

AMKOR TECHNOLOGY INC  
Form 8-K  
October 27, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934  
Date of Report (Date of earliest event reported)  
October 27, 2014  
AMKOR TECHNOLOGY, INC.  
(Exact name of registrant as specified in its charter)

|   |                          |                                   |
|---|--------------------------|-----------------------------------|
| DELAWARE  | 000-29472                | 23-1722724                        |
| (State or Other Jurisdiction of<br>Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

1900 SOUTH PRICE ROAD  
CHANDLER, AZ 85286  
(Address of Principal Executive Offices, including Zip Code)

(480) 821-5000  
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

Attached hereto as Exhibit 99.1 and incorporated by reference herein is financial information for Amkor Technology, Inc. for the three and nine months ended September 30, 2014, and forward-looking statements relating to the fourth quarter and full year 2014 as presented in a press release dated October 27, 2014. The information in this Form 8-K and the exhibit attached hereto is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

99.1 Text of Press Release dated October 27, 2014, which is furnished (not filed) herewith.

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 hereunto duly authorized.

AMKOR TECHNOLOGY, INC.

By: /s/ Joanne Solomon  
Joanne Solomon  
Executive Vice President and Chief Financial  
Officer

Date: October 27, 2014

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EXHIBIT INDEX:

Exhibit Description

99.1 Text of Press Release dated October 27, 2014, which is furnished (not filed) herewith.

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Net income (loss)

## 15. Realized Gain (Loss)

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

|   | For the Years Ended<br>December 31, |          |          |
|---|-------------------------------------|----------|----------|
|   | 2014                                | 2013     | 2012     |
| Total realized gain (loss) related to certain investments (1)         | \$ (18 )                            | \$ (98 ) | \$ (190) |
| Realized gain (loss) on the mark-to-market on certain instruments (2) | (54 )                               | 48       | 133      |
| Indexed annuity and IUL contracts net derivatives results: (3)        |                                     |          |          |
| Gross gain (loss)   | (35 )                               | (39 )    | 16       |
| Associated amortization of DAC, VOBA, DSI and DFEL                    | 6                                   | 9        | (5 )     |
| Variable annuity net derivatives results: (4)                         |                                     |          |          |
| Gross gain (loss)   | 159                                 | (60 )    | 164      |
| Associated amortization of DAC, VOBA, DSI and DFEL                    | (12 )                               | 5        | (44 )    |
| Realized gain (loss) on sale of subsidiaries/businesses (5)           | (46 )                               | -        | -        |
| Total realized gain (loss)  | \$ -                                | \$ (135) | \$ 74    |

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

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

(3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity and 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 GLB riders and the change in the fair value of the derivative instruments we own to hedge the change in embedded derivative reserves on our GLB riders and the benefit ratio unlocking on our GDB riders, including the cost of purchasing the hedging instruments.

(5) See “LFM” in Note 3.

## 16. Commissions and Other Expenses

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

|   | For the Years Ended |          |          |
|---|---------------------|----------|----------|
|   | December 31,        |          |          |
|   | 2014                | 2013     | 2012     |
| Commissions   | \$ 2,092            | \$ 1,962 | \$ 1,660 |
| General and administrative expenses                           | 1,640               | 1,630    | 1,564    |
| Expenses associated with reserve financing and unrelated LOCs | 68                  | 64       | 56       |
| DAC and VOBA deferrals and interest, net of amortization      | (432 )              | (640 )   | (275 )   |
| Broker-dealer expenses  | 408                 | 387      | 348      |
| Specifically identifiable intangible asset amortization       | 4                   | 4        | 4        |
| Media expenses  | 60                  | 62       | 67       |
| Taxes, licenses and fees                                      | 239                 | 232      | 239      |
| Restructuring charges   | -                   | -        | 20       |
| Total   | \$ 4,079            | \$ 3,701 | \$ 3,683 |

#### 17. Pension, Postretirement Health Care and Life Insurance Benefit Plans

We maintain U.S. qualified funded defined benefit pension plans in which many of our U.S. employees and agents are participants, and we retained the Lincoln UK pension plan after the sale of that business. We also maintain non-qualified, unfunded defined benefit pension plans for certain employees and agents. In addition, for certain former employees we have supplemental retirement plans that provide defined benefit pension benefits in excess of limits imposed by federal tax law. All of our defined benefit pension plans are frozen, including the Lincoln UK pension plan, and there are no new participants and no future accruals of benefits from the date of the freeze.

We also sponsor a voluntary employees' beneficiary association ("VEBA") trust that provides postretirement medical, dental and life insurance benefits to retired full-time U.S. employees and agents who, depending on the plan, have worked for us for at least 10 years and attained age 55 (age 60 for agents). VEBAs are a special type of tax-exempt trust used to provide benefits that are subject to preferential tax treatment under the Internal Revenue Code. Medical and dental benefits are available to spouses and other eligible dependents of retired employees and agents. Retirees may be required to contribute toward the cost of these benefits. Eligibility and the amount of required contribution for these benefits varies based upon a variety of factors including years of service and year of retirement.

## Obligations, Funded Status and Assumptions

Information (in millions) with respect to our benefit plans' assets and obligations was as follows:

|  | As of or For the Years Ended December 31, |           |                  |        |                                     |          |
|--|---|-----------|------------------|--------|-------------------------------------|----------|
|  | 2014                                      | 2013      | 2014             | 2013   | 2014                                | 2013     |
|  | U.S.                                      |           | Non-U.S.         |        | Other<br>Postretirement<br>Benefits |          |
|  | Pension Benefits                          |           | Pension Benefits |        |                                     |          |
| <b>Change in Plan Assets</b>                                     |   |           |                  |        |                                     |          |
| Fair value as of beginning-of-year                               | \$ 1,047                                  | \$ 1,043  | \$ 379           | \$ 371 | \$ 45                               | \$ 42    |
| Actual return on plan assets                                     | 113                                       | 67        | 57               | 18     | 3                                   | 3        |
| Company and participant contributions                            | 7   | 6         | 6                | 6      | 12                                  | 13       |
| Benefits paid  | (71 )                                     | (69 )     | (16 )            | (16 )  | (13 )                               | (16 )    |
| Medicare Part D subsidy  | -   | -         | -                | -      | 1                                   | 3        |
| Fair value as of end-of-year                                     | 1,096                                     | 1,047     | 426              | 379    | 48                                  | 45       |
| <b>Change in Benefit Obligation</b>                              |   |           |                  |        |                                     |          |
| Balance as of beginning-of-year                                  | 1,172                                     | 1,284     | 373              | 364    | 102                                 | 139      |
| Service cost (1)   | 6   | 5         | -                | -      | 1                                   | 3        |
| Interest cost  | 53  | 51        | 16               | 16     | 4                                   | 5        |
| Company and participant contributions                            | -   | -         | -                | -      | 4                                   | 4        |
| Amendments   | -   | -         | -                | -      | -                                   | (29 )    |
| Actuarial (gains) losses   | 153                                       | (93 )     | 28               | 9      | 4                                   | (7 )     |
| Administrative expenses paid                                     | (6 )                                      | (6 )      | -                | -      | -                                   | -        |
| Benefits paid  | (71 )                                     | (69 )     | (16 )            | (16 )  | (13 )                               | (16 )    |
| Medicare Part D subsidy  | -   | -         | -                | -      | 1                                   | 3        |
| Balance as of end-of-year  | 1,307                                     | 1,172     | 401              | 373    | 103                                 | 102      |
| Funded status of the plans                                       | \$ (211 )                                 | \$ (125 ) | \$ 25            | \$ 6   | \$ (55 )                            | \$ (57 ) |
| <b>Amounts Recognized on the<br/>Consolidated Balance Sheets</b> |   |           |                  |        |                                     |          |
| Other assets   | \$ 9                                      | \$ 14     | \$ 25            | \$ 6   | \$ 1                                | \$ -     |
| Other liabilities  | (220 )                                    | (139 )    | -                | -      | (56 )                               | (57 )    |
| Net amount recognized  | \$ (211 )                                 | \$ (125 ) | \$ 25            | \$ 6   | \$ (55 )                            | \$ (57 ) |

Amounts Recognized in AOCI,  
Net of Tax

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|                       |        |        |       |        |          |          |
|-----------------------|--------|--------|-------|--------|----------|----------|
| Net (gain) loss       | \$ 218 | \$ 157 | \$ 90 | \$ 107 | \$ (12 ) | \$ (15 ) |
| Prior service credit  | -      | -      | -     | -      | (17 )    | (18 )    |
| Net amount recognized | \$ 218 | \$ 157 | \$ 90 | \$ 107 | \$ (29 ) | \$ (33 ) |

Rate of Increase in Compensation

|                             |     |     |     |     |       |       |
|-----------------------------|-----|-----|-----|-----|-------|-------|
| Retiree Life Insurance Plan | N/A | N/A | N/A | N/A | 4.00% | 4.00% |
| All other plans             | N/A | N/A | N/A | N/A | N/A   | N/A   |

Weighted-Average Assumptions

Benefit obligations:

|                                |       |       |       |       |       |       |
|--------------------------------|-------|-------|-------|-------|-------|-------|
| Weighted-average discount rate | 4.00% | 4.70% | 3.50% | 4.45% | 4.00% | 4.50% |
| Expected return on plan assets | 7.20% | 7.82% | 6.15% | 5.50% | 6.50% | 6.50% |
| Net periodic benefit cost:     |       |       |       |       |       |       |
| Weighted-average discount rate | 4.70% | 4.16% | 4.45% | 4.40% | 4.50% | 4.03% |
| Expected return on plan assets | 7.20% | 7.82% | 6.15% | 5.50% | 6.50% | 6.50% |

- (1) Amounts for our U.S. pension plans represent general and administrative expenses.

Consistent with our benefit plans' year end, we use December 31 as the measurement date.

The discount rate was determined based on a corporate yield curve as of December 31, 2014, and projected benefit obligation cash flows for the U.S. pension plans. We reevaluate this assumption each plan year. For 2015, our discount rate will be 4.00% for the U.S. pension plans, and 3.50% for the non-U.S. plan.

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The expected return on plan assets was determined based on historical and expected future returns of the various asset categories, using the plans' target plan allocation. We reevaluate this assumption each plan year. For 2015, our expected return on plan assets will be 7.20% for the U.S. plans and 6.15% for the non-U.S. plan.

In October 2014, the Society of Actuaries published updated mortality tables that were incorporated into our assumptions, resulting in an increase in our U.S. pension plans' benefit obligation of \$55 million, pre-tax.

The calculation of the accumulated other postretirement benefit obligation assumes a weighted-average annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) as follows:

|  | As of or For the Years<br>Ended<br>December 31, |       |       |
|--|---|-------|-------|
|  | 2014  | 2013  | 2012  |
| Pre-65 health care cost trend rate                 | 8.00%   | 7.50% | 8.00% |
| Post-65 health care cost trend rate                | 6.25%   | 7.50% | 8.00% |
| Ultimate trend rate                                | 4.50%   | 4.50% | 4.50% |
| Year that the rate reaches the ultimate trend rate | 2022  | 2020  | 2020  |

We expect the health care cost trend rate for 2015 to be 8.00% for the pre-65 population and 6.25% for the post-65 population. A one percent increase in assumed health care cost trend rates would have increased the accumulated postretirement benefit obligation by \$7 million and total service and interest cost components by less than \$1 million. A one percent decrease in assumed health care cost trend rates would have decreased the accumulated postretirement benefit obligation by \$6 million and total service and interest cost components by less than \$1 million.

Information for our pension plans with an accumulated benefit obligation in excess of plan assets (in millions) was as follows:

|  | As of December<br>31, |      |
|--|-----------------------|------|
|  | 2014                  | 2013 |



## U.S. Plans

|                                |          |          |
|--------------------------------|----------|----------|
| Accumulated benefit obligation | \$ 1,182 | \$ 1,059 |
| Projected benefit obligation   | 1,182    | 1,059    |
| Fair value of plan assets      | 962      | 920      |

## Components of Net Periodic Benefit Cost

The components of net periodic benefit cost (in millions) for our pension and other postretirement plans were as follows:

|   | For the Years Ended December 31, |         |         |                               |         |      |
|---|----------------------------------|---------|---------|-------------------------------|---------|------|
|   | 2014                             | 2013    | 2012    | 2014                          | 2013    | 2012 |
|   | Pension Benefits                 |         |         | Other Postretirement Benefits |         |      |
| U.S. Plans                                    |                                  |         |         |                               |         |      |
| Service cost (1)                              | \$ 6                             | \$ 5    | \$ 5    | \$ 1                          | \$ 3    | \$ 4 |
| Interest cost                                 | 53                               | 51      | 53      | 4                             | 5       | 7    |
| Expected return on plan assets                | (73)                             | (78)    | (72)    | (3 )                          | (3 )    | (3 ) |
| Amortization of prior service cost            | -                                | -       | -       | (2 )                          | (1 )    | (1 ) |
| Recognized net actuarial loss (gain)          | 15                               | 24      | 26      | (1 )                          | (1 )    | 1    |
| Recognized actuarial gain due to curtailments | -                                | -       | -       | -                             | (5 )    | -    |
| Net periodic benefit cost (recovery)          | \$ 1                             | \$ 2    | \$ 12   | \$ (1 )                       | \$ (2 ) | \$ 8 |
| Non-U.S. Plan                                 |                                  |         |         |                               |         |      |
| Interest cost                                 | \$ 16                            | \$ 16   | \$ 15   |                               |         |      |
| Expected return on plan assets                | (22)                             | (19)    | (17)    |                               |         |      |
| Recognized net actuarial loss (gain)          | 2                                | 2       | 1       |                               |         |      |
| Net periodic benefit cost (recovery)          | \$ (4 )                          | \$ (1 ) | \$ (1 ) |                               |         |      |

(1) Amounts for our pension plans represent general and administrative expenses.

We expect our 2015 U.S. pension plans' net periodic benefit cost to be approximately \$5 million. In addition, we expect our non-U.S. pension plan net periodic benefit recovery for 2015 to be approximately \$10 million when assuming an average exchange rate of 1.56 pounds sterling to U.S. dollars.

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For 2015, the estimated amount of amortization from AOCI into net periodic benefit cost related to net actuarial loss or gain is expected to be a \$26 million loss for our pension plans and a \$1 million gain for our other postretirement plans.

Plan Assets

Our pension plans' asset target allocations by asset category based on estimated fair values were as follows:

| Asset Class               | For the Years Ended December 31, |      |                       |      |                  |      |
|---------------------------|----------------------------------|------|-----------------------|------|------------------|------|
|                           | 2014                             | 2013 | 2014                  | 2013 | 2014             | 2013 |
|                           | U.S. Plan –<br>Employees         |      | U.S. Plan –<br>Agents |      | Non-U.S.<br>Plan |      |
| Fixed maturity securities | 50%                              | 50%  | 100%                  | 100% | 40%              | 39%  |
| Common stock:             |                                  |      |                       |      |                  |      |
| Domestic equity           | 35%                              | 35%  | 0%                    | 0%   | 0%               | 0%   |
| International equity      | 15%                              | 15%  | 0%                    | 0%   | 0%               | 0%   |
| Equity securities         | 0%                               | 0%   | 0%                    | 0%   | 55%              | 58%  |
| Cash and invested cash    | 0%                               | 0%   | 0%                    | 0%   | 5%               | 3%   |

The investment objectives for the assets related to our pension plans are to:

- Maintain sufficient liquidity to pay obligations of the plans as they come due;
- Minimize the effect of a single investment loss and large losses to the plans through prudent risk/reward diversification consistent with sound fiduciary standards;
- Maintain an appropriate asset allocation policy;
- Earn a return commensurate with the level of risk assumed through the asset allocation policy; and
- Control costs of administering and managing the plans' investment operations.

Investments can be made in various asset classes and styles, including, but not limited to: domestic and international equity, fixed-income securities, derivatives and other asset classes the investment managers deem prudent. Our plans follow a strategic asset allocation policy that strives to systemically increase the percentage of assets in liability-matching fixed-income investments as funding levels increase.

We currently target asset weightings as follows: for the U.S. Plan – Employees, domestic equity allocations (35%) are split into large cap (25%), small cap (5%) and hedge funds (5%). Fixed maturity securities represent core fixed-income investments. The performance of the pension trust assets is monitored on a quarterly basis relative to the plans' objectives.

Our U.S. pension plans' assets have been combined into a master retirement trust where a variety of qualified managers, including manager of managers, are expected to have returns that exceed the median of similar funds over three-year periods, above an appropriate index over five-year periods and meet real return standards over ten-year periods. Managers are monitored for adherence to approved investment policy guidelines and managers not meeting these criteria are subject to additional due diligence review, corrective action or possible termination.

#### Fair Value of Plan Assets

See "Fair Value Measurement" in Note 1 for discussion of how we categorize our pension plans' assets into the three-level fair value hierarchy. See "Financial Instruments Carried at Fair Value" in Note 21 for a summary of our fair value measurements of our pension plans' assets by the three-level fair value hierarchy.

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The following summarizes our fair value measurements of benefit plans' assets (in millions) on a recurring basis by asset category:

|                            | As of December 31, |          |              |        |                         |       |
|----------------------------|--------------------|----------|--------------|--------|-------------------------|-------|
|                            | 2014               | 2013     | 2014         | 2013   | 2014                    | 2013  |
|                            | U.S.               |          | Non-U.S.     |        | Other                   |       |
|                            | Pension Plans      |          | Pension Plan |        | Postretirement Benefits |       |
| Fixed maturity securities: |                    |          |              |        |                         |       |
| Corporate bonds            | \$ 412             | \$ 374   | \$ 42        | \$ 40  | \$ -                    | \$ -  |
| U.S. government bonds      | 155                | 133      | 6            | 4      | -                       | -     |
| Foreign government bonds   | -                  | -        | 166          | 174    | -                       | -     |
| CDOs                       | -                  | -        | 2            | 4      | -                       | -     |
| State and municipal bonds  | 33                 | 37       | -            | -      | -                       | -     |
| Common and preferred stock | 470                | 463      | 84           | 83     | -                       | -     |
| Cash and invested cash     | 26                 | 40       | 126          | 74     | -                       | -     |
| Other investments          | -                  | -        | -            | -      | 48                      | 45    |
| Total                      | \$ 1,096           | \$ 1,047 | \$ 426       | \$ 379 | \$ 48                   | \$ 45 |

Valuation Methodologies and Associated Inputs for Pension Plans' Assets

The fair value measurements of our pension plans' assets are based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the security, and the valuation methodology is consistently applied to measure the security's fair value. The fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include third-party pricing services, independent broker quotations or pricing matrices. Both observable and unobservable inputs are used in the valuation methodologies. Observable inputs include benchmark yields, reported trades, broker quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker quotes, procedures are employed, where possible, that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with brokers and observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, unobservable inputs are used in order to measure the fair value of these securities. In cases where this information is not available, such as for privately placed securities, fair value is estimated using an internal pricing matrix. This matrix relies on judgment concerning the discount rate used in calculating expected future cash flows, credit quality, industry sector performance and expected maturity.

Prices received from third parties are not adjusted; however, the third-party pricing services' valuation methodologies and related inputs are evaluated and additional evaluation is performed to determine the appropriate level within the fair value hierarchy.

The observable and unobservable inputs to the valuation methodologies are based on general standard inputs. The standard inputs used in order of priority are benchmark yields, reported trades, broker quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Depending on the type of security or the daily market activity, standard inputs may be prioritized differently or may not be available for all securities on any given day.

Cash and invested cash is carried at cost, which approximates fair value. This category includes highly liquid debt instruments purchased with a maturity of three months or less. Due to the nature of these assets, we believe these assets should be classified as Level 2.

#### Plan Cash Flows

It is our practice to make contributions to our qualified U.S. pension plans to comply with minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended and with guidance issued there under. We do not expect to be required to make any contributions to these plans in 2015.

We make contributions to our qualified non-U.S. pension plan according to an agreed schedule with the plan's trustee. We expect to contribute approximately \$11 million in 2015 per this schedule.

For our nonqualified U.S. pension plans and U.S. other postretirement benefit plans, we fund benefits as they become due to retirees. The amount expected to be contributed to the plans during 2015 is approximately \$12 million and \$9 million, respectively.

We expect the following benefit payments (in millions):

|                                 | Pension Plans   |  |  |   |
|---------------------------------|---|--|--|---|
|                                 | Qualified<br>U.S.<br>Defined<br>Benefit<br>Pension<br>Plans | Nonqualified<br>U.S.<br>Defined<br>Benefit<br>Pension<br>Plans | Qualified<br>Non-U.S.<br>Defined<br>Benefit<br>Pension<br>Plan | U.S.<br>Other<br>Post-<br>retirement<br>Plans |
| 2015                            | \$ 94   | \$ 12  | \$ 14  | \$ 9  |
| 2016                            | 79  | 11   | 14   | 9   |
| 2017                            | 75  | 10   | 15   | 9   |
| 2018                            | 76  | 10   | 15   | 8   |
| 2019                            | 74  | 10   | 16   | 8   |
| Following five years thereafter | 357   | 45   | 89   | 32  |

#### 18. Defined Contribution and Deferred Compensation Plans

##### Defined Contribution Plans

We sponsor defined contribution plans, which include 401(k) and money purchase plans, for eligible employees and agents. We make contributions and matching contributions to each of the active plans in accordance with the plan documents and various limitations under Section 401(a) of the Internal Revenue Code of 1986, as amended. For the years ended December 31, 2014, 2013 and 2012, expenses for these plans were \$78 million, \$72 million and \$70 million, respectively.

##### Deferred Compensation Plans

We sponsor six separate non-qualified, unfunded, deferred compensation plans for employees, agents and non-employee directors.

The results for certain investment options within the plans are hedged by total return swaps. Participants' account values change due primarily to investment earnings driven by market fluctuations. Our expenses increase or decrease in direct proportion to the change in market value of the participants' investment options. Participants are able to

select our stock as an investment option; however, it is not hedged by the total return swaps and is a primary source of expense volatility related to these plans. For further discussion of total return swaps related to our deferred compensation plans, see Note 6.

Information (in millions) with respect to these plans was as follows:

|  | As of        |        |
|--|--------------|--------|
|  | December 31, |        |
|  | 2014         | 2013   |
| Total liabilities (1)                    | \$ 495       | \$ 468 |
| Investments held to fund liabilities (2) | 160          | 153    |

(1) Reported in other liabilities on our Consolidated Balance Sheets.

(2) Reported in other assets on our Consolidated Balance Sheets.

#### Deferred Compensation Plan for Employees

Participants may elect to defer a portion of their compensation as defined by the plan. Participants may select from prescribed “phantom” investment options that are used as measures for calculating the returns that are notionally credited to their accounts. Under the terms of the plan, we agree to pay out amounts based upon the aggregate performance of the investment measures selected by the participants. We make matching contributions based upon amounts placed into the plan by individuals after participants have exceeded applicable limits of the Internal Revenue Code applicable to 401(k) plans. The amount of our contribution is calculated in accordance with the plan document. Expenses (in millions) for this plan were as follows:

|   | For the Years Ended |       |       |
|---|---------------------|-------|-------|
|   | December 31,        |       |       |
|   | 2014                | 2013  | 2012  |
| Employer matching contributions   | \$ 10               | \$ 9  | \$ 7  |
| Increase (decrease) in measurement of liabilities, net of total return swap | 5                   | 14    | 7     |
| Total   | \$ 15               | \$ 23 | \$ 14 |





## Deferred Compensation Plans for Agents

We sponsor three deferred compensation plans for certain eligible agents. Participants may elect to defer a portion of their compensation as defined by the respective plan. Participants may select from prescribed “phantom” investment options that are used as measures for calculating the returns that are notionally credited to their accounts. Under the terms of these plans, we agree to pay out amounts based upon the aggregate performance of the investment measures selected by the participants. We make matching contributions based upon amounts placed into the plans by individuals after participants have exceeded applicable limits of the Internal Revenue Code applicable to 401(k) plans. The amounts of our contributions are calculated in accordance with the plans’ documents. Expenses (in millions) for these plans were as follows:

|  | For the Years<br>Ended December<br>31, |      |      |
|--|--|------|------|
|  | 2014                                   | 2013 | 2012 |
| Employer matching contributions  | \$ 2                                   | \$ 1 | \$ 1 |
| Increase (decrease) in measurement of<br>liabilities, net of total return swap | 2                                      | 4    | 2    |
| Total  | \$ 4                                   | \$ 5 | \$ 3 |

## Deferred Compensation Plan for Non-Employee Directors

Non-employee directors may defer a portion of their annual cash retainers as defined by the plan. They also receive a portion of their retainer in the form of deferred stock units, which we credit quarterly in arrears to their accounts. The prescribed “phantom” investment options are identical to those offered in the employees’ deferred compensation plan. For the years ended December 31, 2014, 2013 and 2012, expenses for this plan were \$2 million, \$8 million and \$2 million, respectively.

## Deferred Compensation Plan for Former Jefferson-Pilot Corporation Agents

Eligible former agents of Jefferson-Pilot Corporation (“JP”) may defer a portion of their commissions and bonuses as defined by the plan. Participants may select from “phantom” investment options that are used as measures for calculating the returns that are notionally credited to their accounts. For the years ended December 31, 2014, 2013 and 2012, expenses for this plan were \$2 million, \$2 million and \$3 million, respectively.

## 19. Stock-Based Incentive Compensation Plans

## LNC Stock-Based Incentive Plans

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

Total compensation expense (in millions) by award type for all of our stock-based incentive plans was as follows:

|                          | For the Years Ended |       |       |
|--------------------------|---------------------|-------|-------|
|                          | December 31,        |       |       |
|                          | 2014                | 2013  | 2012  |
| Stock options            | \$ 9                | \$ 9  | \$ 8  |
| Performance shares       | 12                  | 10    | 5     |
| SARs                     | 2                   | 5     | 1     |
| RSUs and nonvested stock | 15                  | 16    | 17    |
| Total                    | \$ 38               | \$ 40 | \$ 31 |
| Recognized tax benefit   | \$ 13               | \$ 14 | \$ 11 |

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Total unrecognized compensation expense (in millions) and expected weighted-average life (in years) by award type for all of our stock-based incentive plans was as follows:

|  | For the Years Ended December 31, |                            |        |                            |        |                            |
|--|----------------------------------|----------------------------|--------|----------------------------|--------|----------------------------|
|  | 2014                             |                            | 2013   |                            | 2012   |                            |
|  | Expens                           | Weighted-Average<br>Period | Expens | Weighted-Average<br>Period | Expens | Weighted-Average<br>Period |
| Stock options  | \$ 8                             | 1.5                        | \$ 9   | 1.9                        | \$ 6   | 1.8                        |
| Performance shares   | 9                                | 1.5                        | 9      | 1.5                        | 9      | 1.6                        |
| SARs   | 3                                | 3.2                        | 3      | 3.4                        | 1      | 3.3                        |
| RSUs and nonvested stock   | 21                               | 1.0                        | 18     | 1.2                        | 20     | 1.3                        |
| Total unrecognized stock-based<br>incentive compensation expense | \$ 41                            |                            | \$ 39  |                            | \$ 36  |                            |

In the first quarter of 2014, a performance period from 2014-2016 was approved for certain of our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consisted of LNC RSUs representing approximately 37%, LNC stock options representing approximately 25% and LNC performance shares representing approximately 38% of the total award. LNC RSUs granted for this period cliff-vest on the third anniversary of the grant date, based solely on a service condition. LNC stock options granted for this performance period have a maximum contractual term of ten years and vest ratably over the three-year period, based solely on a service condition. Depending on the performance results for this period, the ultimate payout of performance shares could range from zero to 200% of the target award. Under the 2014-2016 plan, a total of 462,231 LNC RSUs, 490,852 LNC stock options and 182,149 LNC performance shares were granted.

In the first quarter of 2013, a performance period from 2013-2015 was approved for certain of our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consisted of LNC RSUs representing approximately 29%, LNC stock options representing approximately 35% and LNC performance shares representing approximately 36% of the total award. LNC RSUs granted for this period cliff-vest on the third anniversary of the grant date, based solely on a service condition. LNC stock options granted for this performance period have a maximum contractual term of ten years and vest ratably over the three-year period, based solely on a service condition. Depending on the performance results for this period, the ultimate payout of performance shares could range from zero to 200% of the target award. Under the 2013-2015 plan, a total of 583,404 LNC RSUs, 1,011,365 LNC stock options and 260,114 LNC performance shares were granted.

In the first quarter of 2012, a performance period from 2012-2014 was approved for certain of our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consisted of LNC RSUs representing approximately 29%, LNC stock options representing approximately 35% and LNC performance shares representing approximately 36% of the total award. LNC RSUs granted for this period cliff-vest on the third anniversary of the grant date, based solely on a service condition. LNC stock options granted for this

performance period have a maximum contractual term of ten years and vest ratably over the three-year period, based solely on a service condition. Depending on the performance results for this period, the ultimate payout of performance shares could range from zero to 200% of the target award. Under the 2012-2014 plan, a total of 766,217 LNC RSUs, 903,502 LNC stock options and 306,456 LNC performance shares were granted.

The option price assumptions used for our stock option awards were as follows:

|  | For the Years Ended December 31, |          |          |
|--|----------------------------------|----------|----------|
|  | 2014                             | 2013     | 2012     |
| Weighted-average fair value per option granted | \$ 12.95                         | \$ 7.39  | \$ 8.35  |
| Assumptions:                                   |                                  |          |          |
| Dividend yield                                 | 2.2%                             | 2.4%     | 1.9%     |
| Expected volatility                            | 33.2%                            | 34.1%    | 42.0%    |
| Risk-free interest rate                        | 0.9-1.8%                         | 0.6-0.9% | 0.9-1.2% |
| Expected life (in years)                       | 5.4                              | 5.6      | 5.8      |

The fair value of options is determined using a Black-Scholes options valuation model with the assumptions disclosed in the table above. The dividend yield is based on the expected dividend rate during the expected life of the option. Expected volatility is based on the implied volatility of exchange-traded securities and the historical volatility of the LNC stock price. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of the options granted represents the weighted-average period of time from the grant date to the date of exercise, expiration or cancellation based upon historical behavior.

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Information with respect to our incentive plans involving stock options with performance conditions (aggregate intrinsic value shown in millions) was as follows:

|  | Shares     | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------|---|--|---------------------------------|
| Outstanding as of December 31, 2013                    | 1,176,974  | \$ 45.84                                  |  |                                 |
| Granted – original                                     | 88,311     | 50.37                                     |  |                                 |
| Exercised (includes shares tendered)                   | (133,044 ) | 34.14                                     |  |                                 |
| Forfeited or expired                                   | (60,494 )  | 40.46                                     |  |                                 |
| Outstanding as of December 31, 2014                    | 1,071,747  | \$ 47.93                                  | 2.96   | \$ 10                           |
| Vested or expected to vest as of December 31, 2014 (1) | 1,016,926  | \$ 48.31                                  | 2.93   | \$ 10                           |
| Exercisable as of December 31, 2014                    | 962,105    | \$ 48.73                                  | 2.90   | \$ 9                            |

(1) Includes estimated forfeitures.

The total fair value of options with performance conditions vested during each of the years ended December 31, 2014, 2013 and 2012, was \$1 million. The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012, was \$2 million, \$1 million and zero, respectively.

Information with respect to our incentive plans involving stock options with service conditions (aggregate intrinsic value shown in millions) was as follows:

|                                      | Shares      | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------|-------------|---|--|---------------------------------|
| Outstanding as of December 31, 2013  | 4,928,353   | \$ 38.18                                  |  |                                 |
| Granted – original                   | 490,852     | 50.80                                     |  |                                 |
| Exercised (includes shares tendered) | (1,333,102) | 39.97                                     |  |                                 |

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|  |            |          |      |       |
|--|------------|----------|------|-------|
| Forfeited or expired                                   | (162,410 ) | 47.26    |      |       |
| Outstanding as of December 31, 2014                    | 3,923,693  | \$ 38.65 | 5.87 | \$ 79 |
| Vested or expected to vest as of December 31, 2014 (1) | 3,642,758  | \$ 39.03 | 5.69 | \$ 72 |
| Exercisable as of December 31, 2014                    | 2,571,235  | \$ 39.99 | 4.57 | \$ 49 |

(1) Includes estimated forfeitures.

The total fair value of options with service conditions vested during the years ended December 31, 2014, 2013 and 2012, was \$7 million, \$6 million and \$4 million, respectively. The total intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012, was \$18 million, \$6 million and zero, respectively.

Information with respect to our performance shares was as follows:

|                                   | Shares    | Weighted-Average Grant-Date Fair Value |
|-----------------------------------|-----------|--|
| Nonvested as of December 31, 2013 | 710,692   | \$ 32.74                               |
| Granted                           | 182,149   | 54.68                                  |
| Vested                            | (180,307) | 36.33                                  |
| Forfeited                         | (10,108 ) | 37.74                                  |
| Nonvested as of December 31, 2014 | 702,426   | \$ 37.36                               |

## SARs

Under our incentive compensation plan, we issue SARs to certain planners and advisors who have full-time contracts with us. The SARs under this plan are rights on our stock that are cash settled and become exercisable in increments of 25% over the four-year period following the SARs grant date. SARs are granted with an exercise price equal to the fair market value of our stock at the date of grant and, unless cancelled earlier due to certain terminations of employment, expire five years from the date of grant. Generally, such SARs are transferable only upon death.

We recognize compensation expense for SARs based on the fair value method using the Black-Scholes option-pricing model. Compensation expense and the related liability are recognized on a straight-line basis over the vesting period of the SARs. The SARs liability is marked-to-market through net income, which causes volatility in net income (loss) as a result of changes in the market value of our stock and reported within commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss). The SARs liability as of December 31, 2014 and 2013, was \$5 million and reported within other liabilities on our Consolidated Balance Sheets.

The option price assumptions used for our SARs were as follows:

|   | For the Years Ended December |         |         |
|---|------------------------------|---------|---------|
|   | 31,                          |         |         |
|   | 2014                         | 2013    | 2012    |
| Weighted-average fair value per SAR granted | \$ 13.64                     | \$ 7.47 | \$ 8.91 |
| Assumptions:                                |                              |         |         |
| Dividend yield                              | 1.5%                         | 2.2%    | 1.4%    |
| Expected volatility                         | 32.7%                        | 30.5%   | 40.7%   |
| Risk-free interest rate                     | 1.7%                         | 1.0%    | 1.3%    |
| Expected life (in years)                    | 5.0                          | 5.0     | 5.0     |

The assumptions above are the same as those discussed for options above, except the dividend yield is based on the current dividend rate at the date of grant, expected volatility is based on the implied volatility of exchange-traded securities and the expected life represents the contractual term.

Information with respect to our SARs plan (aggregate intrinsic value shown in millions) was as follows:

|  | Shares    | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|-----------|---|--|---------------------------------|
| Outstanding as of December 31, 2013                    | 354,043   | \$ 29.00                                  |  |                                 |
| Granted – original                                     | 62,887    | 50.41                                     |  |                                 |
| Exercised (includes shares tendered)                   | (93,532 ) | 24.86                                     |  |                                 |
| Forfeited or expired                                   | (15,439 ) | 35.82                                     |  |                                 |
| Outstanding as of December 31, 2014                    | 307,959   | \$ 34.28                                  | 2.53   | \$ 7                            |
| Vested or expected to vest as of December 31, 2014 (1) | 292,889   | \$ 34.20                                  | 2.50   | \$ 7                            |
| Exercisable as of December 31, 2014                    | 171,114   | \$ 31.28                                  | 1.89   | \$ 5                            |

(1) Includes estimated forfeitures.

The payment for SARs exercised during the years ended December 31, 2014, 2013 and 2012, was \$2 million, \$1 million and zero, respectively.



## RSUs

We award RSUs under the incentive compensation plan, generally subject to a three-year vesting period. Information with respect to our RSUs was as follows:

|                                     | Shares     | Weighted-Average Grant-Date Fair Value |
|-------------------------------------|------------|--|
| Outstanding as of December 31, 2013 | 1,630,407  | \$ 28.24                               |
| Granted                             | 462,231    | 50.95                                  |
| Vested                              | (464,572 ) | 29.74                                  |
| Forfeited                           | (100,391 ) | 33.43                                  |
| Outstanding as of December 31, 2014 | 1,527,675  | \$ 34.30                               |

## 20. Statutory Information and Restrictions

The Company's domestic life insurance subsidiaries prepare financial statements in accordance with statutory accounting principles ("SAP") prescribed or permitted by the insurance departments of their states of domicile, which may vary materially from GAAP.

Prescribed SAP includes the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners ("NAIC") as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with GAAP are that statutory financial statements do not reflect DAC, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contract holder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted.

Our insurance subsidiaries are subject to the applicable laws and regulations of their respective states. Changes in these laws and regulations could change capital levels or capital requirements for our insurance subsidiaries.

Statutory capital and surplus, net gain (loss) from operations, after-tax, net income (loss) and dividends to the LNC holding company amounts (in millions) below consist of all or a combination of the following entities: LNL, First Penn-Pacific Life Insurance Company (“FPP”), Lincoln Reinsurance Company of South Carolina, Lincoln Life & Annuity Company of New York (“LLANY”), Lincoln Reinsurance Company of Vermont I, Lincoln Reinsurance Company of Vermont II, Lincoln Reinsurance Company of Vermont III, Lincoln Reinsurance Company of Vermont IV and Lincoln Reinsurance Company of Vermont V.

|                          | As of December<br>31, |          |
|--------------------------|-----------------------|----------|
|                          | 2014                  | 2013     |
| U.S. capital and surplus | \$ 8,200              | \$ 7,484 |

|   | For the Years Ended<br>December 31, |        |        |
|---|-------------------------------------|--------|--------|
|   | 2014                                | 2013   | 2012   |
| U.S. net gain (loss) from operations, after-tax | \$ 1,225                            | \$ 494 | \$ 736 |
| U.S. net income (loss)                          | 1,456                               | 561    | 681    |
| U.S. dividends to LNC holding company           | 785                                 | 725    | 635    |

The increase in statutory net income (loss) when comparing 2014 to 2013 was due primarily to the recapture of certain traditional and interest sensitive business under several yearly renewable term reinsurance treaties that were originally ceded to a reinsurer, a change in estimate on reserves for certain products and a lower effective tax rate due to the use of tax credit carryforwards.

The decrease in statutory net income (loss) when comparing 2013 to 2012 was due primarily to the effects of reserve financing transactions in 2013.

The states of domicile of the Company’s insurance subsidiaries have adopted certain prescribed accounting practices that differ from those found in NAIC SAP. These prescribed practices are the use of continuous Commissioners

Annuity Reserve Valuation Method (“CARVM”) in the calculation of reserves as prescribed by the state of New York, the calculation of reserves on universal life policies based on the Indiana universal life method as prescribed by the state of Indiana for policies issued before January 1, 2006, and the use of a more conservative valuation interest rate on certain annuities prescribed by the states of Indiana and New York. The Vermont insurance subsidiaries also have an accounting practice permitted by the state of Vermont that differs from that found in NAIC SAP. Specifically, the permitted practice involves accounting for the lesser of the face amount of all amounts outstanding under an LOC and the value of the Valuation of Life Insurance Policies Model Regulation (“XXX”) additional statutory reserves as an admitted asset and a form of surplus as of December 31, 2014 and 2013.

The favorable (unfavorable) effects on statutory surplus compared to NAIC statutory surplus from the use of these prescribed and permitted practices (in millions) were as follows:

|   | As of December |        |
|---|----------------|--------|
|   | 31,            |        |
|   | 2014           | 2013   |
| Calculation of reserves using the Indiana universal life method | \$ 140         | \$ 219 |
| Calculation of reserves using continuous CARVM                  | (1 )           | (2 )   |
| Conservative valuation rate on certain annuities                | (39 )          | (30 )  |
| Lesser of LOC and XXX additional reserve as surplus             | 2,751          | 2,635  |

During the third quarter of 2013, the New York State Department of Financial Services (“NYDFS”) announced that it would not recognize the NAIC revisions to Actuarial Guideline 38 in applying the New York law governing the reserves to be held for UL and VUL products containing secondary guarantees. The change, which was effective as of December 31, 2013, impacts our New York-domiciled insurance subsidiary, LLANY. LLANY discontinued the sale of these products in early 2013, but the change affects those policies sold prior to that time. We began phasing in the increase in reserves over five years beginning in 2013. As of December 31, 2014, we have increased reserves by \$180 million. The additional increase in reserves over the next three years is subject to ongoing discussions with the NYDFS. However, we do not expect the amount for each of the remaining years to exceed \$90 million per year.

The NAIC has adopted RBC requirements for life insurance companies to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks. The requirements provide a means of measuring the minimum amount of statutory surplus appropriate for an insurance company to support its overall business operations based on its size and risk profile. Under RBC requirements, regulatory compliance is determined by the ratio of a company’s total adjusted capital, as defined by the NAIC, to its company action level of RBC (known as the “RBC ratio”), also as defined by the NAIC. The company action level may be triggered if the RBC ratio is between 75% and 100%, which would require the insurer to submit a plan to the regulator detailing corrective action it proposes to undertake. As of December 31, 2014, the combined RBC ratio of LNL, LLANY and FPP reported to their respective states of domicile and the NAIC was in excess of five times the aforementioned company action level.

Our insurance subsidiaries are subject to certain insurance department regulatory restrictions as to the transfer of funds and payment of dividends to the holding company. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including our primary insurance subsidiary, LNL, may pay dividends to LNC without prior approval of the Indiana Insurance Commissioner (the “Commissioner”), only from unassigned surplus and must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding 12 consecutive months, would exceed the statutory limitation. The current statutory limitation is the greater of 10% of the insurer’s contract holders’ surplus, as shown on its last annual statement on file with the Commissioner or the insurer’s statutory net gain from operations for the previous 12 months, but in no event to exceed statutory unassigned surplus. Indiana law gives the Commissioner broad discretion to disapprove requests for dividends in excess of these limits. LNL’s subsidiary, LLANY, a New York domiciled insurance company, has similar restrictions,

except that in New York it is the lesser of 10% of surplus to contract holders as of the immediately preceding calendar year or net gain from operations for the immediately preceding calendar year, not including realized capital gains. We expect our domestic insurance subsidiaries could pay dividends of approximately \$1.3 billion in 2015 without prior approval from the respective state commissioner.

All payments of principal and interest on surplus notes between LNC and our insurance subsidiaries must be approved by the respective Commissioner of Insurance.

## 21. Fair Value of Financial Instruments

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

|  | As of December 31,<br>2014 |               | As of December 31,<br>2013 |               |
|--|----------------------------|---------------|----------------------------|---------------|
|  | Carrying<br>Value          | Fair<br>Value | Carrying<br>Value          | Fair<br>Value |
| <b>Assets</b>  |                            |               |                            |               |
| AFS securities:  |                            |               |                            |               |
| Fixed maturity securities                              | \$ 86,240                  | \$ 86,240     | \$ 80,078                  | \$ 80,078     |
| VIEs' fixed maturity securities                        | 598                        | 598           | 697                        | 697           |
| Equity securities                                      | 231                        | 231           | 201                        | 201           |
| Trading securities                                     | 2,065                      | 2,065         | 2,282                      | 2,282         |
| Mortgage loans on real estate                          | 7,574                      | 8,038         | 7,210                      | 7,386         |
| Derivative investments (1)                             | 1,860                      | 1,860         | 881                        | 881           |
| Other investments                                      | 1,709                      | 1,709         | 1,218                      | 1,218         |
| Cash and invested cash                                 | 3,919                      | 3,919         | 2,364                      | 2,364         |
| Other assets - reinsurance recoverable                 | 154                        | 154           | -                          | -             |
| Separate account assets                                | 125,265                    | 125,265       | 117,135                    | 117,135       |
| <b>Liabilities</b>                                     |                            |               |                            |               |
| Future contract benefits:                              |                            |               |                            |               |
| Indexed annuity and IUL contracts embedded derivatives | (1,170 )                   | (1,170 )      | (1,048 )                   | (1,048 )      |
| GLB reserves embedded derivatives (2)                  | -                          | -             | 1,244                      | 1,244         |
| Other contract holder funds:                           |                            |               |                            |               |
| Remaining guaranteed interest and similar contracts    | (699 )                     | (699 )        | (809 )                     | (809 )        |
| Account values of certain investment contracts         | (29,156 )                  | (33,079 )     | (29,078 )                  | (30,574 )     |
| Short-term debt (3)                                    | (250 )                     | (253 )        | (501 )                     | (500 )        |
| Long-term debt   | (5,270 )                   | (5,707 )      | (5,320 )                   | (5,762 )      |
| Reinsurance related embedded derivatives               | (150 )                     | (150 )        | (108 )                     | (108 )        |
| VIEs' liabilities – derivative instruments             | (13 )                      | (13 )         | (27 )                      | (27 )         |
| Other liabilities:                                     |                            |               |                            |               |
| Credit default swaps                                   | (3 )                       | (3 )          | (2 )                       | (2 )          |
| Derivative liabilities (1)                             | (77 )                      | (77 )         | (187 )                     | (187 )        |
| GLB reserves embedded derivatives (2)                  | (174 )                     | (174 )        | -                          | -             |
| Benefit Plans' Assets (4)                              | 1,570                      | 1,570         | 1,471                      | 1,471         |

(1)

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

- (2) Portions of our GLB reserves embedded derivatives are ceded to third-party reinsurance counterparties. Refer to Note 6 for additional detail.
- (3) The difference between the carrying value and fair value of short-term debt as of December 31, 2014 and 2013, related to current maturities of long-term debt.
- (4) Included in the funded statuses of the benefit plans, which is reported in other liabilities on our Consolidated Balance Sheets. Refer to Note 17 for additional detail.

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

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

#### Mortgage Loans on Real Estate

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

the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 2 within the fair value hierarchy.

#### Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments includes primarily LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. The inputs used to measure the fair value of our LPs and other privately held investments are classified as Level 3 within the fair value hierarchy. Other investments also includes securities that are not LPs or other privately held investments and the inputs used to measure the fair value of these securities are classified as Level 1 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 December 31, 2014 and 2013, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

#### Short-Term and Long-Term Debt

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

#### Financial Instruments Carried at Fair Value

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





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The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described above:

|  | As of December 31, 2014                            |  |  |               |
|--|--|--|--|---------------|
|  | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for |  |  | Total         |
|  | Identical<br>Assets<br>(Level<br>1)                | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Fair<br>Value |
| Assets   |  |  |  |               |
| Investments:   |  |  |  |               |
| Fixed maturity AFS securities:   |  |  |  |               |
| Corporate bonds  | \$ 63  | \$ 71,400  | \$ 1,953   | \$ 73,416     |
| ABS  | -  | 1,097  | 33   | 1,130         |
| U.S. government bonds  | 399  | 36   | -  | 435           |
| Foreign government bonds   | -  | 432  | 109  | 541           |
| RMBS   | -  | 4,225  | 1  | 4,226         |
| CMBS   | -  | 555  | 15   | 570           |
| CLOs   | -  | 7  | 368  | 375           |
| State and municipal bonds  | -  | 4,593  | -  | 4,593         |
| Hybrid and redeemable preferred securities   | 45   | 854  | 55   | 954           |
| VIEs' fixed maturity securities  | -  | 598  | -  | 598           |
| Equity AFS securities  | 7  | 67   | 157  | 231           |
| Trading securities   | -  | 1,992  | 73   | 2,065         |
| Other investments  | 150  | -  | -  | 150           |
| Derivative investments (1)   | -  | 1,356  | 1,231  | 2,587         |
| Cash and invested cash   | -  | 3,919  | -  | 3,919         |
| Other assets - reinsurance recoverable   | -  | -  | 154  | 154           |
| Separate account assets  | 1,539  | 123,726  | -  | 125,265       |
| Total assets   | \$ 2,203   | \$ 214,857                                       | \$ 4,149   | \$ 221,209    |
| Liabilities  |  |  |  |               |
| Future contract benefits – indexed annuity<br>and IUL contracts embedded derivatives | \$ -   | \$ -   | \$ (1,170 )  | \$ (1,170 )   |
| Long-term debt   | -  | (1,203 )   | -  | (1,203 )      |
| Reinsurance related embedded derivatives   | -  | (150 )   | -  | (150 )        |
| VIEs' liabilities – derivative instruments   | -  | -  | (13 )  | (13 )         |
| Other liabilities:   |  |  |  |               |

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|                                   |        |             |             |             |
|-----------------------------------|--------|-------------|-------------|-------------|
| Credit default swaps              | -      | -           | (3 )        | (3 )        |
| Derivative liabilities (1)        | -      | (562 )      | (242 )      | (804 )      |
| GLB reserves embedded derivatives | -      | -           | (174 )      | (174 )      |
| Total liabilities                 | \$ -   | \$ (1,915 ) | \$ (1,602 ) | \$ (3,517 ) |
| Benefit Plans' Assets             | \$ 116 | \$ 1,454    | \$ -        | \$ 1,570    |

As of December 31, 2013

Quoted

Prices

in

Active

Markets

| for       | Significant | Significant  | Total |
|-----------|-------------|--------------|-------|
| Identical | Observable  | Unobservable | Fair  |
| Assets    | Inputs      | Inputs       | Value |
| (Level    | (Level 2)   | (Level 3)    |       |
| 1)        |             |              |       |

## Assets

## Investments:

## Fixed maturity AFS securities:

|  |          |            |          |            |
|--|----------|------------|----------|------------|
| Corporate bonds                            | \$ 60    | \$ 66,014  | \$ 1,701 | \$ 67,775  |
| ABS  | -        | 1,150      | 10       | 1,160      |
| U.S. government bonds                      | 346      | 21         | -        | 367        |
| Foreign government bonds                   | -        | 470        | 79       | 549        |
| RMBS                                       | -        | 4,349      | 1        | 4,350      |
| CMBS                                       | -        | 708        | 20       | 728        |
| CLOs                                       | -        | 46         | 179      | 225        |
| State and municipal bonds                  | -        | 3,891      | 28       | 3,919      |
| Hybrid and redeemable preferred securities | 40       | 899        | 66       | 1,005      |
| VIEs' fixed maturity securities            | 102      | 595        | -        | 697        |
| Equity AFS securities                      | 3        | 37         | 161      | 201        |
| Trading securities                         | -        | 2,230      | 52       | 2,282      |
| Derivative investments (1)                 | -        | 340        | 1,518    | 1,858      |
| Cash and invested cash                     | -        | 2,364      | -        | 2,364      |
| Separate account assets                    | 1,767    | 115,368    | -        | 117,135    |
| Total assets                               | \$ 2,318 | \$ 198,482 | \$ 3,815 | \$ 204,615 |

## Liabilities

## Future contract benefits:

|  |      |             |             |             |
|--|------|-------------|-------------|-------------|
| Indexed annuity and IUL contracts embedded derivatives | \$ - | \$ -        | \$ (1,048 ) | \$ (1,048 ) |
| GLB reserves embedded derivatives                      | -    | -           | 1,244       | 1,244       |
| Long-term debt   | -    | (1,203 )    | -           | (1,203 )    |
| Reinsurance related embedded derivatives               | -    | (108 )      | -           | (108 )      |
| VIEs' liabilities – derivative instruments             | -    | -           | (27 )       | (27 )       |
| Other liabilities:                                     |      |             |             |             |
| Credit default swaps                                   | -    | -           | (2 )        | (2 )        |
| Derivative liabilities (1)                             | -    | (912 )      | (252 )      | (1,164 )    |
| Total liabilities                                      | \$ - | \$ (2,223 ) | \$ (85 )    | \$ (2,308 ) |

|                       |        |          |      |          |
|-----------------------|--------|----------|------|----------|
| Benefit Plans' Assets | \$ 114 | \$ 1,357 | \$ - | \$ 1,471 |
|-----------------------|--------|----------|------|----------|

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

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

|  | For the Year Ended December 31, 2014 |             |           |              |            |          |
|--|--------------------------------------|-------------|-----------|--------------|------------|----------|
|  | Beginning in                         | Items       | Gains     | Purchases,   | Transfers  | Ending   |
|  | Fair                                 | Included    | (Losses)  | Issuances,   | Into or    | Fair     |
|  | Value                                | Net         | in        | Sales,       | Out        | Value    |
|  |                                      | Income      | OCI       | Maturities,  | Level 3,   |          |
|  |                                      |             | and       | Settlements, | Net (2)(3) |          |
|  |                                      |             | Other (1) | Net          |            |          |
| Investments: (4)                                       |                                      |             |           |              |            |          |
| Fixed maturity AFS securities:                         |                                      |             |           |              |            |          |
| Corporate bonds  | \$ 1,701                             | \$ 9        | \$ 27     | \$ 197       | \$ 19      | \$ 1,953 |
| ABS  | 10                                   | -           | 1         | -            | 22         | 33       |
| Foreign government bonds                               | 79                                   | -           | 5         | -            | 25         | 109      |
| RMBS   | 1                                    | -           | -         | -            | -          | 1        |
| CMBS   | 20                                   | -           | 2         | (13 )        | 6          | 15       |
| CLOs   | 179                                  | (3 )        | 7         | 136          | 49         | 368      |
| State and municipal bonds                              | 28                                   | -           | 1         | -            | (29 )      | -        |
| Hybrid and redeemable preferred securities             | 66                                   | -           | (1 )      | (5 )         | (5 )       | 55       |
| Equity AFS securities                                  | 161                                  | 4           | (3 )      | (5 )         | -          | 157      |
| Trading securities                                     | 52                                   | 4           | 8         | 10           | (1 )       | 73       |
| Derivative investments                                 | 1,266                                | 72          | 356       | (279 )       | (426 )     | 989      |
| Other assets - reinsurance recoverable                 | 27                                   | 127         | -         | -            | -          | 154      |
| Future contract benefits: (5)                          |                                      |             |           |              |            |          |
| Indexed annuity and IUL contracts embedded derivatives | (1,048)                              | (210 )      | -         | 88           | -          | (1,170)  |
| GLB reserves embedded derivatives                      | 1,244                                | -           | -         | -            | (1,244 )   | -        |
| VIEs' liabilities – derivative instruments (6)         | (27 )                                | 14          | -         | -            | -          | (13 )    |
| Other liabilities:                                     |                                      |             |           |              |            |          |
| Credit default swaps (7)                               | (2 )                                 | (1 )        | -         | -            | -          | (3 )     |
| GLB reserves embedded derivatives (5)                  | (27 )                                | (1,391 )    | -         | -            | 1,244      | (174 )   |
| Total, net   | \$ 3,730                             | \$ (1,375 ) | \$ 403    | \$ 129       | \$ (340 )  | \$ 2,547 |

|  | For the Year Ended December 31, 2013 |          |           |              |           |          |
|--|--------------------------------------|----------|-----------|--------------|-----------|----------|
|  |                                      |          |           | Purchases,   | Transfers |          |
|  |                                      | Items    | Gains     | Issuances,   | Into or   |          |
|  | Beginning                            | Included | (Losses)  | Sales,       | Out       | Ending   |
|  | Fair                                 | Net      | in        | Maturities,  | Level 3,  | Fair     |
|  | Value                                | Income   | OCI       | Settlements, | Net (2)   | Value    |
|  |                                      |          | and       | Calls,       |           |          |
|  |                                      |          | Other (1) | Net          |           |          |
| Investments: (4)                               |                                      |          |           |              |           |          |
| Fixed maturity AFS securities:                 |                                      |          |           |              |           |          |
| Corporate bonds                                | \$ 1,491                             | \$ (18 ) | \$ (2 )   | \$ 316       | \$ (86 )  | \$ 1,701 |
| ABS  | 14                                   | -        | 1         | 29           | (34 )     | 10       |
| U.S. government bonds                          | 1                                    | -        | -         | (1 )         | -         | -        |
| Foreign government bonds                       | 46                                   | -        | -         | 33           | -         | 79       |
| RMBS   | 3                                    | -        | -         | (2 )         | -         | 1        |
| CMBS   | 27                                   | 1        | 6         | (6 )         | (8 )      | 20       |
| CLOs   | 154                                  | (1 )     | 4         | 50           | (28 )     | 179      |
| State and municipal bonds                      | 32                                   | -        | (4 )      | -            | -         | 28       |
| Hybrid and redeemable                          |                                      |          |           |              |           |          |
| preferred securities                           | 118                                  | -        | 13        | (35 )        | (30 )     | 66       |
| Equity AFS securities                          | 87                                   | (1 )     | 2         | 73           | -         | 161      |
| Trading securities                             | 56                                   | 3        | (7 )      | (6 )         | 6         | 52       |
| Derivative investments                         | 2,026                                | (681 )   | 96        | (175 )       | -         | 1,266    |
| Future contract benefits: (5)                  |                                      |          |           |              |           |          |
| Indexed annuity and IUL                        |                                      |          |           |              |           |          |
| contracts embedded derivatives                 | (732 )                               | (356 )   | -         | 40           | -         | (1,048)  |
| GLB reserves embedded derivatives              | (909 )                               | 2,153    | -         | -            | -         | 1,244    |
| VIEs' liabilities – derivative instruments (6) | (128 )                               | 101      | -         | -            | -         | (27 )    |
| Other liabilities – credit default swaps (7)   | (11 )                                | 9        | -         | -            | -         | (2 )     |
| Total, net                                     | \$ 2,275                             | \$ 1,210 | \$ 109    | \$ 316       | \$ (180 ) | \$ 3,730 |

For the Year Ended December 31, 2012

|  | Beginning Fair Value | Items Included in Net Income | Gains (Losses) in OCI and Other (1) | Purchases, Issuances, Maturities, Settlements, Calls, Net | Transfers Into or Out of Level 3, Net (2) | Ending Fair Value |
|--|----------------------|------------------------------|-------------------------------------|---|---|-------------------|
| Investments: (4)                                       |                      |                              |                                     |   |   |                   |
| Fixed maturity AFS securities:                         |                      |                              |                                     |   |   |                   |
| Corporate bonds  | \$ 1,830             | \$ (27 )                     | \$ 33                               | \$ 269  | \$ (614 )                                 | \$ 1,491          |
| ABS  | 58                   | -                            | 1                                   | (3 )  | (42 )                                     | 14                |
| U.S. government bonds                                  | 1                    | -                            | -                                   | -   | -   | 1                 |
| Foreign government bonds                               | 97                   | -                            | -                                   | (5 )  | (46 )                                     | 46                |
| RMBS   | 158                  | (3 )                         | 3                                   | (8 )  | (147 )                                    | 3                 |
| CMBS   | 34                   | (11 )                        | 18                                  | (12 )   | (2 )                                      | 27                |
| CLOs   | 102                  | (2 )                         | 8                                   | 61  | (15 )                                     | 154               |
| State and municipal bonds                              | -                    | -                            | -                                   | 32  | -   | 32                |
| Hybrid and redeemable preferred securities             | 100                  | (1 )                         | 24                                  | -   | (5 )                                      | 118               |
| Equity AFS securities                                  | 56                   | (8 )                         | 13                                  | 26  | -   | 87                |
| Trading securities                                     | 68                   | 3                            | 4                                   | (2 )  | (17 )                                     | 56                |
| Derivative investments                                 | 2,470                | (790 )                       | 158                                 | 188   | -   | 2,026             |
| Future contract benefits: (5)                          |                      |                              |                                     |   |   |                   |
| Indexed annuity and IUL contracts embedded derivatives | (399 )               | (136 )                       | -                                   | (197 )  | -   | (732 )            |
| GLB reserves embedded derivatives                      | (2,217)              | 1,308                        | -                                   | -   | -   | (909 )            |
| VIEs' liabilities – derivative instruments (6)         | (291 )               | 163                          | -                                   | -   | -   | (128 )            |
| Other liabilities – credit default swaps (7)           | (16 )                | 5                            | -                                   | -   | -   | (11 )             |
| Total, net   | \$ 2,051             | \$ 501                       | \$ 262                              | \$ 349  | \$ (888 )                                 | \$ 2,275          |

- (1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 6).
- (2) Transfers into or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-year. For AFS and trading securities, the difference between beginning-of-year amortized cost and beginning-of-year fair value was included in OCI and earnings, respectively, in prior years.
- (3) Transfers into or out of Level 3 for GLB reserves embedded derivatives between future contract benefits, other assets and other liabilities on our Consolidated Balance Sheets.
- (4) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (5) Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (6) Gains (losses) from sales, maturities, settlements and calls are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss).
- (7)



The changes in fair value of the credit default swaps and contingency forwards are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

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

|   | For the Year Ended December 31, 2014 |          |            |             |          |        |
|---|--------------------------------------|----------|------------|-------------|----------|--------|
|   | Issuances                            | Sales    | Maturities | Settlements | Calls    | Total  |
| Investments:  |                                      |          |            |             |          |        |
| Fixed maturity AFS securities:  |                                      |          |            |             |          |        |
| Corporate bonds   | \$ 600                               | \$ (75 ) | \$ (115 )  | \$ (51 )    | \$ (162) | \$ 197 |
| ABS   | -                                    | -        | -          | -           | -        | -      |
| CMBS  | -                                    | -        | -          | (13 )       | -        | (13 )  |
| CLOs  | 187                                  | -        | -          | (46 )       | (5 )     | 136    |
| Hybrid and redeemable preferred securities  | -                                    | (5 )     | -          | -           | -        | (5 )   |
| Equity AFS securities   | -                                    | (5 )     | -          | -           | -        | (5 )   |
| Trading securities  | 14                                   | -        | -          | (4 )        | -        | 10     |
| Derivative investments  | 160                                  | (87 )    | (352 )     | -           | -        | (279)  |
| Future contract benefits – indexed annuity and IUL contracts embedded derivatives | (69 )                                | -        | -          | 157         | -        | 88     |
| Total, net  | \$ 892                               | \$ (172) | \$ (467 )  | \$ 43       | \$ (167) | \$ 129 |

|  | For the Year Ended December 31, 2013 |          |            |             |         |        |
|--|--------------------------------------|----------|------------|-------------|---------|--------|
|  | Issuances                            | Sales    | Maturities | Settlements | Calls   | Total  |
| Investments:                               |                                      |          |            |             |         |        |
| Fixed maturity AFS securities:             |                                      |          |            |             |         |        |
| Corporate bonds                            | \$ 533                               | \$ (51 ) | \$ (47 )   | \$ (49 )    | \$ (70) | \$ 316 |
| ABS  | 30                                   | -        | -          | (1 )        | -       | 29     |
| U.S. government bonds                      | -                                    | -        | -          | (1 )        | -       | (1 )   |
| Foreign government bonds                   | 50                                   | -        | (17 )      | -           | -       | 33     |
| RMBS                                       | -                                    | -        | -          | (2 )        | -       | (2 )   |
| CMBS                                       | -                                    | -        | -          | (4 )        | (2 )    | (6 )   |
| CLOs                                       | 74                                   | -        | -          | (24 )       | -       | 50     |
| Hybrid and redeemable preferred securities | -                                    | (35 )    | -          | -           | -       | (35 )  |

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|  |        |          |           |       |         |        |
|--|--------|----------|-----------|-------|---------|--------|
| Equity AFS securities  | 78     | (5 )     | -         | -     | -       | 73     |
| Trading securities   | -      | (3 )     | (1 )      | (2 )  | -       | (6 )   |
| Derivative investments   | 152    | (23 )    | (304 )    | -     | -       | (175)  |
| Future contract benefits – indexed annuity<br>and IUL contracts embedded derivatives | (68 )  | -        | -         | 108   | -       | 40     |
| Total, net   | \$ 849 | \$ (117) | \$ (369 ) | \$ 25 | \$ (72) | \$ 316 |

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|  | For the Year Ended December 31, 2012 |          |            |             |         |        |
|--|--------------------------------------|----------|------------|-------------|---------|--------|
|  | Issuances                            | Sales    | Maturities | Settlements | Calls   | Total  |
| Investments:   |                                      |          |            |             |         |        |
| Fixed maturity AFS securities:   |                                      |          |            |             |         |        |
| Corporate bonds  | \$ 364                               | \$ (30)  | \$ (6 )    | \$ (52 )    | \$ (7 ) | \$ 269 |
| ABS  | -                                    | -        | -          | (3 )        | -       | (3 )   |
| Foreign government bonds   | -                                    | -        | (5 )       | -           | -       | (5 )   |
| RMBS   | -                                    | -        | (7 )       | (1 )        | -       | (8 )   |
| CMBS   | -                                    | -        | -          | (12 )       | -       | (12 )  |
| CLOs   | 72                                   | -        | -          | (11 )       | -       | 61     |
| State and municipal bonds  | 32                                   | -        | -          | -           | -       | 32     |
| Equity AFS securities  | 26                                   | -        | -          | -           | -       | 26     |
| Trading securities   | -                                    | -        | -          | (2 )        | -       | (2 )   |
| Derivative investments   | 454                                  | (28 )    | (238 )     | -           | -       | 188    |
| Future contract benefits – indexed annuity<br>and IUL contracts embedded derivatives | (99 )                                | -        | -          | (98 )       | -       | (197)  |
| Total, net   | \$ 849                               | \$ (58 ) | \$ (256 )  | \$ (179 )   | \$ (7 ) | \$ 349 |

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 Years Ended |           |          |
|---|---------------------|-----------|----------|
|   | December 31,        |           |          |
|   | 2014                | 2013      | 2012     |
| Derivative investments (1)                                | \$ (15 )            | \$ (752 ) | \$ 823   |
| Embedded derivatives: (1)                                 |                     |           |          |
| Indexed annuity and IUL contracts<br>embedded derivatives | (37 )               | (44 )     | (10 )    |
| GLB reserves  | (678)               | 2,444     | 1,472    |
| VIes' liabilities – derivative instruments (2)            | 14                  | 101       | 163      |
| Credit default swaps (1)                                  | (1 )                | 9         | 6        |
| Total, net  | \$ (717)            | \$ 1,758  | \$ 2,454 |

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

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

|  | For the Year Ended December<br>31, 2014 |                                |           |
|--|---|--------------------------------|-----------|
|  | Transfers<br>Into<br>Level 3            | Transfers<br>Out of<br>Level 3 | Total     |
| Investments:   |   |                                |           |
| Fixed maturity AFS securities:                               |   |                                |           |
| Corporate bonds  | \$ 475                                  | \$ (456 )                      | \$ 19     |
| ABS  | 26                                      | (4 )                           | 22        |
| Foreign government bonds                                     | 25                                      | -                              | 25        |
| CMBS   | 6                                       | -                              | 6         |
| CLOs   | 53                                      | (4 )                           | 49        |
| State and municipal bonds                                    | -                                       | (29 )                          | (29 )     |
| Hybrid and redeemable preferred securities                   | 17                                      | (22 )                          | (5 )      |
| Trading securities   | 10                                      | (11 )                          | (1 )      |
| Derivative investments                                       | -                                       | (426 )                         | (426 )    |
| Future contract benefits – GLB reserves embedded derivatives | -                                       | (1,244 )                       | (1,244)   |
| Other liabilities – GLB reserves embedded derivatives        | 1,244                                   | -                              | 1,244     |
| Total, net   | \$ 1,856                                | \$ (2,196 )                    | \$ (340 ) |

|  | For the Year Ended<br>December 31, 2013 |                                |          |
|--|---|--------------------------------|----------|
|  | Transfers<br>Into<br>Level<br>3         | Transfers<br>Out of<br>Level 3 | Total    |
| Investments:                               |   |                                |          |
| Fixed maturity AFS securities:             |   |                                |          |
| Corporate bonds                            | \$ 373                                  | \$ (459 )                      | \$ (86 ) |
| ABS  |   | (34 )                          | (34 )    |
| CMBS                                       | -                                       | (8 )                           | (8 )     |
| CLOs                                       | -                                       | (28 )                          | (28 )    |
| Hybrid and redeemable preferred securities | 20                                      | (50 )                          | (30 )    |
| Trading securities                         | 8                                       | (2 )                           | 6        |
| Total, net                                 | \$ 401                                  | \$ (581 )                      | \$ (180) |

|  | For the Year Ended<br>December 31, 2012 |           |          |
|--|---|-----------|----------|
|  | Transfers                               |           |          |
|  | Into                                    | Out of    |          |
|  | Level                                   | Level 3   | Total    |
|  | 3                                       |           |          |
| Investments:                               |   |           |          |
| Fixed maturity AFS securities:             |   |           |          |
| Corporate bonds                            | \$ 34                                   | \$ (648 ) | \$ (614) |
| ABS  | 1                                       | (43 )     | (42 )    |
| Foreign government bonds                   | -                                       | (46 )     | (46 )    |
| RMBS                                       | -                                       | (147 )    | (147)    |
| CMBS                                       | 5                                       | (7 )      | (2 )     |
| CLOs                                       | 6                                       | (21 )     | (15 )    |
| Hybrid and redeemable preferred securities | 35                                      | (40 )     | (5 )     |
| Trading securities                         | 2                                       | (19 )     | (17 )    |
| Total, net                                 | \$ 83                                   | \$ (971 ) | \$ (888) |

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 years ended December 31, 2014, 2013 and 2012 transfers in and out were attributable

primarily to the securities' observable market information no longer being available or becoming available. Transfers in and out for GLB reserves embedded derivatives represent reclassifications between future contract benefits and other assets or other liabilities. 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 years ended December 31, 2014, 2013 and 2012 the transfers between Levels 1 and 2 of the fair value hierarchy were less than \$1 million for our financial instruments carried at fair value.



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The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of December 31, 2014:

|  | Fair Value | Valuation Technique  | Significant Unobservable Inputs  | Assumption or Input Ranges   |
|--|------------|----------------------|--|--|
| <b>Assets</b>  |            |                      |  |  |
| <b>Investments:</b>  |            |                      |  |  |
| Fixed maturity AFS and trading securities:                   |            |                      |  |  |
| Corporate bonds  | \$ 1,262   | Discounted cash flow | Liquidity/duration adjustment (1)  | 0.5 % - 11.6 %   |
| ABS  | 64         | Discounted cash flow | Liquidity/duration adjustment (1)  | 2.8 % - 3.0 %  |
| Foreign government bonds Hybrid and redeemable               | 80         | Discounted cash flow | Liquidity/duration adjustment (1)  | 2.0 % - 3.5 %  |
| preferred securities   | 20         | Discounted cash flow | Liquidity/duration adjustment (1)  | 2.1 % - 2.1 %  |
| Equity AFS and trading securities                            | 27         | Discounted cash flow | Liquidity/duration adjustment (1)  | 4.3 % - 7.3 %  |
| Other assets – reinsurance recoverable                       | 154        | Discounted cash flow | Long-term lapse rate (2)<br>Utilization of guaranteed withdrawals (3)<br>Claims utilization factor (4)<br>Premiums utilization factor (4)<br>NPR (5)<br>Mortality rate (6)<br>Volatility (7) | 1 % - 30 %<br>90 % - 100 %<br>60 % - 100 %<br>70 % - 140 %<br>0.00 % - 0.35 %<br>(8)<br>1 % - 28 % |
| <b>Liabilities</b>   |            |                      |  |  |
| Future contract benefits – indexed annuity and IUL contracts |            |                      |  |  |

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|                                  |         |                      |   |      |   |   |      |   |
|----------------------------------|---------|----------------------|---|------|---|---|------|---|
| embedded derivatives             | (1,170) | Discounted cash flow | Lapse rate (2)                            | 1    | % | - | 15   | % |
|                                  |         |                      | Mortality rate (6)                        |      |   |   | (9)  |   |
| Other liabilities – GLB reserves |         |                      |   |      |   |   |      |   |
| embedded derivatives             | (174)   | Discounted cash flow | Long-term lapse rate (2)                  | 1    | % | - | 30   | % |
|                                  |         |                      | Utilization of guaranteed withdrawals (3) | 90   | % | - | 100  | % |
|                                  |         |                      | Claims utilization factor (4)             | 60   | % | - | 100  | % |
|                                  |         |                      | Premiums utilization factor (4)           | 70   | % | - | 140  | % |
|                                  |         |                      | NPR (5)                                   | 0.00 | % | - | 0.35 | % |
|                                  |         |                      | Mortality rate (6)(8)                     |      |   |   | (9)  |   |
|                                  |         |                      | Volatility (7)                            | 1    | % | - | 28   | % |

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

From the table above, we have excluded Level 3 fair value measurements obtained from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities,

and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market

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makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability. Significant increases or decreases in any of the quotes received from a third-party broker-dealer may result in a significantly higher or lower fair value measurement.

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

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

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

As part of our ongoing valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see “Summary of Significant Accounting Policies” above.

## 22. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. The following is a brief description of these segments and Other Operations.

The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering fixed (including indexed) and variable annuities.

The Retirement Plan Services segment provides employer-sponsored defined benefit and individual retirement accounts, as well as individual and group variable annuities, group fixed annuities and mutual-fund based programs in the retirement plan marketplace.

The Life Insurance segment focuses in the creation and protection of wealth through life insurance products, including term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs), IUL and both single and survivorship versions of UL and VUL, including corporate-owned UL and VUL insurance and bank-owned UL and VUL insurance products.

The Group Protection segment offers principally group non-medical insurance products, including term life, universal life, disability, dental, vision, accident and critical illness insurance to the employer market place through various forms of contributory and non-contributory plans. Its products are marketed primarily through a national distribution system of regional group offices. These offices develop business through employee benefit brokers, third-party administrators and other employee benefit firms.

Other Operations includes investments related to the excess capital in our insurance subsidiaries; investments in media properties (see Note 3 for more information) and other corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance; the results of certain disability income business; our run-off Institutional Pension business, the majority of which was sold on a group annuity basis; and debt costs.

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;
  - § Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
  - § Changes in the fair value of the embedded derivatives of our GLB riders accounted for at fair value, net of the change in the fair value of the derivatives we own to hedge them; and
  - § Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value;
- Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
- Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;

- Gains (losses) on early extinguishment of debt;
- Losses from the impairment of intangible assets;
- Income (loss) from discontinued operations; and
- Income (loss) from the initial adoption of new accounting standards.

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

- Excluded realized gain (loss);
- Revenue adjustments from the initial adoption of new accounting standards;
- Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking; and
- Amortization of deferred gains arising from reserve changes on business sold through reinsurance.

We use our prevailing corporate federal income tax rate of 35% while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

|  | For the Years Ended December |           |           |
|--|------------------------------|-----------|-----------|
|  | 31,                          |           |           |
|  | 2014                         | 2013      | 2012      |
| Revenues   |                              |           |           |
| Operating revenues:  |                              |           |           |
| Annuities  | \$ 3,746                     | \$ 3,321  | \$ 2,975  |
| Retirement Plan Services   | 1,090                        | 1,071     | 1,024     |
| Life Insurance   | 6,003                        | 5,170     | 5,056     |
| Group Protection   | 2,445                        | 2,260     | 2,091     |
| Other Operations   | 432                          | 417       | 423       |
| Excluded realized gain (loss), pre-tax   | (165 )                       | (274 )    | (39 )     |
| Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax | 3                            | 3         | 4         |
| Amortization of DFEL associated with benefit ratio unlocking, pre-tax                                    | -                            | 1         | 1         |
| Total revenues   | \$ 13,554                    | \$ 11,969 | \$ 11,535 |

For the Years Ended  
December 31,  
2014      2013      2012

|   |          |          |          |
|---|----------|----------|----------|
| Net Income (Loss)   |          |          |          |
| Income (loss) from operations:  |          |          |          |
| Annuities   | \$ 925   | \$ 750   | \$ 595   |
| Retirement Plan Services  | 160      | 141      | 130      |
| Life Insurance  | 612      | 544      | 574      |
| Group Protection  | 23       | 71       | 72       |
| Other Operations  | (109 )   | (122 )   | (87 )    |
| Excluded realized gain (loss), after-tax  | (106 )   | (178 )   | (25 )    |
| Gain (loss) on early extinguishment of debt, after-tax  | -        | -        | (3 )     |
| Income (loss) from reserve changes (net of related<br>amortization) on business sold through reinsurance, after-tax | 2        | 2        | 3        |
| Impairment of intangibles, after-tax  | -        | -        | 2        |
| Benefit ratio unlocking, after-tax  | 7        | 36       | 25       |
| Income (loss) from continuing operations, after-tax   | 1,514    | 1,244    | 1,286    |
| Income (loss) from discontinued operations, after-tax   | 1        | -        | 27       |
| Net income (loss)   | \$ 1,515 | \$ 1,244 | \$ 1,313 |

|                             | For the Years Ended |          |          |
|-----------------------------|---------------------|----------|----------|
|                             | December 31,        |          |          |
|                             | 2014                | 2013     | 2012     |
| Net Investment Income       |                     |          |          |
| Annuities                   | \$ 1,033            | \$ 1,044 | \$ 1,082 |
| Retirement Plan Services    | 831                 | 827      | 799      |
| Life Insurance              | 2,529               | 2,452    | 2,396    |
| Group Protection            | 180                 | 165      | 162      |
| Other Operations            | 286                 | 266      | 259      |
| Total net investment income | \$ 4,859            | \$ 4,754 | \$ 4,698 |

|   | For the Years Ended |        |          |
|---|---------------------|--------|----------|
|   | December 31,        |        |          |
|   | 2014                | 2013   | 2012     |
| Amortization of DAC and VOBA, Net of Interest       |                     |        |          |
| Annuities   | \$ 362              | \$ 383 | \$ 321   |
| Retirement Plan Services                            | 37                  | 48     | 42       |
| Life Insurance                                      | 655                 | 447    | 614      |
| Group Protection                                    | 57                  | 53     | 49       |
| Total amortization of DAC and VOBA, net of interest | \$ 1,111            | \$ 931 | \$ 1,026 |

|   | For the Years Ended |        |        |
|---|---------------------|--------|--------|
|   | December 31,        |        |        |
|   | 2014                | 2013   | 2012   |
| Federal Income Tax Expense (Benefit)  |                     |        |        |
| Annuities   | \$ 238              | \$ 177 | \$ 121 |
| Retirement Plan Services  | 51                  | 49     | 38     |
| Life Insurance  | 295                 | 268    | 264    |
| Group Protection  | 12                  | 38     | 39     |
| Other Operations  | (57 )               | (71 )  | (177 ) |
| Excluded realized gain (loss)   | (60 )               | (95 )  | (14 )  |
| Gain (loss) on early extinguishment of debt   | -                   | -      | (2 )   |
| Reserve changes (net of related amortization)<br>on business sold through reinsurance | 1                   | 1      | 1      |
| Impairment of intangibles   | -                   | -      | (2 )   |
| Benefit ratio unlocking   | 3                   | 20     | 14     |
| Total federal income tax expense (benefit)  | \$ 483              | \$ 387 | \$ 282 |



|                          | As of December 31, |            |
|--------------------------|--------------------|------------|
|                          | 2014               | 2013       |
| Assets                   |                    |            |
| Annuities                | \$ 130,316         | \$ 120,267 |
| Retirement Plan Services | 33,678             | 32,369     |
| Life Insurance           | 70,493             | 65,639     |
| Group Protection         | 4,238              | 3,865      |
| Other Operations         | 14,652             | 14,805     |
| Total assets             | \$ 253,377         | \$ 236,945 |

## 23. Supplemental Disclosures of Cash Flow Data

The following summarizes our supplemental cash flow data (in millions):

|  | For the Years Ended<br>December 31, |        |         |
|--|-------------------------------------|--------|---------|
|  | 2014                                | 2013   | 2012    |
| Interest paid  | \$ 272                              | \$ 260 | \$ 270  |
| Income taxes paid (received)   | 254                                 | 10     | 124     |
| Significant non-cash investing and financing transactions:                           |                                     |        |         |
| Value of stock received from stock options exercised through stock swap transactions | \$ 13                               | \$ 5   | \$ -    |
| Other investments received in our repurchase program                                 | 152                                 | -      | -       |
| Business dispositions:   |                                     |        |         |
| Cash received (paid)   | -                                   | -      | (1 )    |
| Gain (loss) on dispositions  | \$ -                                | \$ -   | \$ (1 ) |

## 24. Quarterly Results of Operations (Unaudited)

The unaudited quarterly results of operations (in millions, except per share data) were as follows:

|  | For the Three Months Ended |          |                  |                 |
|--|----------------------------|----------|------------------|-----------------|
|  | March<br>31,               | June 30, | September<br>30, | December<br>31, |
| 2014   |                            |          |                  |                 |
| Total revenues   | \$ 3,176                   | \$ 3,282 | \$ 3,411         | \$ 3,685        |
| Total expenses   | 2,749                      | 2,745    | 2,810            | 3,253           |
| Income (loss) from continuing operations                                   | 329                        | 398      | 439              | 348             |
| Income (loss) from discontinued operations,<br>net of federal income taxes | -                          | -        | -                | 1               |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Net income (loss)                           | 329      | 398      | 439      | 349      |
| Earnings (loss) per common share – basic:   |          |          |          |          |
| Income (loss) from continuing operations    | 1.25     | 1.52     | 1.69     | 1.35     |
| Income (loss) from discontinued operations  | -        | -        | -        | -        |
| Net income (loss)                           | 1.25     | 1.52     | 1.69     | 1.35     |
| Earnings (loss) per common share – diluted: |          |          |          |          |
| Income (loss) from continuing operations    | 1.21     | 1.48     | 1.65     | 1.32     |
| Income (loss) from discontinued operations  | -        | -        | -        | -        |
| Net income (loss)                           | 1.21     | 1.48     | 1.65     | 1.32     |
| 2013  |          |          |          |          |
| Total revenues                              | \$ 2,839 | \$ 2,999 | \$ 3,009 | \$ 3,122 |
| Total expenses                              | 2,534    | 2,581    | 2,567    | 2,656    |
| Net income (loss)                           | 239      | 317      | 337      | 351      |
| Earnings (loss) per common share – basic:   |          |          |          |          |
| Net income (loss)                           | 0.89     | 1.19     | 1.28     | 1.34     |
| Earnings (loss) per common share – diluted: |          |          |          |          |
| Net income (loss)                           | 0.86     | 1.15     | 1.23     | 1.29     |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) 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.

(b) Management’s Report on Internal Control Over Financial Reporting

Management’s Report on Internal Control Over Financial Reporting is included on page 104 of “Item 8. Financial Statements and Supplementary Data” and is incorporated herein by reference.

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.

(c) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as that term is defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information for this item relating to officers of LNC is incorporated by reference to “Part I – Executive Officers of the Registrant.” Information for this item relating to directors of LNC is incorporated by reference to the sections captioned “GOVERNANCE OF THE COMPANY – Our Corporate Governance Guidelines,” “GOVERNANCE OF THE COMPANY – Director Nomination Process,” “THE BOARD OF DIRECTORS AND COMMITTEES – Current Committee Membership and Meetings Held During 2013,” “THE BOARD OF DIRECTORS AND COMMITTEES – Audit Committee,” “ITEM 1 – Election of Directors,” “COMPLIANCE WITH BENEFICIAL OWNERSHIP REPORTING” and “GENERAL – Shareholder Proposals” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 21, 2015.

We have adopted a code of ethics, which we refer to as our “Code of Conduct,” that applies, among others, to our principal executive officer, principal financial officer, principal accounting officer or controller and other persons performing similar functions. The Code of Conduct is posted on our website, [www.lfg.com](http://www.lfg.com). LNC will provide to any person without charge, upon request, a copy of such code. Requests for the Code of Conduct should be directed to: Corporate Secretary, Lincoln National Corporation, 150 N. Radnor Chester Road, Suite A305, Radnor, PA 19087. We intend to disclose any amendment to or waiver from the provisions of our Code of Conduct that applies to our directors and executive officers on our website, [www.lfg.com](http://www.lfg.com).

Item 11. Executive Compensation

Information for this item is incorporated by reference to the sections captioned “COMPENSATION OF DIRECTORS,” “COMPENSATION DISCUSSION & ANALYSIS,” “EXECUTIVE COMPENSATION TABLES” and

“COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 21, 2015.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information for this item is incorporated by reference to the section captioned “SECURITY OWNERSHIP” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 21, 2015.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below provides information as of December 31, 2014, regarding securities authorized for issuance under LNC’s equity compensation plans. See Note 19 to the consolidated financial statements included in “Part II – Item 8. Financial Statements and Supplementary Data” of this Form 10-K for a brief description of our equity compensation plans.

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|---|---|---|
| Equity compensation plans approved by shareholders     | 8,386,533   | (1)(2) \$ 38.91   | (3) 10,896,962 (4)  |
| Equity compensation plans not approved by shareholders | -   | -   | -   |
| Total  | 8,386,533   | \$ 38.91  | 10,896,962  |

(1) This amount excludes outstanding stock options assumed in connection with our acquisition of JP as follows:

- 560,474 shares to be issued upon exercise of outstanding options as of December 31, 2014, under the JP Long-Term Stock Incentive Plan with a weighted-average exercise price of \$53.30; and
- 38,850 shares to be issued upon exercise of outstanding options as of December 31, 2014, under the JP Non-Employee Directors Stock Option Plan with a weighted-average exercise price of \$53.60.
- No new awards may be issued under these plans.

(2) This amount includes the following:

- 1,404,852 representing the number of performance share awards based on the maximum number of shares potentially payable under the awards. 702,426 represents the target number of performance share awards as of December 31, 2014, as set forth in Note 19 of the Notes to the Consolidated Financial Statements, included in Item 8 of the 2014 Form 10-K. The performance share awards have not been earned as of December 31, 2014. The number of shares, if any, to be issued pursuant to such awards will be determined based upon performance over the applicable three-year performance period. The performance share awards are all granted under either the LNC 2009 Amended and Restated Incentive Compensation Plan (the “2009 ICP”) or the LNC 2014 Incentive Compensation Plan (the “2014 ICP”);
- 1,527,675 outstanding restricted stock units, which were granted under the 2009 ICP or the 2014 ICP;
- 3,324,369 outstanding stock options with service conditions granted under the 2009 ICP, the 2014 ICP, or the LNC Stock Option Plan for Non-Employee Directors (the “Directors’ Option Plan”);
- 1,071,747 outstanding options with performance conditions granted under the 2009 ICP; and
- 1,057,890 outstanding deferred stock units under deferred compensation plans for our employees, directors and agents. These outstanding deferred stock units are vested and are not included in Note 19 of the Notes to the Consolidated Financial Statements, included in Part II – Item 8 of the 2014 Form 10-K.

(3) The price in column (b) reflects the weighted average price of all outstanding options under any plan that, as of December 31, 2014, had been granted but not forfeited, expired or exercised. Performance shares, restricted stock units, and deferred stock units are not included in determining the weighted average in column (b) because they have no exercise price.

(4) Includes up to:

- 2,356,777 securities available for issuance in connection with awards under the 2009 ICP;
- 8,069,930 securities available for issuance in connection with awards under the 2014 ICP;
- 165,153 securities available for issuance in connection with stock options under the Directors’ Option Plan; and
- 305,102 securities available for issuance in connection with deferred stock units under the LNC Deferred Compensation Plan for Non-Employee Directors.



Shares that may be issued in payment of awards granted under the 2009 ICP, other than stock options, reduce the number of securities remaining available for future issuance at a ratio of 1.63 to 1. Shares that may be issued in payment of awards granted under the 2014 ICP reduce the number of securities remaining available for future issuance at a ratio of 1 to 1.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information for this item is incorporated by reference to the sections captioned “RELATED PARTY TRANSACTIONS” and “GOVERNANCE OF THE COMPANY – Director Independence” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 21, 2015.

Item 14. Principal Accounting Fees and Services

Information for this item is incorporated by reference to the sections captioned “ITEM 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 21, 2015.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

The following Consolidated Financial Statements of Lincoln National Corporation are included in Part II – Item 8:

Management Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets – December 31, 2014 and 2013

Consolidated Statements of Comprehensive Income (Loss) – Years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Stockholders' Equity – Years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows – Years ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules

The Financial Statement Schedules are listed in the Index to Financial Statement Schedules on page FS-1, which is incorporated herein by reference.

(a) (3) Listing of Exhibits

The Exhibits are listed in the Index to Exhibits beginning on page E-1, which is incorporated herein by reference.

(c) The Financial Statement Schedules for Lincoln National Corporation begin on page FS-2, which are incorporated herein by reference.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, LNC has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN NATIONAL CORPORATION

Dated: February 26, 2015 By: /s/ Randal J. Freitag  
Randal J. Freitag  
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 26, 2015.

| Signature  | Title   |
|--|---|
| /s/ Dennis R. Glass<br>Dennis R. Glass                   | President, Chief Executive Officer and Director<br>(Principal Executive Officer)      |
| /s/ Randal J. Freitag<br>Randal J. Freitag               | Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| /s/ Douglas N. Miller<br>Douglas N. Miller               | Senior Vice President and Chief Accounting Officer<br>(Principal Accounting Officer)  |
| /s/ William J. Avery<br>William J. Avery                 | Director  |
| /s/ William H. Cunningham<br>William H. Cunningham       | Director  |
| /s/ George W. Henderson, III<br>George W. Henderson, III | Director  |
| /s/ Eric G. Johnson<br>Eric G. Johnson                   | Director  |

/s/ Gary C. Kelly                      Director  
Gary C. Kelly

/s/ M. Leanne Lachman              Director  
M. Leanne Lachman

/s/ Michael F. Mee                   Director  
Michael F. Mee

/s/ William Porter Payne           Director  
William Porter Payne

/s/ Patrick S. Pittard               Director  
Patrick S. Pittard

/s/ Isaiah Tidwell                   Director  
Isaiah Tidwell

Index to Financial Statement Schedules

|  |      |
|--|------|
| I – Summary of Investments – Other than Investments in Related Parties | FS-2 |
| II – Condensed Financial Information of Registrant                     | FS-3 |
| III – Supplementary Insurance Information                              | FS-6 |
| IV – Reinsurance   | FS-8 |

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the required information is included in the consolidated financial statements, and therefore omitted. See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” on page 39 for more detail on items contained within these schedules.

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## LINCOLN NATIONAL CORPORATION

## SCHEDULE I – CONSOLIDATED SUMMARY OF INVESTMENTS – OTHER THAN

## INVESTMENTS IN RELATED PARTIES

(in millions)

| Column A  | Column<br>B             | Column<br>C   | Column D          |
|---|-------------------------|---------------|-------------------|
|   | As of December 31, 2014 |               |                   |
| Type of Investment                                      | Cost                    | Fair<br>Value | Carrying<br>Value |
| Available-For-Sale Fixed Maturity Securities (1)        |                         |               |                   |
| Bonds:  |                         |               |                   |
| U.S. government and government agencies and authorities | \$ 379                  | \$ 435        | \$ 435            |
| Asset-backed securities                                 | 1,491                   | 1,536         | 1,536             |
| States, municipalities and political subdivisions       | 3,723                   | 4,593         | 4,593             |
| Mortgage-backed securities                              | 4,533                   | 4,796         | 4,796             |
| Foreign governments                                     | 473                     | 541           | 541               |
| Public utilities  | 11,356                  | 12,786        | 12,786            |
| All other corporate bonds                               | 55,768                  | 60,599        | 60,599            |
| Hybrid and redeemable preferred securities              | 886                     | 954           | 954               |
| Variable interest entities                              | 587                     | 598           | 598               |
| Total available-for-sale fixed maturity securities      | 79,196                  | 86,838        | 86,838            |
| Available-For-Sale Equity Securities (1)                |                         |               |                   |
| Common stocks:  |                         |               |                   |
| Banks, trusts and insurance companies                   | 191                     | 195           | 195               |
| Nonredeemable preferred securities                      | 25                      | 36            | 36                |
| Total available-for-sale equity securities              | 216                     | 231           | 231               |
| Trading securities                                      | 1,764                   | 2,065         | 2,065             |
| Mortgage loans on real estate                           | 7,574                   | 8,038         | 7,574             |
| Real estate   | 20                      | N/A           | 20                |
| Policy loans  | 2,670                   | N/A           | 2,670             |
| Derivative investments (2)                              | 1,722                   | 1,860         | 1,860             |
| Other investments                                       | 1,709                   | 1,709         | 1,709             |
| Total investments                                       | \$ 94,871               |               | \$ 102,967        |

(1) Investments deemed to have declines in value that are other-than-temporary are written down or reserved for to reduce the carrying value to their estimated realizable value.

(2) Derivative investment assets were offset by \$77 million in derivative liabilities reflected in other liabilities on our Consolidated Balance Sheets.





## LINCOLN NATIONAL CORPORATION

## SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT

## BALANCE SHEETS

(Parent Company Only) (in millions, except share data)

|  | As of December 31, |           |
|--|--------------------|-----------|
|  | 2014               | 2013      |
| <b>ASSETS</b>                                  |                    |           |
| Investments in subsidiaries (1)                | \$ 18,488          | \$ 15,782 |
| Derivative investments                         | 298                | 264       |
| Other investments                              | 5                  | 55        |
| Cash and invested cash                         | 666                | 1,558     |
| Loans and accrued interest to subsidiaries (1) | 2,495              | 2,995     |
| Other assets                                   | 47                 | 54        |
| Total assets                                   | \$ 21,999          | \$ 20,708 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>    |                    |           |
| <b>Liabilities</b>                             |                    |           |
| Common dividends payable                       | \$ 51              | \$ 42     |
| Short-term debt                                | 250                | 501       |
| Long-term debt                                 | 5,021              | 5,571     |
| Loans from subsidiaries (1)                    | 453                | 460       |
| Payables for collateral on investments         | 96                 | 374       |
| Other liabilities                              | 388                | 308       |
| Total liabilities                              | 6,259              | 7,256     |
| <b>Contingencies and Commitments</b>           |                    |           |
| <b>Stockholders' Equity</b>                    |                    |           |
| Preferred stock – 10,000,000 shares authorized | -                  | -         |
| Common stock – 800,000,000 shares authorized   | 6,622              | 6,876     |
| Retained earnings                              | 6,022              | 5,013     |
| Accumulated other comprehensive income (loss)  | 3,096              | 1,563     |
| Total stockholders' equity                     | 15,740             | 13,452    |
| Total liabilities and stockholders' equity     | \$ 21,999          | \$ 20,708 |

(1) Eliminated in consolidation.



## LINCOLN NATIONAL CORPORATION

## SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

## STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Parent Company Only) (in millions)

|  | For the Years Ended |            |          |
|--|---------------------|------------|----------|
|  | December 31,        |            |          |
|  | 2014                | 2013       | 2012     |
| Revenues   |                     |            |          |
| Dividends from subsidiaries (1)  | \$ 791              | \$ 725     | \$ 635   |
| Interest from subsidiaries (1)   | 125                 | 128        | 128      |
| Net investment income  | 1                   | -          | 1        |
| Realized gain (loss)   | 1                   | (9 )       | (6 )     |
| Other revenues   | -                   | 5          | 25       |
| Total revenues   | 918                 | 849        | 783      |
| Expenses   |                     |            |          |
| Operating and administrative   | 39                  | 46         | 10       |
| Interest – subsidiaries (1)  | 6                   | 5          | 5        |
| Interest – other   | 280                 | 282        | 291      |
| Total expenses   | 325                 | 333        | 306      |
| Income (loss) before federal income taxes, equity in income (loss) of subsidiaries, less dividends | 593                 | 516        | 477      |
| Federal income tax expense (benefit)   | (77 )               | (73 )      | (85 )    |
| Income (loss) before equity in income (loss) of subsidiaries, less dividends                       | 670                 | 589        | 562      |
| Equity in income (loss) of subsidiaries, less dividends  | 845                 | 655        | 751      |
| Net income (loss)  | 1,515               | 1,244      | 1,313    |
| Other comprehensive income (loss), net of tax:   |                     |            |          |
| Unrealized gain (loss) on available-for-sale securities  | 1,688               | (2,457)    | 1,119    |
| Unrealized other-than-temporary impairment on available-for-sale securities                        | 20                  | 29         | 2        |
| Unrealized gain (loss) on derivatives instruments  | (117 )              | 93         | 44       |
| Foreign currency translation adjustment  | 2                   | (1 )       | (5 )     |
| Funded status of employee benefit plans  | (60 )               | 91         | (32 )    |
| Total other comprehensive income (loss), net of tax  | 1,533               | (2,245)    | 1,128    |
| Comprehensive income (loss)  | \$ 3,048            | \$ (1,001) | \$ 2,441 |

(1) Eliminated in consolidation.

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## LINCOLN NATIONAL CORPORATION

## SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

## STATEMENTS OF CASH FLOWS

(Parent Company Only) (in millions)

|  | For the Years Ended |          |          |
|--|---------------------|----------|----------|
|  | December 31,        |          |          |
|  | 2014                | 2013     | 2012     |
| Cash Flows from Operating Activities   |                     |          |          |
| Net income (loss)  | \$ 1,515            | \$ 1,244 | \$ 1,313 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                     |          |          |
| Equity in (income) loss of subsidiaries greater than distributions (1)                   | (845 )              | (655 )   | (751 )   |
| Realized (gain) loss   | (1 )                | 9        | 6        |
| Change in federal income tax accruals  | (32 )               | 63       | 170      |
| (Gain) loss on early extinguishment of debt  | -                   | -        | 5        |
| Other  | (1 )                | (10 )    | (13 )    |
| Net cash provided by (used in) operating activities                                      | 636                 | 651      | 730      |
| Cash Flows from Investing Activities   |                     |          |          |
| Sales or maturities of investments   | 50                  | -        | -        |
| Investment acquisition   | -                   | (25 )    | -        |
| Capital contribution to subsidiaries (1)   | (5 )                | (75 )    | -        |
| Increase (decrease) in payables for collateral on investments                            | (278 )              | 315      | 73       |
| Net cash provided by (used in) investing activities                                      | (233 )              | 215      | 73       |
| Cash Flows from Financing Activities   |                     |          |          |
| Payment of long-term debt, including current maturities                                  | (500 )              | -        | (320 )   |
| Issuance of long-term debt, net of issuance costs  | -                   | 400      | 300      |
| Increase (decrease) in loans from subsidiaries, net (1)                                  | (7 )                | 405      | (3 )     |
| Increase (decrease) in loans to subsidiaries, net (1)                                    | -                   | (410 )   | 20       |
| Common stock issued for benefit plans and excess tax benefits                            | 32                  | 32       | 5        |
| Repurchase of common stock   | (650 )              | (450 )   | (493 )   |
| Dividends paid to common and preferred stockholders                                      | (170 )              | (129 )   | (90 )    |
| Net cash provided by (used in) financing activities                                      | (1,295)             | (152 )   | (581 )   |
| Net increase (decrease) in cash and invested cash  | (892 )              | 714      | 222      |
| Cash and invested cash as of beginning-of-year   | 1,558               | 844      | 622      |
| Cash and invested cash as of end-of-year   | \$ 666              | \$ 1,558 | \$ 844   |

(1) Eliminated in consolidation.

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## LINCOLN NATIONAL CORPORATION

## SCHEDULE III – CONDENSED SUPPLEMENTARY INSURANCE INFORMATION

(in millions)

| Column A                                      | Column B     | Column C                 | Column D              | Column E                    | Column F           |
|---|--------------|--------------------------|-----------------------|-----------------------------|--------------------|
| Segment                                       | DAC and VOBA | Future Contract Benefits | Unearned Premiums (1) | Other Contract Holder Funds | Insurance Premiums |
| As of or For the Year Ended December 31, 2014 |              |                          |                       |                             |                    |
| Annuities                                     | \$ 3,062     | \$ 1,569                 | \$ -                  | \$ 21,070                   | \$ 173             |
| Retirement Plan Services                      | 148          | 2                        | -                     | 16,223                      | -                  |
| Life Insurance                                | 4,749        | 10,347                   | -                     | 37,280                      | 558                |
| Group Protection                              | 248          | 2,249                    | -                     | 183                         | 2,252              |
| Other Operations                              | -            | 5,890                    | -                     | 756                         | 5                  |
| Total   | \$ 8,207     | \$ 20,057                | \$ -                  | \$ 75,512                   | \$ 2,988           |
| As of or For the Year Ended December 31, 2013 |              |                          |                       |                             |                    |
| Annuities                                     | \$ 2,770     | \$ 138                   | \$ -                  | \$ 21,269                   | \$ 116             |
| Retirement Plan Services                      | 173          | -                        | -                     | 15,310                      | -                  |
| Life Insurance                                | 5,713        | 9,058                    | -                     | 36,997                      | 486                |
| Group Protection                              | 230          | 2,033                    | -                     | 200                         | 2,084              |
| Other Operations                              | -            | 6,022                    | -                     | 772                         | 1                  |
| Total   | \$ 8,886     | \$ 17,251                | \$ -                  | \$ 74,548                   | \$ 2,687           |
| As of or For the Year Ended December 31, 2012 |              |                          |                       |                             |                    |
| Annuities                                     | \$ 2,092     | \$ 2,339                 | \$ -                  | \$ 21,108                   | \$ 98              |
| Retirement Plan Services                      | 102          | 3                        | -                     | 14,712                      | -                  |
| Life Insurance                                | 4,281        | 9,177                    | -                     | 35,365                      | 441                |
| Group Protection                              | 192          | 1,882                    | -                     | 223                         | 1,919              |
| Other Operations                              | -            | 6,379                    | -                     | 810                         | 4                  |
| Total   | \$ 6,667     | \$ 19,780                | \$ -                  | \$ 72,218                   | \$ 2,462           |

(1) Unearned premiums are included in Column E, other contract holder funds.

## LINCOLN NATIONAL CORPORATION

## SCHEDULE III – CONDENSED SUPPLEMENTARY INSURANCE INFORMATION (Continued)

(in millions)

| Column A                                      | Column G                    | Column H<br>Benefits<br>and<br>Interest<br>Credited | Column I<br>Amortization<br>of DAC<br>and<br>VOBA | Column J<br>Other<br>Operating<br>Expenses | Column K<br>Premiums<br>Written |
|---|-----------------------------|---|---|--|---------------------------------|
| Segment                                       | Net<br>Investment<br>Income |   |   |  |                                 |
| As of or For the Year Ended December 31, 2014 |                             |   |   |  |                                 |
| Annuities                                     | \$ 1,034                    | \$ 959  | \$ 365  | \$ 1,252                                   | \$ -                            |
| Retirement Plan Services                      | 830                         | 474   | 37  | 368  | -                               |
| Life Insurance                                | 2,530                       | 3,783   | 655   | 658  | -                               |
| Group Protection                              | 180                         | 1,778   | 57  | 574  | -                               |
| Other Operations                              | 285                         | 217   | -   | 380  | -                               |
| Total   | \$ 4,859                    | \$ 7,211  | \$ 1,114  | \$ 3,232                                   | \$ -                            |
| As of or For the Year Ended December 31, 2013 |                             |   |   |  |                                 |
| Annuities                                     | \$ 1,044                    | \$ 835  | \$ 390  | \$ 1,113                                   | \$ -                            |
| Retirement Plan Services                      | 827                         | 470   | 48  | 363  | -                               |
| Life Insurance                                | 2,452                       | 3,283   | 447   | 628  | -                               |
| Group Protection                              | 165                         | 1,562   | 53  | 537  | -                               |
| Other Operations                              | 266                         | 222   | -   | 387  | -                               |
| Total   | \$ 4,754                    | \$ 6,372  | \$ 938  | \$ 3,028                                   | \$ -                            |
| As of or For the Year Ended December 31, 2012 |                             |   |   |  |                                 |
| Annuities                                     | \$ 1,082                    | \$ 868  | \$ 325  | \$ 1,018                                   | \$ -                            |
| Retirement Plan Services                      | 799                         | 451   | 42  | 363  | -                               |
| Life Insurance                                | 2,396                       | 2,982   | 614   | 619  | -                               |
| Group Protection                              | 162                         | 1,447   | 48  | 485  | -                               |
| Other Operations                              | 259                         | 260   | -   | 432  | -                               |
| Total   | \$ 4,698                    | \$ 6,008  | \$ 1,029  | \$ 2,917                                   | \$ -                            |



## LINCOLN NATIONAL CORPORATION

## SCHEDULE IV – CONSOLIDATED REINSURANCE

(in millions)

| Column A                                      | Column B     | Column C                 | Column D                     | Column E   | Column F                            |
|---|--------------|--------------------------|------------------------------|------------|-------------------------------------|
| Description                                   | Gross Amount | Ceded to Other Companies | Assumed from Other Companies | Net Amount | Percentage of Amount Assumed to Net |
| As of or For the Year Ended December 31, 2014 |              |                          |                              |            |                                     |
| Individual life insurance in force (1)        | \$ 1,034,800 | \$ 292,800               | \$ 1,500                     | \$ 743,500 | 0.2%                                |
| Premiums:                                     |              |                          |                              |            |                                     |
| Life insurance and annuities (2)              | 7,579        | 1,381                    | 7                            | 6,205      | 0.1%                                |
| Accident and health insurance                 | 1,485        | 29                       | -                            | 1,456      | 0.0%                                |
| Total premiums                                | \$ 9,064     | \$ 1,410                 | \$ 7                         | \$ 7,661   |                                     |
| As of or For the Year Ended December 31, 2013 |              |                          |                              |            |                                     |
| Individual life insurance in force (1)        | \$ 990,600   | \$ 313,200               | \$ 1,700                     | \$ 679,100 | 0.3%                                |
| Premiums:                                     |              |                          |                              |            |                                     |
| Life insurance and annuities (2)              | 6,644        | 1,247                    | 8                            | 5,405      | 0.1%                                |
| Accident and health insurance                 | 1,379        | 28                       | -                            | 1,351      | 0.0%                                |
| Total premiums                                | \$ 8,023     | \$ 1,275                 | \$ 8                         | \$ 6,756   |                                     |
| As of or For the Year Ended December 31, 2012 |              |                          |                              |            |                                     |
| Individual life insurance in force (1)        | \$ 929,100   | \$ 323,300               | \$ 2,000                     | \$ 607,800 | 0.3%                                |
| Premiums:                                     |              |                          |                              |            |                                     |
| Life insurance and annuities (2)              | 6,113        | 1,164                    | 9                            | 4,958      | 0.2%                                |
| Accident and health insurance                 | 1,266        | 26                       | -                            | 1,240      | 0.0%                                |
| Total premiums                                | \$ 7,379     | \$ 1,190                 | \$ 9                         | \$ 6,198   |                                     |

(1) Includes Group Protection segment and Other Operations in-force amounts.

(2) Includes insurance fees on universal life and other interest-sensitive products.



INDEX TO EXHIBITS

- 3.1 Restated Articles of Incorporation of LNC are incorporated by reference to Exhibit 3.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on July 8, 2013.
- 3.2 Amended and Restated Bylaws of LNC (effective May 23, 2013) are incorporated by reference to Exhibit 3.2 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2013.
- 4.1 Indenture of LNC, dated as of September 15, 1994, between LNC and The Bank of New York, as trustee, is incorporated by reference to Exhibit 4(c) to LNC's Registration Statement on Form S-3/A (File No. 33-55379) filed with the SEC on September 15, 1994.
- 4.2 First Supplemental Indenture, dated as of November 1, 2006, to Indenture dated as of September 15, 1994 is incorporated by reference to Exhibit 4.4 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2006.
- 4.3 Junior Subordinated Indenture, dated as of May 1, 1996, between LNC and The Bank of New York Trust Company, N.A. (successor in interest to J.P. Morgan Trust Company and The First National Bank of Chicago) is incorporated by reference to Exhibit 4(j) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2001.
- 4.4 Third Supplemental Junior Subordinated Indenture dated May 17, 2006, to Junior Subordinated Indenture, dated as of May 1, 1996, is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 17, 2006.
- 4.5 Fourth Supplemental Junior Subordinated Indenture, dated as of November 1, 2006, to Junior Subordinated Indenture, dated May 1, 1996, is incorporated by reference to Exhibit 4.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2006.
- 4.6 Fifth Supplemental Junior Subordinated Indenture, dated as of March 13, 2007, to Junior Subordinated Indenture, dated May 1, 1996, is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 13, 2007.
- 4.7 Senior Indenture, dated as of March 10, 2009, between LNC and the Bank of New York Mellon, is incorporated by reference to LNC's Form S-3ASR (File No. 333-157822) filed with the SEC on March 10, 2009.
- 4.8 Junior Subordinated Indenture, dated as of March 10, 2009, between LNC and the Bank of New York Mellon, is incorporated by reference to LNC's Form S-3ASR (File No. 333-157822) filed with the SEC on March 10, 2009.
- 4.9 Form of 7.00% Notes due March 15, 2018 incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 24, 1998.
- 4.10 Form of 7.00% Capital Securities due 2066 of LNC is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 17, 2006.

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- 4.11 Form of 6.15% Senior Notes due April 6, 2036 is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 7, 2006.
- 4.12 Form of 6.05% Capital Securities due 2067 is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 13, 2007.
- 4.13 Form of 6.30% Senior Notes due 2037 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on October 9, 2007.
- 4.14 Form of 8.75% Senior Notes due 2019 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 22, 2009.
- 4.15 Form of 6.25% Senior Notes due 2020 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on December 11, 2009.

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- 4.16 Form of 4.30% Senior Notes due 2015 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 18, 2010.
- 4.17 Form of 7.00% Senior Notes due 2040 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 18, 2010.
- 4.18 Form of 4.85% Senior Notes due 2021 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 24, 2011.
- 4.19 Form of 4.20% Senior Notes due 2022 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 29, 2012.
- 4.20 Form of 4.00% Senior Notes due 2023 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on August 16, 2013.
- 10.1 LNC 2014 Incentive Compensation Plan (effective May 22, 2014) is incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 28, 2014.\*
- 10.2 LNC 2009 Amended and Restated Incentive Compensation Plan (as amended and restated on May 14, 2009) is incorporated by reference to Exhibit 4 to LNC's Proxy Statement (File No. 1-6028) filed with the SEC on April 9, 2009.\*
- 10.3 Form of Restricted Stock Unit Award Agreement under the LNC 2009 Amended and Restated Incentive Compensation Plan, adopted November 2009, is incorporated by reference to Exhibit 99.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on November 6, 2009.\*
- 10.4 LNC Stock Option Plan for Non-Employee Directors is incorporated by reference to Exhibit 5 to LNC's Proxy Statement (File No. 1-6028) filed with the SEC on April 4, 2007.\*
- 10.5 Non-Qualified Stock Option Agreement for the LNC Stock Option Plan for Non-Employee Directors is incorporated by reference to Exhibit 10.3 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 10, 2007.\*
- 10.6 2015 Non-Employee Director Fees are filed herewith.\*
- 10.7 Amended and Restated LNC Supplemental Retirement Plan is incorporated by reference to Exhibit 10.10 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2007.\*
- 10.8 The Severance Plan for Officers of LNC is incorporated by reference to Exhibit 10.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2012.\*
- 10.9 Amendment No. 1 to The Severance Plan for Officers of LNC is incorporated by reference to Exhibit 10.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2012.\*
- 10.10 Amendment No. 2 to The Severance Plan for Officers of LNC is incorporated by reference to Exhibit 10.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2012.\*
- 10.11 Amendment No. 3 to The Severance Plan for Officers of LNC is incorporated by reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2012.\*

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- 10.12 Amendment No. 4 to The Severance Plan for Officers of LNC is incorporated by reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2012.\*
- 10.13 The LNC Outside Directors' Value Sharing Plan, last amended March 8, 2001, is incorporated by reference to Exhibit 10(e) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2001.\*
- 10.14 LNC Deferred Compensation and Supplemental/Excess Retirement Plan, as amended and restated effective December 31, 2013, is incorporated by reference to Exhibit 10.13 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2013.\*

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- 10.15 Amendment No. 1 to the LNC Deferred Compensation & Supplemental/Excess Retirement Plan, dated December 18, 2014, is filed herewith.\*
- 10.16 LNC 1993 Stock Plan for Non-Employee Directors, as last amended May 10, 2001, is incorporated by reference to Exhibit 10(g), to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2001.\*
- 10.17 Amendment No. 2 to the LNC 1993 Stock Plan for Non-Employee Directors (effective February 1, 2006) is incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 13, 2006.\*
- 10.18 Non-Qualified Stock Option Agreement (For Non-Employee Directors) under the LNC 1993 Stock Plan for Non-Employee Directors is incorporated by reference to Exhibit 10(z) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2004.\*
- 10.19 Amendment of outstanding Non-Qualified Option Agreements (for Non-Employee Directors) under the LNC 1993 Stock Plan for Non-Employee Directors is incorporated by reference to Exhibit 10.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 12, 2006.\*
- 10.20 LNC Executives' Severance Benefit Plan (effective August 7, 2008) is incorporated by reference to Exhibit 10.3 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2008.\*
- 10.21 Amendment No. 1 to the LNC Executives' Severance Benefit Plan (effective November 9, 2011) is incorporated by reference to Exhibit 10.22 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2011.\*
- 10.22 Amended and Restated LNC Excess Retirement Plan is incorporated by reference to Exhibit 10.26 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2007.\*
- 10.23 LNC Deferred Compensation Plan for Non-Employee Directors, as amended and restated November 5, 2008 is incorporated by reference to Exhibit 10.23 to LNC's Form 10-K (File NO. 1-6028) for the year ended December 31, 2008.\*
- 10.24 Form of 2008 Non-Qualified Stock Option Agreement under the LNC Amended and Restated Incentive Compensation Plan is incorporated by reference to Exhibit 10.2 of LNC's Form 8-K (File No. 1-6028) filed with the SEC on February 13, 2008.\*
- 10.25 Form of Indemnification between LNC and each director incorporated by reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2009.\*
- 10.26 Form of Restricted Stock Unit Award Agreement is incorporated by Reference to Exhibit 10.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2012.\*
- 10.27 Form of Non-Qualified Stock Option Award Agreement is incorporated by Reference to Exhibit 10.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2012.\*
- 10.28 Amendment #1 to the Form of Non-Qualified Stock Option Award Agreements, effective August 13, 2104, is filed herewith.\*
- 10.29 Amendment #2 to the Form of Non-Qualified Stock Option Award Agreements, effective August 13, 2104, is filed herewith.\*

- 10.30 Form of 2014-2016 Performance Cycle Agreement for the Senior Management Committee and the Corporate Leadership Group under the LNC 2009 Amended and Restated Incentive Compensation Plan is incorporated by Reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2014.\*
- 10.31 Form of 2012-2014 Performance Cycle Agreement for the CEO under the LNC 2009 Amended and Restated Incentive Compensation Plan is incorporated by Reference to Exhibit 10.2 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2014.\*



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- 10.32 Form of 2012-2014 Performance Cycle Agreement under the LNC 2009 Amended and Restated Incentive Compensation Plan is incorporated by Reference to Exhibit 10.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2012.\*
- 10.33 LNC Domestic Relocation Policy Home Sale Assistance Plan, effective as of September 6, 2007, is incorporated by reference to Exhibit 10.35 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2009.\*
- 10.34 Jefferson Pilot Corporation Long Term Stock Incentive Plan, as amended in February 2005, is incorporated by reference to Exhibit 10(iii) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004.\*
- 10.35 Jefferson Pilot Corporation Non-Employee Directors' Stock Option Plan, as amended in February 2005, is incorporated by reference to Exhibit 10(iv) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004.\*
- 10.36 Jefferson Pilot Corporation Non-Employee Directors' Stock Option Plan, as last amended in 1999, is incorporated by reference to Exhibit 10(vii) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 1998.\*
- 10.37 Jefferson Pilot Corporation forms of stock option terms for non-employee directors are incorporated by reference to Exhibit 10(xi) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004 and to Exhibit 10.2 of Jefferson-Pilot's Form 8-K filed with the SEC on February 17, 2006.\*
- 10.38 Jefferson Pilot Corporation forms of stock option terms for officers are incorporated by reference to Exhibit 10(xi) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004 and to Exhibit 10.1 of Jefferson-Pilot's Form 8-K filed with the SEC on February 17, 2006.\*
- 10.39 Jefferson-Pilot Deferred Fee Plan for Non-Employee Directors, as amended and restated November 5, 2008 is incorporated by reference to Exhibit 10.55 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2008.\*
- 10.40 Lease and Agreement dated August 1, 1984, with respect to LNL's offices located at Clinton Street and Harrison Street, Fort Wayne, Indiana is incorporated by reference to Exhibit 10(n) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 1995.
- 10.41 First Amendment of Lease, dated as of June 16, 2006, between Trona Cogeneration Corporation and The Lincoln National Life Insurance Company, is incorporated by reference to Exhibit 10.22 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2006.
- 10.42 Agreement of Lease dated February 17, 1998, with respect to LNL's offices located at 350 Church Street, Hartford, Connecticut is incorporated by reference to Exhibit 10(q) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 1997.
- 10.43 Stock and Asset Purchase Agreement by and among LNC, The Lincoln National Life Insurance Company, Lincoln National Reinsurance Company (Barbados) Limited and Swiss Re Life & Health America Inc. dated July 27, 2001 is incorporated by reference to Exhibit 99.1 to LNC's Form 8-K (File No. 1-6028) filed with the Commission on August 1, 2001. Omitted schedules and exhibits listed in the Agreement will be furnished to the Commission upon request.
- 10.44

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Credit Agreement, dated as of May 29, 2013, among Lincoln National Corporation, as an Account Party and Guarantor, the Subsidiary Account Parties, as additional Account Parties, JPMorgan Chase Bank, N.A. as administrative agent, and the other lenders named therein, incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 29, 2013.

- 10.45 Indemnity Reinsurance Agreement, dated as of January 1, 1998, between Connecticut General Life Insurance Company and Lincoln Life & Annuity Company of New York is incorporated by reference to Exhibit 10.67 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2008.\*\*\*
- 10.46 Coinsurance Agreement, dated as of October 1, 1998, AETNA Life Insurance and Annuity Company and Lincoln Life & Annuity Company of New York is incorporated by reference to Exhibit 10.68 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2008.\*\*\*
- 12 Historical Ratio of Earnings to Fixed Charges.

- 21 Subsidiaries List.
- 23 Consent of Independent Registered Public Accounting Firm.
- 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.
- 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.

\* This exhibit is a management contract or compensatory plan or arrangement.

\*\* Portions of the exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission (“SEC”) pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

\*\*\* Schedules to the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. LNC will furnish supplementally a copy of the schedule to the SEC, upon request.

We will furnish to the SEC, upon request, a copy of any of our long-term debt agreements not otherwise filed with the SEC.