cost" in Note 1 in our 2018 Form 10-K and Note 5 herein for additional discussion.

As of September 30, 2019, and December 31, 2018, the estimated fair value for our privately placed fixed maturity AFS securities was $16.9 billion and $15.3 billion, respectively, representing 13% of total invested assets.

*Mortgage-Backed Securities (Included in Fixed Maturity AFS and Trading Securities)*

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Mortgage-Backed Securities" in our 2018 Form 10-K for a discussion of our mortgage-backed securities ("MBS").

The market value of fixed maturity AFS and trading securities backed by subprime loans was $393 million and represented less than 1% of our total investment portfolio as of September 30, 2019. Fixed maturity AFS securities represented $379 million, or 96%, and trading securities represented $14 million, or 4%, of the subprime exposure as of September 30, 2019. The table below summarizes our investments in fixed maturity AFS securities backed by pools of residential mortgages (in millions) as of September 30, 2019:

| | Agency | | Prime | | Alt-A | | Subprime/ Option ARM [1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| **Type** | | | | | | | | | | |
| RMBS | $ 2,470 | $ 2,644 | $ 189 | $ 208 | $ 142 | $ 161 | $ 240 | $ 274 | $ 3,041 | $ 3,287 |
| ABS home equity | 1 | 1 | 37 | 38 | 52 | 57 | 297 | 334 | 387 | 430 |
| Total by type [2][3] | $ 2,471 | $ 2,645 | $ 226 | $ 246 | $ 194 | $ 218 | $ 537 | $ 608 | $ 3,428 | $ 3,717 |
| **Rating** | | | | | | | | | | |
| AAA | $ 2,090 | $ 2,240 | $ - | $ - | $ - | $ - | $ 6 | $ 6 | $ 2,096 | $ 2,246 |
| AA | 381 | 405 | 10 | 10 | 11 | 12 | 14 | 14 | 416 | 441 |
| A | - | - | 36 | 37 | 6 | 6 | 54 | 55 | 96 | 98 |
| BBB | - | - | 8 | 9 | 14 | 15 | 15 | 16 | 37 | 40 |
| BB and below | - | - | 172 | 190 | 163 | 185 | 448 | 517 | 783 | 892 |
| Total by rating [2][3][4] | $ 2,471 | $ 2,645 | $ 226 | $ 246 | $ 194 | $ 218 | $ 537 | $ 608 | $ 3,428 | $ 3,717 |
| **Origination Year** | | | | | | | | | | |
| 2009 and prior | $ 530 | $ 589 | $ 207 | $ 226 | $ 193 | $ 217 | $ 537 | $ 608 | $ 1,467 | $ 1,640 |
| 2010 | 213 | 232 | - | - | - | - | - | - | 213 | 232 |
| 2011 | 101 | 106 | - | - | - | - | - | - | 101 | 106 |
| 2012 | 37 | 37 | - | - | - | - | - | - | 37 | 37 |
| 2013 | 192 | 202 | - | - | - | - | - | - | 192 | 202 |
| 2014 | 69 | 77 | 1 | 1 | - | - | - | - | 70 | 78 |
| 2015 | 163 | 174 | 15 | 16 | - | - | - | - | 178 | 190 |
| 2016 | 567 | 580 | - | - | 1 | 1 | - | - | 568 | 581 |
| 2017 | 286 | 308 | 3 | 3 | - | - | - | - | 289 | 311 |
| 2018 | 221 | 243 | - | - | - | - | - | - | 221 | 243 |
| 2019 | 92 | 97 | - | - | - | - | - | - | 92 | 97 |
| Total by origination year [2][3] | $ 2,471 | $ 2,645 | $ 226 | $ 246 | $ 194 | $ 218 | $ 537 | $ 608 | $ 3,428 | $ 3,717 |
| Total fixed maturity AFS securities backed by pools of residential mortgages as a percentage of total fixed maturity AFS securities | | | | | | | | | 3.7% | 3.6% |
| Total prime, Alt-A and subprime/option ARM as a percentage of total fixed maturity AFS securities | | | | | | | | | 1.0% | 1.0% |

(1) Includes the amortized cost and fair value of option adjustable rate mortgages ("ARM") within RMBS, totaling $197 million and $229 million, respectively.

(2) Does not include the amortized cost of trading securities totaling $153 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $153 million in trading securities consisted of $138 million prime, $1 million Alt-A and $14 million subprime.

(3) Does not include the fair value of trading securities totaling $160 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $160 million in trading securities consisted of $145 million prime, $1 million Alt-A and $14 million subprime.

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

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

The following summarizes our investments in fixed maturity AFS securities backed by pools of commercial mortgages (in millions) as of September 30, 2019:

| | Multiple Property | | Single Property | | Total | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| **Type** | | | | | | |
| CMBS | $ 960 | $ 1,015 | $ 15 | $ 17 | $ 975 | $ 1,032 |
| Total by type (1)(2) | $ 960 | $ 1,015 | $ 15 | $ 17 | $ 975 | $ 1,032 |
| **Rating** | | | | | | |
| AAA | $ 951 | $ 1,005 | $ 4 | $ 4 | $ 955 | $ 1,009 |
| AA | 8 | 8 | 6 | 7 | 14 | 15 |
| A | - | - | 5 | 6 | 5 | 6 |
| BB and below | 1 | 2 | - | - | 1 | 2 |
| Total by rating (1)(2)(3) | $ 960 | $ 1,015 | $ 15 | $ 17 | $ 975 | $ 1,032 |
| **Origination Year** | | | | | | |
| 2009 and prior | $ 15 | $ 18 | $ 11 | $ 13 | $ 26 | $ 31 |
| 2010 | 3 | 3 | - | - | 3 | 3 |
| 2011 | 8 | 8 | - | - | 8 | 8 |
| 2012 | 27 | 28 | - | - | 27 | 28 |
| 2013 | 154 | 157 | - | - | 154 | 157 |
| 2015 | 10 | 11 | - | - | 10 | 11 |
| 2016 | 86 | 89 | 4 | 4 | 90 | 93 |
| 2017 | 323 | 342 | - | - | 323 | 342 |
| 2018 | 164 | 180 | - | - | 164 | 180 |
| 2019 | 170 | 179 | - | - | 170 | 179 |
| Total by origination year (1)(2) | $ 960 | $ 1,015 | $ 15 | $ 17 | $ 975 | $ 1,032 |
| Total fixed maturity AFS securities backed by pools of commercial mortgages as a percentage of total fixed maturity AFS securities | | | | | 1.1% | 1.0% |

(1) Does not include the amortized cost of trading securities totaling $106 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $106 million in trading securities consisted of $56 million of multiple property CMBS and $50 million of single property CMBS.

(2) Does not include the fair value of trading securities totaling $110 million that primarily support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $110 million in trading securities consisted of $59 million of multiple property CMBS and $51 million of single property CMBS.

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

As of September 30, 2019, the amortized cost and fair value of our fixed maturity AFS exposure to monoline insurers was $358 million and $409 million, respectively.

*Composition by Industry Categories of our Unrealized Losses on Fixed Maturity AFS Securities*

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

The composition by industry categories of all fixed maturity AFS securities in an unrealized loss position (in millions) as of September 30, 2019, was as follows:

| | Amortized Cost | % Amortized Cost | Gross Unrealized Losses and OTTI | % Gross Unrealized Losses and OTTI | Fair Value | % Fair Value |
|---|---|---|---|---|---|---|
| Banking | $ 257 | 4.8% | $ 61 | 22.7% | $ 196 | 3.8% |
| Oil field services | 161 | 3.0% | 28 | 10.4% | 133 | 2.6% |
| Pharmaceuticals | 202 | 3.8% | 26 | 9.7% | 176 | 3.4% |
| Independent | 312 | 5.8% | 16 | 5.9% | 296 | 5.8% |
| Government owned, no guarantee | 98 | 1.8% | 13 | 4.8% | 85 | 1.7% |
| ABS | 1,121 | 20.8% | 11 | 4.1% | 1,110 | 21.7% |
| Integrated | 76 | 1.4% | 10 | 3.7% | 66 | 1.3% |
| Sovereign | 34 | 0.6% | 9 | 3.3% | 25 | 0.5% |
| Property and casualty | 68 | 1.3% | 8 | 3.0% | 60 | 1.2% |
| Utility - other | 168 | 3.1% | 7 | 2.6% | 161 | 3.1% |
| Midstream | 127 | 2.4% | 6 | 2.2% | 121 | 2.4% |
| Healthcare | 322 | 6.0% | 6 | 2.2% | 316 | 6.2% |
| Food and beverage | 155 | 2.9% | 5 | 1.9% | 150 | 2.9% |
| Finance companies | 40 | 0.7% | 5 | 1.9% | 35 | 0.7% |
| Industries with unrealized losses less than $5 million | 2,242 | 41.6% | 58 | 21.6% | 2,184 | 42.7% |
| Total by industry | $ 5,383 | 100.0% | $ 269 | 100.0% | $ 5,114 | 100.0% |
| Total by industry as a percentage of total fixed maturity AFS securities | 5.8% | | 100.0% | | 4.9% | |

As of September 30, 2019, the amortized cost and fair value of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss position was $34 million and $32 million, respectively.

**Mortgage Loans on Real Estate**

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

| | As of September 30, 2019 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Credit Quality Indicator** | | | | |
| Current | $ 15,207 | $ 733 | $ 15,940 | 100.0% |
| Delinquent (1) | 1 | 4 | 5 | 0.0% |
| Foreclosure (2) | - | 4 | 4 | 0.0% |
| General valuation allowance | - | (2) | (2) | 0.0% |
| Total mortgage loans on real estate | $ 15,208 | $ 739 | $ 15,947 | 100.0% |

| | As of December 31, 2018 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Credit Quality Indicator** | | | | |
| Current | $ 13,012 | $ 247 | $ 13,259 | 100.0% |
| Delinquent (1) | - | 1 | 1 | 0.0% |
| Foreclosure (2) | - | - | - | 0.0% |
| Total mortgage loans on real estate | $ 13,012 | $ 248 | $ 13,260 | 100.0% |

(1) As of September 30, 2019, four commercial loans and eight residential loans were delinquent. As of December 31, 2018, nine commercial loans and two residential loans were delinquent.

(2) As of September 30, 2019, eight residential loans were in foreclosure. As of December 31, 2018, there were no mortgage loans in foreclosure.

As of September 30, 2019, there was one specifically identified impaired commercial mortgage loan on real estate with a carrying value of less than $1 million and four specifically identified impaired residential mortgage loans on real estate also with an aggregate carrying value of less than $1 million. As of December 31, 2018, there were no specifically identified impaired commercial or residential mortgage loans on real estate.

The total outstanding principal and interest on the commercial mortgage loans on real estate that were two or more payments delinquent as of September 30, 2019, and December 31, 2018, was $1 million and less than $1 million, respectively. The total outstanding principal and interest on the residential mortgage loans on real estate that were three or more payments delinquent as of September 30, 2019, and December 31, 2018, was $8 million and less than $1 million, respectively. See Note 1 in our 2018 Form 10-K for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

The carrying value of mortgage loans on real estate by business segment (in millions) was as follows:

| | As of September 30, 2019 | As of December 31, 2018 |
|---|---|---|
| **Segment** | | |
| Annuities | $ 5,208 | $ 3,962 |
| Retirement Plan Services | 4,026 | 3,599 |
| Life Insurance | 4,080 | 3,829 |
| Group Protection | 1,300 | 1,089 |
| Other Operations | 1,333 | 781 |
| Total mortgage loans on real estate | $ 15,947 | $ 13,260 |

The composition of commercial mortgage loans (in millions) by property type, geographic region and state is shown below:

| | As of September 30, 2019 Carrying Value | % | | As of September 30, 2019 Carrying Value | % |
|---|---|---|---|---|---|
| **Property Type** | | | **State** | | |
| Apartment | $ 5,008 | 32.9% | CA | $ 3,588 | 23.6% |
| Office building | 3,587 | 23.6% | TX | 1,782 | 11.7% |
| Industrial | 2,903 | 19.1% | NY | 777 | 5.1% |
| Retail | 2,627 | 17.3% | FL | 743 | 4.9% |
| Other commercial | 647 | 4.2% | MD | 699 | 4.6% |
| Mixed use | 228 | 1.5% | GA | 663 | 4.4% |
| Hotel/motel | 208 | 1.4% | WA | 631 | 4.1% |
| Total | $ 15,208 | 100.0% | OH | 584 | 3.8% |
| **Geographic Region** | | | PA | 545 | 3.6% |
| Pacific | $ 4,545 | 29.9% | TN | 495 | 3.3% |
| South Atlantic | 3,379 | 22.2% | VA | 480 | 3.2% |
| West South Central | 1,909 | 12.6% | NC | 395 | 2.6% |
| Middle Atlantic | 1,505 | 9.9% | IL | 368 | 2.4% |
| East North Central | 1,497 | 9.8% | WI | 330 | 2.2% |
| Mountain | 734 | 4.8% | OR | 326 | 2.1% |
| East South Central | 643 | 4.2% | AZ | 318 | 2.1% |
| West North Central | 530 | 3.5% | MA | 308 | 2.0% |
| New England | 466 | 3.1% | All other states | 2,176 | 14.3% |
| Total | $ 15,208 | 100.0% | Total | $ 15,208 | 100.0% |

The following tables show the principal amount (in millions) of our commercial and residential mortgage loans by origination year and by year in which the principal is contractually obligated to be repaid:

| | As of September 30, 2019 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Origination Year** | | | | |
| 2014 and prior | $ 3,951 | $ - | $ 3,951 | 24.8% |
| 2015 | 1,794 | - | 1,794 | 11.2% |
| 2016 | 1,990 | - | 1,990 | 12.5% |
| 2017 | 2,028 | - | 2,028 | 12.7% |
| 2018 | 2,643 | 208 | 2,851 | 17.9% |
| 2019 | 2,820 | 510 | 3,330 | 20.9% |
| Total | $ 15,226 | $ 718 | $ 15,944 | 100.0% |

| | As of September 30, 2019 | | | |
|---|---|---|---|---|
| | Commercial | Residential | Total | % |
| **Principal Repayment Year** | | | | |
| 2019 | $ 109 | $ 3 | $ 112 | 0.7% |
| 2020 | 589 | 8 | 597 | 3.7% |
| 2021 | 1,048 | 8 | 1,056 | 6.6% |
| 2022 | 931 | 9 | 940 | 5.9% |
| 2023 | 892 | 9 | 901 | 5.7% |
| 2024 and thereafter | 11,657 | 681 | 12,338 | 77.4% |
| Total | $ 15,226 | $ 718 | $ 15,944 | 100.0% |

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

**Alternative Investments**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Annuities | $ (8) | $ 6 | $ (1) | $ 15 |
| Retirement Plan Services | (5) | 3 | - | 8 |
| Life Insurance | (61) | 41 | (8) | 81 |
| Group Protection | (5) | 3 | - | 7 |
| Other Operations | (2) | 1 | - | 3 |
| Total (1) | $ (81) | $ 54 | $ (9) | $ 114 |

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

As of September 30, 2019, and December 31, 2018, alternative investments included investments in 259 and 237 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

**Non-Income Producing Investments**

The carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing as of September 30, 2019, and December 31, 2018, was $8 million and $7 million, respectively.

**Net Investment Income**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Investment Income** | | | | |
| Fixed maturity AFS securities | $ 1,066 | $ 1,050 | $ 3,211 | $ 3,137 |
| Trading securities | 57 | 21 | 139 | 64 |
| Equity securities | 1 | 1 | 3 | 1 |
| Mortgage loans on real estate | 164 | 128 | 460 | 364 |
| Real estate | - | - | 1 | 1 |
| Policy loans | 33 | 23 | 97 | 90 |
| Invested cash | 13 | 6 | 30 | 17 |
| Commercial mortgage loan prepayment and bond make-whole premiums (1) | 26 | 25 | 64 | 67 |
| Alternative investments (2) | (81) | 54 | (9) | 114 |
| Consent fees | 2 | 1 | 6 | 3 |
| Other investments | 9 | 7 | 23 | 16 |
| Investment income | 1,290 | 1,316 | 4,025 | 3,874 |
| Investment expense | (55) | (45) | (183) | (138) |
| Net investment income | $ 1,235 | $ 1,271 | $ 3,842 | $ 3,736 |

(1) See "Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.
(2) See "Alternative Investments" above for additional information.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Interest Rate Yield** | | | | |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 4.39% | 4.37% | 4.36% | 4.45% |
| Commercial mortgage loan prepayment and bond make-whole premiums | 0.09% | 0.09% | 0.07% | 0.08% |
| Alternative investments | -0.28% | 0.20% | -0.01% | 0.14% |
| Net investment income yield on invested assets | 4.20% | 4.66% | 4.42% | 4.67% |

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Average invested assets at amortized cost | $ 117,607 | $ 109,034 | $ 115,887 | $ 106,616 |

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

**Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums**

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

**Realized Gain (Loss) Related to Certain Investments**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Fixed maturity AFS securities: | | | | |
| Gross gains | $ 8 | $ 14 | $ 40 | $ 30 |
| Gross losses | (14) | (19) | (58) | (60) |
| Gross OTTI | (2) | (2) | (15) | (5) |
| Gain (loss) on other investments [1] | (22) | 1 | (21) | 6 |
| Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds | (5) | (5) | (12) | (16) |
| Total realized gain (loss) related to certain investments | $ (35) | $ (11) | $ (66) | $ (45) |

(1) Includes market adjustments on equity securities still held of $(17) million and $(11) million for the three and nine months ended September 30, 2019, respectively, and less than $1 million and $2 million for the three and nine months ended September 30, 2018, respectively.

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

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During the first nine months of 2019 and 2018, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as fixed maturity AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with the fixed maturity AFS classification.

We consider economic factors and circumstances within industries and countries where recent write-downs have occurred in our assessment of the position of securities we own of similarly situated issuers. While it is possible for realized or unrealized losses on a particular investment to affect other investments, our risk management strategy has been designed to identify correlation risks and other risks inherent in managing an investment portfolio. Once identified, strategies and procedures are developed to effectively monitor and manage these risks. The areas of risk correlation that we pay particular attention to are risks that may be correlated within specific financial and business markets, risks within specific industries and risks associated with related parties.

When the detailed analysis by our external asset managers and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Write-downs for OTTI and Allowance for Losses" in our 2018 Form 10-K for additional information on our portfolio management strategy.

Details underlying write-downs taken as a result of OTTI that were recognized in net income (loss) and included in realized gain (loss) on fixed maturity 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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **OTTI Recognized in Net Income (Loss)** | | | | |
| Fixed maturity AFS securities: | | | | |
| Corporate bonds | $ (2) | $ (2) | $ (13) | $ (4) |
| ABS | - | - | (1) | - |
| RMBS | - | - | (1) | (1) |
| Gross OTTI recognized in net income (loss) | (2) | (2) | (15) | (5) |
| Associated amortization of DAC, VOBA, DSI and DFEL | - | - | 1 | - |
| Net OTTI recognized in net income (loss) | $ (2) | $ (2) | $ (14) | $ (5) |
| **OTTI Recognized in OCI** | | | | |
| Gross OTTI recognized in OCI | $ - | $ - | $ 16 | $ - |
| Change in DAC, VOBA, DSI and DFEL | - | - | (1) | - |
| Net OTTI recognized in OCI | $ - | $ - | $ 15 | $ - |

The $15 million of impairments recognized in net income during the nine months ended September 30, 2019, were all credit-related impairments. The increase in write-downs for OTTI when comparing the nine months ended September 30, 2019, to the corresponding period in 2018 was primarily attributable to the destabilization of certain corporate holdings as well as certain ABS and RMBS holdings.

The increase in OTTI recognized in OCI when comparing the nine months ended September 30, 2019, to the corresponding period in 2018 was primarily attributable to the fair values and recovery values being less aligned on impaired securities resulting in an increase of the non-credit portion of the impairment.

## REVIEW OF CONSOLIDATED FINANCIAL CONDITION

### Liquidity and Capital Resources

#### *Sources of Liquidity and Cash Flow*

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided (used) cash of $(2.9) billion and $1.0 billion for the nine months ended September 30, 2019 and 2018, respectively. The use of cash flows from operating activities for the nine months ended September 30, 2019, was primarily driven by purchases of trading securities in repositioning a portion of a Modco investment portfolio from AFS securities to trading securities. As a result, the cash outflows from operating activities were largely offset by sales of AFS securities within investing activities. See Note 8 for more information. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

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

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Dividends from Subsidiaries** | | | | |
| The Lincoln National Life Insurance Company | $ 150 | $ 225 | $ 550 | $ 225 |
| Lincoln Investment Management Company | 10 | 15 | 10 | 15 |
| Lincoln National Reinsurance Company (Barbados) Limited | 40 | - | 125 | - |
| Total dividends from subsidiaries | $ 200 | $ 240 | $ 685 | $ 240 |
| **Loan Repayments and Interest from Subsidiaries** | | | | |
| Interest on inter-company notes | $ 54 | $ 34 | $ 100 | $ 94 |
| **Other Cash Flow Items** | | | | |
| Amounts received from (paid for taxes on) stock option exercises and restricted stock, net | $ - | $ - | $ (10) | $ 2 |

The table above focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic issuance and retirement of debt and cash flows related to our inter-company cash management program (discussed below). Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company. Also excluded from this analysis is the modest amount of investment income on short-term investments of the holding company. For information regarding limits on the dividends that our insurance subsidiaries may pay without prior approval, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Restrictions on Subsidiaries' Dividends and Other Payments" in our 2018 Form 10-K.

*Insurance Subsidiaries' Statutory Capital and Surplus*

Our regulatory capital levels are also affected by statutory accounting rules, which are subject to change by each applicable insurance regulator. Our term products and UL products containing secondary guarantees require reserves calculated pursuant to XXX and AG38, respectively. As discussed in "Part I – Item 1A. Risk Factors – Legislative, Regulatory, and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and result of operations" in our 2018 Form 10-K, our insurance subsidiaries employ strategies to reduce the strain caused by XXX and AG38 by reinsuring the business to reinsurance captives. Our captive reinsurance and reinsurance subsidiaries provide a mechanism for financing a portion of the excess reserve amounts in a more efficient manner. We use long-dated LOCs and debt financing as well as other financing strategies to finance those reserves. Included in the LOCs issued as of September 30, 2019, was approximately $2.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements for UL products containing secondary guarantees ($350 million will expire in the fourth quarter of 2019 and $1.9 billion relates to arrangements that will expire by 2031). For information on the LOCs, see the credit facilities table in Note 13 in our 2018 Form 10-K. Our captive reinsurance and reinsurance subsidiaries have also issued long-term notes of $3.2 billion to finance a portion of the excess reserves as of September 30, 2019; of this amount, $2.2 billion involve exposure to VIEs. For information on these long-term notes issued by our captive reinsurance and reinsurance subsidiaries, see Note 4 in our 2018 Form 10-K. We have also used the proceeds from senior note issuances of $875 million to execute long-term structured solutions primarily supporting reinsurance of UL products containing secondary guarantees. LOCs and related capital market solutions lower the capital effect of term products and UL products containing secondary guarantees. While we believe we have sufficient capital to support the statutory reserves on this business, an inability to obtain efficient capital market solutions could affect our returns on these types of products.

Our captive reinsurance and reinsurance subsidiaries free up capital the insurance subsidiaries can use for any number of purposes, including paying dividends to the holding company. The NAIC's adoption of the Valuation Manual that defines a principles-based reserving framework for newly issued life insurance policies was effective January 1, 2017. Principles-based reserving places a greater weight on our past experience and anticipated future experience as well as considers current economic conditions in calculating life insurance product reserves in accordance with statutory accounting principles. We adopted the framework for our newly issued term business in 2017 and will phase in the framework by January 1, 2020, for all other newly issued life insurance products. We believe that these changes may reduce our future use of captive reinsurance and reinsurance subsidiaries for reserve financing transactions for our life insurance business. For more information on principles-based reserving, see "Part I – Item 1. Business – Regulatory – Insurance Regulation" in our 2018 Form 10-K.

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees, product design and reinsurance arrangements. As a result, the relationship between reserve changes and equity market performance is non-linear during any given reporting period. Market conditions greatly influence the ultimate capital required due to its effect on the valuation of reserves and derivative assets hedging these reserves.

We also utilize inter-company reinsurance arrangements to manage our hedge program for variable annuity guarantees. The NAIC is currently in the process of implementing changes to the statutory reserving, capital and accounting framework for variable annuities that will go into effect as of January 1, 2020. The NAIC is also considering modifications to the NAIC RBC C-1 capital charges for bonds, which may impact the level of the C-1 related RBC we are required to hold. For more information, see "Part I – Item 1A. Risk Factors – Federal Regulation – Changes in accounting standards issued by the Financial Accounting Standards Board or other standard-setting bodies may adversely affect our financial statements" in our 2018 Form 10-K.

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

*Financing Activities*

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

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

Details underlying debt and financing activities (in millions) for the nine months ended September 30, 2019, were as follows:

| | Beginning Balance | Issuance | Maturities, Repayments and Refinancing | Change in Fair Value Hedges | Other Changes [(1)] | Ending Balance |
|---|---|---|---|---|---|---|
| **Short-Term Debt** | | | | | | |
| Current maturities of long-term debt | $ - | $ - | $ - | $ - | $ 300 | $ 300 |
| **Long-Term Debt** | | | | | | |
| Senior notes | $ 4,432 | $ 500 | $ (109) | $ 145 | $ (305) | $ 4,663 |
| Bank borrowing | 200 | - | - | - | - | 200 |
| Capital securities [(2)] | 1,207 | - | - | - | - | 1,207 |
| Total long-term debt | $ 5,839 | $ 500 | $ (109) | $ 145 | $ (305) | $ 6,070 |

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

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

On August 12, 2019, we completed the issuance and sale of $500 million aggregate principal amount of our 3.05% senior notes due 2030. We used a portion of the net proceeds from the offering to fund the repurchase of $105 million of our 6.15% senior notes due 2036 and $4 million of our 4.85% senior notes due 2021 pursuant to a tender offer. We intend to use the remaining net proceeds for the repayment, on or prior to maturity, of our outstanding 6.25% senior notes due 2020 and for general corporate purposes. As of September 30, 2019, the holding company had available liquidity of $765 million. Available liquidity consists of cash and invested cash, excluding cash held as collateral, and certain short-term investments that can be readily converted into cash, net of commercial paper outstanding.

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Note 13 in our 2018 Form 10-K and Note 11 herein.

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

If current credit ratings or claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event with respect to LNC if its long-term senior debt ratings drop below BBB-/Baa3 (S&P/Moody's); or with respect to The Lincoln National Life Insurance Company ("LNL") if its financial strength ratings drop below BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa1 (S&P/Moody's) as of September 30, 2019. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See "Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" in our 2018 Form 10-K for more information. See "Part I – Item 1. Business – Financial Strength Ratings" in our 2018 Form 10-K for additional information on our current financial strength ratings.

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities" in our 2018 Form 10-K for information on our credit ratings.

*Alternative Sources of Liquidity*

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans between LNC and participating subsidiaries that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. As of September 30, 2019, the holding company had a net outstanding receivable (payable) of $(359) million from (to) certain subsidiaries resulting from loans made by subsidiaries in excess of amounts placed (borrowed) by the holding company and subsidiaries in the inter-company cash management account. Any change in holding company cash management program balances is offset by the immediate and equal change in holding company cash and invested cash. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana and New Hampshire-domiciled insurance subsidiaries, the borrowing and lending limit is currently 3% of the insurance company's admitted assets as of its most recent year end. For our New York-domiciled insurance subsidiary, it may borrow from LNC less than 2% of its admitted assets as of the last year end but may not lend any amounts to LNC.

Our insurance subsidiaries, by virtue of their general account fixed-income investment holdings, can access liquidity through securities lending programs and repurchase agreements. Our primary insurance subsidiary, LNL, is a member of the Federal Home Loan Bank of Indianapolis ("FHLBI"). Membership allows LNL access to the FHLBI's financial services, including the ability to obtain loans and to issue funding agreements as an alternative source of liquidity that are collateralized by qualifying mortgage-related assets, agency securities or U.S. Treasury securities. LNL had an estimated maximum borrowing capacity of $5.0 billion under the FHLBI facility as of September 30, 2019. Borrowings under this facility are subject to the FHLBI's discretion and require the availability of qualifying assets at LNL. As of September 30, 2019, our insurance subsidiaries had investments with a carrying value of $3.8 billion out on loan or subject to repurchase agreements. The cash received in our securities lending programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 5.

*Cash Flows from Collateral on Derivatives*

Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset decreases (or increases), the collateral required to be posted by our counterparties would also decrease (or increase). Likewise, when the value of a derivative liability decreases (or increases), the collateral we are required to post to our counterparties would also decrease (or increase). For the nine months ended September 30, 2019, our collateral payable for derivative investments increased due primarily to decreasing interest rates that increased the fair values of our associated over-the-counter derivative investments. In the event of adverse changes in fair value of our derivative instruments, we may need to post collateral with a counterparty if our net derivative liability position reaches certain contractual levels. If we do not have sufficient high quality securities or cash and invested cash to provide as collateral, we have liquidity sources, as discussed above, to leverage that would be eligible for collateral posting. For additional information, see "Credit Risk" in Note 6.

***Uses of Capital***

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

*Return of Capital to Common Stockholders*

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

Details underlying this activity (in millions) were as follows:

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Dividends to common stockholders | $ 74 | $ 72 | $ 225 | $ 216 |
| Repurchase of common stock | 150 | 175 | 540 | 275 |
| Total cash returned to stockholders | $ 224 | $ 247 | $ 765 | $ 491 |
| Number of shares repurchased | 2.5 | 2.7 | 8.7 | 4.1 |

On October 29, 2019, our Board of Directors approved an increase of the quarterly dividend on our common stock from $0.37 to $0.40 per share. Additionally, we expect to repurchase additional shares of common stock during the remainder of 2019 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see "Part II – Item 2(c)" below.

*Other Uses of Capital*

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Debt service (interest paid) | $ 67 | $ 63 | $ 212 | $ 204 |
| Capital contribution to subsidiaries | - | - | - | 502 |
| Total | $ 67 | $ 63 | $ 212 | $ 706 |

The above table focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic retirement of debt and cash flows related to our inter-company cash management account. Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company.

In 2018, we made an investment in our Group Protection business through our acquisition of Liberty Life, a subsidiary of LNL now known as Lincoln Life Assurance Company of Boston, which affected our liquidity and capital position. For additional information on our acquisition, see "Introduction – Executive Summary" above and see Note 3 in our 2018 Form 10-K and Note 3 herein.

***Significant Trends in Sources and Uses of Cash Flow***

As stated above, LNC's cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries' RBC and statutory earnings performance. We currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience a period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries' statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries' dividends to the holding company, which may lead us to take steps to preserve or raise additional capital.

For factors that could cause actual results to differ materially from those set forth in this section and that could affect our expectations for liquidity and capital, see "Part I – Item 1A. Risk Factors" in our 2018 Form 10-K, "Forward-Looking Statements – Cautionary Language" above and "Part II – Item 1A. Risk Factors" herein.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that considers diversification. We have exposures to several market risks including interest rate risk, equity market risk, credit risk and, to a lesser extent, foreign currency exchange risk. As of September 30, 2019, there have been no material changes in our economic exposure to these market risks since December 31, 2018. For information on these market risks, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2018 Form 10-K.

## *Item 4.* Controls and Procedures

### Conclusions Regarding Disclosure Controls and Procedures

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

### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

## PART II – OTHER INFORMATION

### *Item 1.* Legal Proceedings

**Cost of Insurance Litigation**

Reference is made to *Hanks v. The Lincoln Life and Annuity Company of New York ("LLANY") and Voya Retirement Insurance and Annuity Company ("Voya")*, previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 (the "2018 Form 10-K"). On March 13, 2019, the court issued an order granting plaintiff's motion for class certification for the breach of contract claim and denying such motion with respect to the unjust enrichment claim against LLANY, and, on September 12, 2019, the court issued an order approving the parties' joint stipulation of dismissal with respect to the unjust enrichment claim and dismissed LLANY as a defendant in the case. In light of LLANY's role as reinsurer and administrator under the 1998 coinsurance agreement with Aetna (now Voya), and of the parties' rights and obligations thereunder, LLANY continues to be actively engaged in the vigorous defense of this action.

See Note 12 in "Part I – Item 1" above for further discussion regarding this and other contingencies.

### *Item 1A.* Risk Factors

Reference is made to "Part I – Item 1A. Risk Factors" in the 2018 Form 10-K for information concerning risk factors. We are updating the following risk factor contained in the 2018 Form 10-K as set forth below.

The following risk factor should be read in conjunction with the factors set forth in "Part I – Item 1A. Risk Factors" of the 2018 Form 10-K, in addition to the factors set forth in "Part I – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements – Cautionary Language" above. You should carefully consider such factors. Such risks and uncertainties are not the only ones facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of our securities could decline substantially.

*Regulations adopted relating to the standard of care applicable to investment advisers and broker-dealers have resulted in, and additional regulations could result in, additional disclosure and other requirements related to the sale and delivery of our products and services, which may adversely affect our business.*

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

On June 5, 2019, the SEC approved a final "Regulation Best Interest," including a new standard of conduct for broker-dealers under the Securities Exchange Act of 1934, which requires a broker-dealer to act in the best interest of a retail customer when making a recommendation of any securities transaction, without putting its financial interests ahead of the interests of a retail customer. The final rule includes guidance on what constitutes a "recommendation" and a definition of who would be a "retail customer" in addition to provisions setting forth certain required disclosures, policies and procedures to identify conflicts of interest, and customer-specific best interest obligations.

In addition, the SEC approved the use of a new disclosure document, the customer or client relationship summary, or Form CRS. Form CRS is intended to provide retail investors with information about the nature of their relationship with their investment professional and supplements other more detailed disclosures, including existing Form ADV for advisers and the new disclosures under Regulation Best Interest for broker-dealers. Regulation Best Interest and Form CRS became effective as of September 10, 2019, with a transition period for compliance through June 30, 2020.

Finally, the SEC issued interpretative guidance regarding an investment adviser's fiduciary obligation under the Advisers Act. The guidance indicates that investment advisers have a fiduciary duty to their clients that includes both a duty of care and a duty of loyalty and further describes an investment adviser's responsibilities under these fiduciary duties.

In addition to the SEC rules, the NAIC and several states, including Massachusetts, Nevada, New Jersey and New York, have proposed and/or enacted laws and regulations requiring investment advisers, broker-dealers and/or agents to disclose conflicts of interest to clients and/or to meet a higher standard of care when providing advice to their clients. The recently enacted state laws and regulations have resulted in, and upon adoption by other states such laws and regulations may result in, additional requirements related to the sale of our products. Additional disclosure and other requirements could adversely affect our business by causing us to reevaluate or change certain business practices or otherwise.

It is uncertain at this point how the original DOL definition of "fiduciary," or any new fiduciary rule proposed by the DOL (expected in December 2019), will work in conjunction with the final rules adopted by the SEC, the NAIC or any individual state. While we continue to monitor and evaluate the various proposals, we cannot predict what other proposals may be made, or what new legislation or regulation may be introduced or become law. Therefore, until such time as final rules or laws are in place, the potential impact on our business is uncertain.

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

(c) The following table summarizes purchases of equity securities by the Company during the quarter ended September 30, 2019 (dollars in millions, except per share data):

| Period | (a) Total Number of Shares Purchased (1) | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|
| 7/1/19 – 7/31/19 | 620,636 | $ 65.65 | 620,636 | $ 396 |
| 8/1/19 – 8/31/19 | 1,905,461 | 57.36 | 1,905,461 | 137 |
| 9/1/19 – 9/30/19 | - | - | - | 137 |

(1) Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes. For the quarter ended September 30, 2019, there were 2,526,097 shares purchased as part of publicly announced plans or programs.

(2) On November 8, 2018, our Board of Directors authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to $1.25 billion. As of September 30, 2019, our remaining security repurchase authorization was $137 million, which reflects the purchases of common stock shown in the table above and the repurchase of a portion of our outstanding debt securities pursuant to our debt tender offer commenced on August 12, 2019. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. Our stock repurchases may be effected from time to time through open market purchases or in privately negotiated transactions and may be made pursuant to an accelerated share repurchase agreement or Rule 10b5-1 plan.

### *Item 6.* Exhibits

The Exhibits included in this report are listed in the Exhibit Index beginning on page 101, which is incorporated herein by reference.

| | |
|---|---|
| 4.1 | Form of 3.050% Senior Notes due 2030 incorporated by reference to Exhibit 4.1 to the Company's Form 8-K (File No. 1-6028) filed with the SEC on August 19, 2019. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document – the instant document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

**SIGNATURES**

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

**LINCOLN NATIONAL CORPORATION**

By: /s/ RANDAL J. FREITAG
**Randal J. Freitag**
**Executive Vice President and Chief Financial Officer**

By: /s/ CHRISTINE A. JANOFSKY
**Christine A. Janofsky**
**Senior Vice President and Chief Accounting Officer**

Dated: October 31, 2019

**Exhibit 31.1**

**Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Dennis R. Glass, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lincoln National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 31, 2019

/s/ Dennis R. Glass
Name: Dennis R. Glass
Title: President and Chief Executive Officer

**Exhibit 31.2**

**Certification Pursuant to Section 302 of the**
**Sarbanes-Oxley Act of 2002**

I, Randal J. Freitag, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Lincoln National Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 31, 2019

/s/ Randal J. Freitag
Name: Randal J. Freitag
Title: Executive Vice President and Chief Financial Officer

**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lincoln National Corporation (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2019

/s/ Dennis R. Glass
Name: Dennis R. Glass
Title: President and Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required under Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. § 1350, the undersigned officer of Lincoln National Corporation (the "Company"), hereby certifies that the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 31, 2019

/s/ Randal J. Freitag
Name: Randal J. Freitag
Title: Executive Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required under Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.