LINCOLN NATIONAL CORP
Form 10-Q
November 03, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011
OR

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

For the transition period from to

Commission File Number 1-6028

LINCOLN NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

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

(484) 583-1400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

As of October 31, 2011, there were 301,664,558 shares of the registrant's common stock outstanding.

Lincoln National Corporation

Table of Contents

Item		Page
	PART I	
1.	Financial Statements	1
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	57
	Forward-Looking Statements – Cautionary Language	58
	Introduction	59
	Executive Summary	59
	Critical Accounting Policies and Estimates	61
	Acquisitions and Dispositions	66
	Results of Consolidated Operations	67
	Results of Retirement Solutions	72
	Annuities	73
	Defined Contribution	80
	Results of Insurance Solutions	87
	Life Insurance	88
	Group Protection	96
	Results of Other Operations	99
	Realized Gain (Loss) and Benefit Ratio Unlocking	103
	Consolidated Investments	106
	Review of Consolidated Financial Condition	127
	Liquidity and Capital Resources	127
	Other Matters	133
	Other Factors Affecting Our Business	133
	Recent Accounting Pronouncements	133
3.	Quantitative and Qualitative Disclosures About Market Risk	133
4.	Controls and Procedures	137
	PART II	
1.	Legal Proceedings	138
1A.	Risk Factors	138
2.	Unregistered Sales of Equity Securities and Use of Proceeds	141
6.	Exhibits	141
	Signatures	142
	Exhibit Index for the Report on Form 10-Q	E-1

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	As of September 30, 2011 (Unaudited)	As of December 31, 2010
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2011 - $68,382; 2010 - $65,175)	$ 74,591	$ 68,030
Variable interest entities' fixed maturity securities (amortized cost: 2011 - $672; 2010 - $570)	700	584
Equity securities (cost: 2011 - $131; 2010 - $179)	137	197
Trading securities	2,726	2,596
Mortgage loans on real estate	6,893	6,752
Real estate	136	202
Policy loans	2,874	2,865
Derivative investments	3,029	1,076
Other investments	1,105	1,038
Total investments	92,191	83,340
Cash and invested cash	4,833	2,741
Deferred acquisition costs and value of business acquired	8,130	8,930
Premiums and fees receivable	383	335
Accrued investment income	1,023	933
Reinsurance recoverables	6,659	6,527
Goodwill	3,019	3,019
Other assets	3,314	3,369
Separate account assets	78,195	84,630
Total assets	$ 197,747	$ 193,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 19,969	$ 17,460
Other contract holder funds	68,581	66,478
Short-term debt	550	351
Long-term debt	5,348	5,399
Reinsurance related embedded derivatives	177	102
Funds withheld reinsurance liabilities	1,072	1,149
Deferred gain on business sold through reinsurance	412	468
Payables for collateral on investments	3,855	1,659
Variable interest entities' liabilities	203	132
Other liabilities	4,466	3,190
Separate account liabilities	78,195	84,630
Total liabilities	182,828	181,018

Contingencies and Commitments (See Note 10)

Stockholders' Equity		
Preferred stock - 10,000,000 shares authorized; Series A - 10,854 and 10,914 shares issued and outstanding as of September 30, 2011, and December 31, 2010, respectively	-	-
Common stock - 800,000,000 shares authorized; 301,659,175 and 315,718,554 shares issued and outstanding as of September 30, 2011, and December 31, 2010, respectively	7,792	8,124
Retained earnings	4,664	3,934
Accumulated other comprehensive income (loss)	2,463	748
Total stockholders' equity	14,919	12,806
Total liabilities and stockholders' equity	$ 197,747	$ 193,824

See accompanying Notes to Consolidated Financial Statements

1

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(Unaudited, in millions, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues				
Insurance premiums	$ 559	$ 538	$ 1,721	$ 1,621
Insurance fees	864	769	2,582	2,351
Net investment income	1,151	1,132	3,522	3,358
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(42)	(99)	(133)	(187)
Portion of loss recognized in other comprehensive income	17	53	39	77
Net other-than-temporary impairment losses on securities recognized in earnings	(25)	(46)	(94)	(110)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(138)	89	(83)	132
Total realized gain (loss)	(163)	43	(177)	22
Amortization of deferred gain on business sold through reinsurance	19	19	56	56
Other revenues and fees	118	112	361	337
Total revenues	2,548	2,613	8,065	7,745
Benefits and Expenses				
Interest credited	625	623	1,864	1,855
Benefits	665	924	2,527	2,541
Underwriting, acquisition, insurance and other expenses	1,040	689	2,401	2,155
Interest and debt expense	79	74	223	212
Total benefits and expenses	2,409	2,310	7,015	6,763
Income (loss) from continuing operations before taxes	139	303	1,050	982
Federal income tax expense (benefit)	(12)	55	234	226
Income (loss) from continuing operations	151	248	816	756
Income (loss) from discontinued operations, net of federal income taxes	(8)	(2)	(8)	29
Net income (loss)	143	246	808	785
Preferred stock dividends and accretion of discount	-	-	-	(168)
Net income (loss) available to common stockholders	$ 143	$ 246	$ 808	$ 617
Earnings (Loss) Per Common Share - Basic				
Income (loss) from continuing operations	$ 0.50	$ 0.79	$ 2.63	$ 1.92
Income (loss) from discontinued operations	(0.03)	(0.01)	(0.03)	0.09
Net income (loss)	$ 0.47	$ 0.78	$ 2.60	$ 2.01
Earnings (Loss) Per Common Share - Diluted				
Income (loss) from continuing operations	$ 0.47	$ 0.76	$ 2.55	$ 1.85

Income (loss) from discontinued operations	(0.03)	(0.01)	(0.03)	0.09
Net income (loss)	$ 0.44	$ 0.75	$ 2.52	$ 1.94

See accompanying Notes to Consolidated Financial Statements

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

	For the Nine Months Ended September 30,	
	2011	2010
Preferred Stock		
Balance as of beginning-of-year	$ -	$ 806
Issuance (redemption) of Series B preferred stock	-	(950)
Accretion of discount on Series B preferred stock	-	144
Balance as of end-of-period	-	-
Common Stock		
Balance as of beginning-of-year	8,124	7,840
Issuance of common stock	-	368
Issuance (repurchase and cancellation) of common stock warrants	-	(48)
Stock compensation/issued for benefit plans	13	11
Effect of amendment to deferred compensation plans	-	(29)
Retirement of common stock/cancellation of shares	(345)	-
Balance as of end-of-period	7,792	8,142
Retained Earnings		
Balance as of beginning-of-year	3,934	3,316
Cumulative effect from adoption of new accounting standards	-	(169)
Comprehensive income (loss)	2,523	2,528
Less other comprehensive income (loss), net of tax	1,715	1,743
Net income (loss)	808	785
Retirement of common stock	(30)	-
Dividends declared: Common (2011 - $0.150; 2010 - $0.030)	(48)	(9)
Dividends on preferred stock	-	(24)
Accretion of discount on Series B preferred stock	-	(144)
Balance as of end-of-period	4,664	3,755
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	748	(262)
Cumulative effect from adoption of new accounting standards	-	181
Other comprehensive income (loss), net of tax	1,715	1,743
Balance as of end-of-period	2,463	1,662
Total stockholders' equity as of end-of-period	$ 14,919	$ 13,559

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	For the Nine Months Ended September 30,	
	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	$ 808	$ 785
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(110)	(186)
Trading securities purchases, sales and maturities, net	33	15
Change in premiums and fees receivable	(48)	13
Change in accrued investment income	(90)	(100)
Change in future contract benefits and other contract holder funds	141	671
Change in reinsurance related assets and liabilities	(210)	(119)
Change in federal income tax accruals	275	261
Realized (gain) loss	177	(22)
(Gain) loss on early extinguishment of debt	8	-
Amortization of deferred gain on business sold through reinsurance	(56)	(56)
(Gain) loss on disposal of discontinued operations	3	(65)
Other	3	(53)
Net cash provided by (used in) operating activities	934	1,144
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(8,540)	(10,449)
Sales of available-for-sale securities	1,274	2,595
Maturities of available-for-sale securities	3,988	3,093
Purchases of other investments	(2,202)	(2,390)
Sales or maturities of other investments	2,336	2,307
Increase (decrease) in payables for collateral on investments	2,196	660
Proceeds from sale of subsidiaries/businesses, net of cash disposed	-	321
Other	(63)	(49)
Net cash provided by (used in) investing activities	(1,011)	(3,912)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(275)	(250)
Issuance of long-term debt, net of issuance costs	298	749
Increase (decrease) in commercial paper, net	(100)	1
Deposits of fixed account values, including the fixed portion of variable	8,187	8,247
Withdrawals of fixed account values, including the fixed portion of variable	(3,750)	(3,858)
Transfers to and from separate accounts, net	(1,763)	(2,087)
Common stock issued for benefit plans and excess tax benefits	(6)	(2)

Issuance (redemption) of Series B preferred stock		-		(998)
Issuance of common stock		-		368
Repurchase of common stock		(375)		-
Dividends paid to common and preferred stockholders		(47)		(39)
Net cash provided by (used in) financing activities		2,169		2,131
Net increase (decrease) in cash and invested cash, including discontinued operations		2,092		(637)
Cash and invested cash, including discontinued operations, as of beginning-of-year		2,741		4,184
Cash and invested cash, including discontinued operations, as of end-of-period	$	4,833	$	3,547

See accompanying Notes to Consolidated Financial Statements

4

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 ("2010 Form 10-K"), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2010 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine month period ended September 30, 2011, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2011. All material intercompany accounts and transactions have been eliminated in consolidation.

Certain amounts reported in prior years' consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. These reclassifications had no effect on net income or stockholders' equity of the prior years.

2. New Accounting Standards

Adoption of New Accounting Standards

Fair Value Measurements and Disclosures Topic

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which requires additional disclosure related to the three-level fair value hierarchy. For a more detailed description of ASU 2010-06, see "Adoption of New

Accounting Standards – Fair Value Measurements and Disclosures Topic" in Note 2 of our 2010 Form 10-K. We adopted the remaining disclosure requirements in ASU 2010-06 effective January 1, 2011, and have prospectively included the disclosures related to purchases, sales, issuances and settlements for Level 3 fair value measurements in Note 14 for the period ended September 30, 2011.

Financial Services – Insurance Industry Topic

In April 2010, the FASB issued ASU No. 2010-15, "How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments" ("ASU 2010-15"), to clarify a consolidation issue for insurance entities that hold a controlling interest in an investment fund either partially or completely through separate accounts. For a more detailed description of ASU 2010-15, see "Future Adoption of New Accounting Standards – Financial Services – Insurance Industry Topic" in Note 2 of our 2010 Form 10-K. We adopted the accounting guidance in ASU 2010-15 effective January 1, 2011. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Intangibles – Goodwill and Other Topic

In December 2010, the FASB issued ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts" ("ASU 2010-28"). For a more detailed description of ASU 2010-28, see "Future Adoption of New Accounting Standards – Intangibles – Goodwill and Other Topic" in Note 2 of our 2010 Form 10-K. We adopted ASU 2010-28 effective January 1, 2011, and evaluated the reporting units within scope under this new accounting guidance. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Receivables Topic

In July 2010, the FASB issued ASU No. 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” (“ASU 2010-20”), in order to enhance and expand the financial statement disclosures. For a more detailed description of ASU 2010-20, see “Adoption of New Accounting Standards – Receivables Topic” in Note 2 of our 2010 Form 10-K. We adopted the remaining disclosure requirements in ASU 2010-20 effective January 1, 2011, and have prospectively included the required financial statement disclosures related to the activity in our allowance for mortgage loan on real estate losses in Note 5 for the period ended September 30, 2011.

Future Adoption of New Accounting Standards

Comprehensive Income Topic

In June 2011, the FASB issued ASU No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”), with an objective of increasing the prominence of items reported in other comprehensive income (“OCI”). The amendments in ASU 2011-05 provide entities with the option to present the total of comprehensive income, the components of net income and the components of OCI in either a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, entities must present on the face of the financial statement, items reclassified from OCI to net income in the section of the financial statement where the components of net income and OCI are presented, regardless of the option selected to present comprehensive income. ASU 2011-05 is applicable retrospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is permitted. We will adopt the provisions of ASU 2011-05 effective January 1, 2012, and are currently evaluating our options for the presentation of comprehensive income upon adoption.

Fair Value Measurements and Disclosures Topic

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards” (“ASU 2011-04”), which was issued to create a consistent framework for the application of fair value measurement across jurisdictions. The amendments include wording changes to GAAP in order to clarify the FASB’s intent about the application of existing fair value measurements and disclosure requirements, as well as to change a particular principle or existing requirement for measuring fair value or disclosing information about fair value measurements. There are no additional fair value measurements required upon the adoption of ASU 2011-04. The amendments are effective, prospectively, for interim and annual reporting periods beginning after December 15, 2011. Early adoption is prohibited. We will adopt the provisions of ASU 2011-04 effective January 1, 2012, and are currently evaluating the effect of adoption on our consolidated financial condition and results of operations.

Financial Services – Insurance Industry Topic

In October 2010, the FASB issued ASU No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (“ASU 2010-26”), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. For a more detailed description of ASU 2010-26, see “Future Adoption of New Accounting Standards – Financial Services – Insurance Industry Topic” in Note 2 of our 2010 Form 10-K. We will adopt the provisions of ASU 2010-26 effective January 1, 2012, and currently estimate that retrospective adoption will result in the restatement of all years presented with a cumulative effect adjustment to the opening balance of retained earnings for the earliest period presented of approximately $950 million to $1.15 billion. In addition, the adoption of this accounting guidance will result in a lower deferred acquisition costs (“DAC”) adjustment associated with unrealized gains and losses on available-for-sale (“AFS”) securities and certain derivatives;

therefore, we will also adjust these DAC balances as of January 1, 2012, through a cumulative effect adjustment to the opening balance of accumulated other comprehensive income (loss) ("AOCI"). This adjustment is dependent on our unrealized position as of the date of adoption.

Intangibles – Goodwill and Other Topic

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08"), which provides an option to first assess qualitative factors to determine if it is necessary to complete the two-step goodwill impairment test. If an assessment of the relevant events and circumstances leads to a conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if a conclusion is reached otherwise, the two-step impairment test, that is currently required under the FASB ASC, must be completed. An entity has an unconditional option to bypass the qualitative assessment for any reporting unit and proceed directly to the two-

step goodwill impairment test, and resume qualitative assessment for the same reporting unit in the subsequent reporting period. The amendments in ASU 2011-08 will be effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We will adopt the provisions of ASU 2011-08 effective January 1, 2012, and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

Transfers and Servicing Topic

In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements" ("ASU 2011-03"), which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. ASU 2011-03 removes from the assessment of effective control: the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The amendments in ASU 2011-03 will be effective for interim and annual reporting periods beginning on or after December 15, 2011, early adoption is prohibited, and the amendments will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. We will adopt the provisions of ASU 2011-03 effective January 1, 2012, and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

3. Dispositions

Discontinued Investment Management Operations

On January 4, 2010, we closed on the stock sale of our subsidiary Delaware Management Holdings, Inc. ("Delaware"), which provided investment products and services to individuals and institutions, to Macquarie Bank Limited. Net of tax proceeds were approximately $405 million.

We have reclassified the results of operations of Delaware into income (loss) from discontinued operations, net of federal income taxes, for all periods presented on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Discontinued Operations Before Disposal				
Revenues - gain (loss) on sale of business	$ -	$ -	$ -	$ 4
Income (loss) from discontinued operations before disposal, before federal income taxes	$ -	$ -	$ -	$ (13)
Federal income tax expense (benefit)	-	-	-	(2)
Income (loss) from discontinued operations before disposal	-	-	-	(11)

Disposal							
Gain (loss) on disposal, before federal income taxes		(3)		-		(3)	37
Federal income tax expense (benefit)		5		-		5	13
Gain (loss) on disposal		(8)		-		(8)	24
Income (loss) from discontinued operations	$	(8)	$	-	$	(8)	$ 13

The loss from discontinued operations for the three and nine months ended September 30, 2011, related to an unfavorable tax return true-up from the prior year.

The income from discontinued operations for the nine months ended September 30, 2010, included final cash received toward the purchase price for certain institutional taxable fixed income business sold during the fourth quarter 2007, and also reflected stock compensation expense attributable to the acceleration of vesting of equity awards for certain Delaware employees upon the sale of Delaware.

7

Discontinued Lincoln UK Operations

On October 1, 2009, we closed on the stock sale of Lincoln National (UK) plc ("Lincoln UK"), our subsidiary, which focused primarily on providing life and retirement income products in the United Kingdom to SLF of Canada UK Limited, and we retained Lincoln UK's pension plan assets and liabilities.

We have reclassified the results of operations of Lincoln UK into income (loss) from discontinued operations, net of federal income taxes, for all periods presented on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2010
Disposal		
Gain (loss) on disposal, before federal income taxes	$ 1	$ 28
Federal income tax expense (benefit)	3	12
Gain (loss) on disposal	(2)	16
Income (loss) from discontinued operations	$ (2)	$ 16

The loss from discontinued operations for the three months ended September 30, 2010, related to an unfavorable tax return true-up from the prior year, partially offset by the estimated transaction cost being lower than anticipated. In addition, the income from discontinued operations for the nine months ended September 30, 2010, included additional consideration received attributable to a post-closing adjustment of the purchase price based upon a final actuarial appraisal of the value of the business as set forth in the share purchase agreement, partially offset by the items mentioned above.

4. Variable Interest Entities ("VIEs")

Our involvement with VIEs is primarily to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. A VIE is an entity which does not have sufficient equity to finance its own activities without additional financial support or where investors lack certain characteristics of a controlling financial interest. We perform an ongoing qualitative assessment of our involvement with VIEs to determine whether we have a controlling financial interest and would therefore be considered the primary beneficiary of the VIE. If we determine we are the primary beneficiary of a VIE, we consolidate the assets and liabilities of the VIE in our consolidated financial statements.

Consolidated VIEs

Credit-Linked Notes

We have invested in the Class 1 Notes of two credit-linked note ("CLN") structures, which represent special purpose trusts combining asset-backed securities with credit default swaps to produce multi-class structured securities. The

CLN structures also include subordinated Class 2 Notes, which are held by third parties, and, together with the Class 1 Notes, represent 100% of the outstanding notes of the CLN structures. The entities that issued the CLNs are financed by the note holders, and, as such, the note holders participate in the expected losses and residual returns of the entities. Because the note holders do not have voting rights or similar rights, we determined the entities issuing the CLNs are VIEs, and as a note holder, our interest represented a variable interest. We have the power to direct the most significant activity affecting the performance of both CLN structures, as we have the ability to actively manage the reference portfolio underlying the credit default swaps. As a result, we have concluded we are the primary beneficiary of the VIEs associated with the CLNs and have consolidated the assets and liabilities of both CLN structures in our Consolidated Balance Sheets.

As a result of consolidating the CLNs, we also consolidate the derivative instruments in the CLN structures. The credit default swaps create variability in the CLN structures and expose the note holders to the credit risk of the referenced portfolio. The contingent forwards transfer a portion of the loss in the underlying fixed maturity corporate asset-backed credit card loan securities back to the counterparty after credit losses reach our attachment point.

The following summarizes information regarding the CLN structures (dollars in millions) as of September 30, 2011:

	Amount and Date of Issuance	
	$400 December 2006	$200 April 2007
Original attachment point (subordination)	5.50 %	2.05 %
Current attachment point (subordination)	4.17 %	1.48 %
Maturity	12/20/2016	3/20/2017
Current rating of tranche	B+	Ba2
Current rating of underlying collateral pool	Aa1-B3	Aaa-Caa1
Number of defaults in underlying collateral pool	2	2
Number of entities	123	99
Number of countries	19	22

There has been no event of default on the CLNs themselves. Based upon our analysis, the remaining subordination as represented by the attachment point should be sufficient to absorb future credit losses, subject to changing market conditions. Similar to other debt market instruments, our maximum principal loss is limited to our original investment.

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of September 30, 2011:

Industry	AAA	AA	A	BBB	BB	B	CCC	Total
Telecommunications	- %	- %	5.5 %	5.1 %	0.6 %	- %	- %	11.2 %
Financial intermediaries	0.3 %	4.0 %	5.7 %	0.5 %	- %	- %	- %	10.5 %
Oil and gas	- %	1.0 %	1.2 %	4.1 %	- %	- %	- %	6.3 %
Utilities	- %	- %	3.1 %	1.4 %	- %	- %	- %	4.5 %
Chemicals and plastics	- %	- %	2.3 %	1.2 %	0.4 %	- %	- %	3.9 %
Drugs	0.3 %	2.2 %	1.2 %	- %	- %	- %	- %	3.7 %
Retailers (except food and drug)	- %	- %	1.6 %	1.4 %	0.5 %	- %	- %	3.5 %
Industrial equipment	- %	- %	3.0 %	0.3 %	- %	- %	- %	3.3 %
Sovereign	- %	0.7 %	1.6 %	1.0 %	- %	- %	- %	3.3 %
Food products	- %	0.3 %	1.8 %	1.1 %	- %	- %	- %	3.2 %
Conglomerates	- %	2.6 %	0.5 %	- %	- %	- %	- %	3.1 %
Forest products	- %	- %	- %	1.6 %	1.4 %	- %	- %	3.0 %
Other industry < 3% (27 industries)	- %	2.5 %	15.4 %	17.3 %	3.6 %	1.4 %	0.3 %	40.5 %
Total	0.6 %	13.3 %	42.9 %	35.0 %	6.5 %	1.4 %	0.3 %	100.0 %

Statutory Trust Note

In August 2011, we purchased a $100 million note issued by a statutory trust ("Issuer") in a private placement offering. The proceeds were used by the Issuer to purchase U.S. Treasury securities to be held as collateral assets supporting an excess mortality swap. Our maximum exposure to loss is limited to our original investment in the notes. We have concluded that the Issuer of the note is a VIE as the entity does not have sufficient equity to support

its activities without additional financial support. In our evaluation of the primary beneficiary, we concluded that our economic interest was disproportionately greater than our stated power, and as a result, we concluded that we are the primary beneficiary of the Issuer and as of August 1, 2011, have consolidated all of the assets and liabilities of the Issuer in our consolidated financial statements.

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

	As of September 30, 2011			As of December 31, 2010		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loan	N/A	$ -	$ 593	N/A	$ -	$ 584
U.S. Government bonds	N/A	-	107	N/A	-	-
Excess mortality swap	1	100	-	-	-	-
Total assets (1)	1	$ 100	$ 700	-	$ -	$ 584
Liabilities						
Derivative instruments not designated and not qualifying as hedging instruments:						
Credit default swaps	2	$ 600	$ 312	2	$ 600	$ 215
Contingent forwards	2	-	(5)	2	-	(6)
Total derivative instruments not designated and not qualifying as hedging instruments	4	600	307	4	600	209
Federal income tax	N/A	-	(104)	N/A	-	(77)
Total liabilities (2)	4	$ 600	$ 203	4	$ 600	$ 132

(1) Reported in VIEs' fixed maturity securities on our Consolidated Balance Sheets.
(2) Reported in VIEs' liabilities on our Consolidated Balance Sheets.

For details related to the fixed maturity AFS securities for these VIEs, see Note 5.

As described more fully in Note 1 of our 2010 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the fixed maturity securities were not other-than-temporarily impaired as of September 30, 2011.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments				
Credit default swaps	$ (105)	$ 60	$ (92)	$ (10)
Contingent forwards	2	(4)	1	(7)
Total derivative instruments not designated and not qualifying as hedging instruments (1)	$ (103)	$ 56	$ (91)	$ (17)

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

Unconsolidated VIEs

See Note 4 in our 2010 Form 10-K for a detailed discussion of our unconsolidated VIEs.

5. Investments

AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards CodificationTM ("ASC"), we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 1 in our 2010 Form 10-K, which also includes additional disclosures regarding our fair value measurements.

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

	As of September 30, 2011				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$ 52,926	$ 5,955	$ 551	$ 67	$ 58,263
U.S. Government bonds	239	47	-	-	286
Foreign government bonds	590	53	1	-	642
Mortgage-backed securities ("MBS"):					
Collateralized mortgage obligations ("CMOs")	5,001	404	73	124	5,208
Mortgage pass through securities ("MPTS")	3,052	188	-	-	3,240
Commercial mortgage-backed securities ("CMBS")	1,719	70	105	14	1,670
ABS CDOs	131	-	20	-	111
State and municipal bonds	3,407	571	9	-	3,969
Hybrid and redeemable preferred securities	1,317	55	170	-	1,202
VIEs' fixed maturity securities	672	28	-	-	700
Total fixed maturity securities	69,054	7,371	929	205	75,291
Equity Securities					
Banking securities	2	-	1	-	1
Insurance securities	29	1	3	-	27
Other financial services securities	17	8	-	-	25
Other securities	83	7	6	-	84
Total equity securities	131	16	10	-	137
Total AFS securities	$ 69,185	$ 7,387	$ 939	$ 205	$ 75,428

	As of December 31, 2010				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$ 48,863	$ 3,571	$ 607	$ 87	$ 51,740
U.S. Government bonds	150	17	2	-	165
Foreign government bonds	473	38	3	-	508
MBS:					
CMOs	5,693	324	114	146	5,757
MPTS	2,980	106	5	-	3,081
CMBS	2,144	95	180	6	2,053
ABS CDOs	174	22	13	9	174
State and municipal bonds	3,222	27	94	-	3,155
Hybrid and redeemable preferred securities	1,476	56	135	-	1,397
VIEs' fixed maturity securities	570	14	-	-	584
Total fixed maturity securities	65,745	4,270	1,153	248	68,614
Equity Securities					
Banking securities	61	-	3	-	58
Insurance securities	33	4	-	-	37
Other financial services securities	18	14	-	-	32
Other securities	67	7	4	-	70
Total equity securities	179	25	7	-	197
Total AFS securities	$ 65,924	$ 4,295	$ 1,160	$ 248	$ 68,811

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

	As of September 30, 2011	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,330	$ 2,369
Due after one year through five years	12,515	13,390
Due after five years through ten years	21,789	23,809
Due after ten years	22,517	25,494
Subtotal	59,151	65,062
MBS	9,772	10,118
Asset-backed securities ("ABS") collateralized debt obligations ("CDOs")	131	111
Total fixed maturity AFS securities	$ 69,054	$ 75,291

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

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

	As of September 30, 2011					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$ 3,576	$ 184	$ 1,405	$ 434	$ 4,981	$ 618
U.S. Government bonds	14	-	2	-	16	-
Foreign government bonds	86	1	-	-	86	1
MBS:						
CMOs	573	107	492	90	1,065	197
MPTS	2	-	1	-	3	-
CMBS	221	21	154	98	375	119
ABS CDOs	3	1	87	19	90	20
State and municipal bonds	5	-	28	9	33	9
Hybrid and redeemable preferred securities	277	23	396	147	673	170
Total fixed maturity securities	4,757	337	2,565	797	7,322	1,134
Equity Securities						
Banking securities	1	1	-	-	1	1
Insurance securities	24	3	-	-	24	3
Other securities	6	6	-	-	6	6
Total equity securities	31	10	-	-	31	10
Total AFS securities	$ 4,788	$ 347	$ 2,565	$ 797	$ 7,353	$ 1,144
Total number of AFS securities in an unrealized loss position						952

	As of December 31, 2010					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$ 5,271	$ 297	$ 2,007	$ 397	$ 7,278	$ 694
U.S. Government bonds	28	2	2	-	30	2
Foreign government bonds	19	-	9	3	28	3
MBS:						
CMOs	465	121	748	139	1,213	260
MPTS	190	5	2	-	192	5
CMBS	75	8	304	178	379	186
ABS CDOs	-	-	147	22	147	22
State and municipal bonds	1,889	84	27	10	1,916	94
Hybrid and redeemable preferred securities	203	10	568	125	771	135
Total fixed maturity securities	8,140	527	3,814	874	11,954	1,401
Equity Securities						
Banking securities	57	3	-	-	57	3
Other securities	3	4	-	-	3	4
Total equity securities	60	7	-	-	60	7
Total AFS securities	$ 8,200	$ 534	$ 3,814	$ 874	$ 12,014	$ 1,408
Total number of AFS securities in an unrealized loss position						1,237

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

We perform detailed analysis on the AFS securities backed by pools of residential and commercial mortgages that are most at risk of impairment based on factors discussed in Note 1 in our 2010 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of September 30, 2011		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 2,120	$ 1,650	$ 470
AFS securities backed by pools of commercial mortgages	532	399	133
Total	$ 2,652	$ 2,049	$ 603
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 2,097	$ 1,627	$ 470
AFS securities backed by pools of commercial mortgages	132	67	65
Total	$ 2,229	$ 1,694	$ 535

	As of December 31, 2010		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 2,539	$ 2,006	$ 533
AFS securities backed by pools of commercial mortgages	611	410	201
Total	$ 3,150	$ 2,416	$ 734
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 2,303	$ 1,776	$ 527
AFS securities backed by pools of commercial mortgages	185	76	109
Total	$ 2,488	$ 1,852	$ 636

For the nine months ended September 30, 2011 and 2010, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $42 million and $114 million, pre-tax, respectively, and before associated amortization expense for DAC, value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL"), of which $9 million and $25 million, respectively, was recognized in OCI and $33 million and $89 million, respectively, was recognized in net income (loss).

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

	As of September 30, 2011			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 444	$ 156	$ 31	82
Six months or greater, but less than nine months	2	-	2	5
Nine months or greater, but less than twelve months	21	6	3	9
Twelve months or greater	630	450	120	174
Total	$ 1,097	$ 612	$ 156	270

	As of December 31, 2010			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 170	$ 73	$ 5	41
Six months or greater, but less than nine months	60	22	-	13
Nine months or greater, but less than twelve months	42	17	1	13
Twelve months or greater	929	520	184	224
Total	$ 1,201	$ 632	$ 190	291

(1) We may reflect a security in more than one aging category based on various purchase dates.

We regularly review our investment holdings for OTTI. Our gross unrealized losses on AFS securities decreased $264 million for the nine months ended September 30, 2011. This change was attributable primarily to a decline in overall market yields, which was driven by market uncertainty and weakening economic activity. As discussed further below, we believe the unrealized loss position as of September 30, 2011, did not represent OTTI as we did not intend to sell these fixed maturity AFS securities, it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of September 30, 2011, management believed we had the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of September 30, 2011, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the underlying collateral and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of September 30, 2011, the unrealized losses associated with our MBS and ABS CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model as discussed above. The key assumptions included default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each security.

As of September 30, 2011, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined we expected to recover the entire amortized cost of each security.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance as of beginning-of-period	$ 340	$ 293	$ 319	$ 268
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	11	6	40	7
Credit losses on securities for which an OTTI was previously recognized	17	14	57	53
Decreases attributable to:				
Securities sold	(6)	(6)	(54)	(21)
Balance as of end-of-period	$ 362	$ 307	$ 362	$ 307

During the three and nine months ended September 30, 2011, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
- Deterioration of creditworthiness of the issuer;
- Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates;
- Deterioration of fundamentals in the economy including, but not limited to, higher unemployment and lower housing prices; and
- Deterioration of the rating of the security by a rating agency.

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

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

	As of September 30, 2011				
	Amortized Cost	Gains	Gross Unrealized Losses and OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 168	$ 1	$ 66	$ 103	$ 46
MBS:					
CMOs	640	1	118	523	288
CMBS	21	-	14	7	28
Total	$ 829	$ 2	$ 198	$ 633	$ 362

	As of December 31, 2010				
	Amortized Cost	Gains	Gross Unrealized Losses and OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 204	$ 3	$ 76	$ 131	$ 60
MBS:					
CMOs	509	2	126	385	258
CMBS	6	-	5	1	1
Total	$ 719	$ 5	$ 207	$ 517	$ 319

Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for approximately 33% and 30% of mortgage loans on real estate as of September 30, 2011, and December 31, 2010, respectively.

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

	As of September 30, 2011	As of December 31, 2010
Current	$ 6,806	$ 6,697
60 to 90 days past due	26	8
Greater than 90 days past due	68	40
Valuation allowance associated with impaired mortgage loans on real estate	(22)	(13)
Unamortized premium (discount)	15	20
Total carrying value	$ 6,893	$ 6,752

17

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

	As of September 30, 2011	As of December 31, 2010
Number of impaired mortgage loans on real estate	10	9
Principal balance of impaired mortgage loans on real estate	$ 79	$ 75
Valuation allowance associated with impaired mortgage loans on real estate	(22)	(13)
Carrying value of impaired mortgage loans on real estate	$ 57	$ 62

Changes in the valuation allowance for credit losses associated with impaired mortgage loans on real estate (in millions) were as follows:

	For the Nine Months Ended September 30, 2011
Balance as of beginning-of-year	$ 13
Additions	14
Charge-offs	(5)
Balance as of end-of-period	$ 22

Information for our impaired mortgage loans on real estate (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Average carrying value for impaired mortgage loans on real estate	$ 58	$ 61	$ 55	$ 53
Interest income recognized on impaired mortgage loans on real estate	-	-	2	1
Interest income collected on impaired mortgage loans on real estate	-	-	2	1

As described in Note 1 in our 2010 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans on real estate, which were as follows (dollars in millions):

	As of September 30, 2011			As of December 31, 2010		
Loan-to-Value	Principal Amount	%	Debt-Service Coverage Ratio	Principal Amount	%	Debt-Service Coverage Ratio
Less than 65%	$ 5,343	77.4 %	1.60	$ 4,863	72.1 %	1.62
65% to 74%	1,148	16.7 %	1.37	1,484	22.0 %	1.40

75% to 100%	319	4.6 %	0.86	179	2.7 %	0.85
Greater than 100%	90	1.3 %	0.26	219	3.2 %	1.06
Total mortgage loans on real estate	$ 6,900	100.0 %		$ 6,745	100.0 %	

Alternative Investments

As of September 30, 2011, and December 31, 2010, alternative investments included investments in approximately 97 and 95 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Fixed maturity AFS securities:				
Gross gains	$ 17	$ 12	$ 84	$ 96
Gross losses	(63)	(61)	(177)	(174)
Equity AFS securities:				
Gross gains	-	3	10	9
Gross losses	-	-	-	(4)
Gain (loss) on other investments	(3)	(2)	1	(33)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	5	22	(13)	20
Total realized gain (loss) related to certain investments	$ (44)	$ (26)	$ (95)	$ (86)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$ (3)	$ (34)	$ (9)	$ (80)
MBS:				
CMOs	(22)	(16)	(65)	(52)
CMBS	(8)	(4)	(47)	(4)
ABS CDOs	-	-	(1)	(1)
Hybrid and redeemable preferred securities	-	-	(2)	(5)
Total fixed maturity securities	(33)	(54)	(124)	(142)
Equity securities:				
Other financial services securities	-	-	-	(3)
Total equity securities	-	-	-	(3)
Gross OTTI recognized in net income (loss)	(33)	(54)	(124)	(145)
Associated amortization of DAC, VOBA, DSI and DFEL	8	8	30	35

Net OTTI recognized in net income (loss), pre-tax	$ (25)	$ (46)	$ (94)	$ (110)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 21	$ 62	$ 48	$ 84
Change in DAC, VOBA, DSI and DFEL	(4)	(9)	(9)	(7)
Net portion of OTTI recognized in OCI, pre-tax	$ 17	$ 53	$ 39	$ 77

19

Determination of Credit Losses on Corporate Bonds and ABS CDOs

As of September 30, 2011, and December 31, 2010, we reviewed our corporate bond and ABS CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2011, and December 31, 2010, 97% and 95%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2011, and December 31, 2010, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $2.3 billion and $2.6 billion and a fair value of $2.1 billion and $2.4 billion, respectively. As of September 30, 2011, and December 31, 2010, 89% and 91%, respectively, of the fair value of our ABS CDO portfolio was rated investment grade. As of September 30, 2011, and December 31, 2010, the portion of our ABS CDO portfolio rated below investment grade had an amortized cost of $25 million and $24 million and fair value of $13 million and $16 million, respectively. Based upon the analysis discussed above, we believed as of September 30, 2011, and December 31, 2010, that we would recover the amortized cost of each investment grade corporate bond and ABS CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the nine months ended September 30, 2011 and 2010, the recovery as a percentage of amortized cost was 98% and 80% for corporate bonds, respectively, and 0% for ABS CDOs for both periods.

Determination of Credit Losses on MBS

As of September 30, 2011, and December 31, 2010, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 25% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) in the pool to project the future expected cash flows.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity, if defaulted. For first lien loans, we assume a minimum of 30% severity with higher severity assumed for investor properties and further housing price depreciation.

Payables for Collateral on Investments

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

	As of September 30, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$ 2,593	$ 2,593	$ 800	$ 800

Securities pledged under securities lending agreements (2)	198	191	199	192
Securities pledged under reverse repurchase agreements (3)	280	295	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	184	211	280	318
Investments pledged for Federal Home Loan Bank of Indianapolis Securities ("FHLBI") (5)	600	1,037	100	115
Total payables for collateral on investments	$ 3,855	$ 4,327	$ 1,659	$ 1,719

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that once exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.

(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
(3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed maturity AFS securities.
(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.
(5) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 85% to 95% of the fair value of the FHLBI securities. The cash received in these transactions is typically invested in cash and invested cash or fixed maturity AFS securities.

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

	For the Nine Months Ended September 30,	
	2011	2010
Collateral payable held for derivative investments	$ 1,793	$ 1,053
Securities pledged under securities lending agreements	(1)	(301)
Securities pledged under reverse repurchase agreements	-	(64)
Securities pledged for TALF	(96)	(28)
Securities pledged for FHLBI	500	-
Total increase (decrease) in payables for collateral on investments	$ 2,196	$ 660

Investment Commitments

As of September 30, 2011, our investment commitments were $627 million, which included $271 million of limited partnerships (“LPs”), $194 million of private placements and $162 million of mortgage loans on real estate.

Concentrations of Financial Instruments

As of September 30, 2011, and December 31, 2010, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $5.1 billion and $5.0 billion, or 6% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of $2.8 billion and $2.9 billion, or 3% of our invested assets portfolio, respectively. These investments are included in corporate bonds in the tables above.

As of September 30, 2011, and December 31, 2010, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $7.6 billion and $6.7 billion, or 8% of our invested assets portfolio, respectively, and our investment securities in the CMO industry with a fair value of $5.9 billion and

$6.5 billion, or 6% and 8% of our invested assets portfolio, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

6. Derivative Instruments

Types of Derivative Instruments and Derivative Strategies

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. We assess these risks by continually identifying and monitoring changes in interest rate exposure, foreign currency exposure, equity market exposure and credit exposure that may adversely affect expected future cash flows and by evaluating hedging opportunities. Derivative instruments that are used as part of our interest rate risk management strategy include interest rate swap agreements, interest rate cap agreements, interest rate futures, forward-starting interest rate swaps, consumer price index swaps, interest rate cap corridors, treasury locks and reverse treasury locks. Derivative instruments that are used as part of our foreign currency risk management strategy include foreign currency swaps, currency futures and foreign currency forwards. Call options based on our stock, call options based on the S&P 500 Index® (“S&P 500”), total return swaps, variance swaps, equity collars, put options and equity futures are used as part of our equity market risk management strategy. We also use credit default swaps as part of our credit risk management strategy.

We evaluate and recognize our derivative instruments in accordance with the Derivatives and Hedging Topic of the FASB ASC. As of September 30, 2011, we had derivative instruments that were designated and qualifying as cash flow hedges and fair value hedges. We also had embedded derivatives that were economic hedges, but were not designed to meet the requirements for hedge accounting treatment. See Note 1 in our 2010 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments.

Our derivative instruments are monitored by our Asset Liability Management Committee and our Equity Risk Management Committee as part of those committees’ oversight of our derivative activities. Our committees are responsible for implementing various hedging strategies that are developed through their analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are incorporated into our overall risk management strategies.

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with living benefit guarantees offered in our variable annuity products, including products with guaranteed withdrawal benefit (“GWB”) features and guaranteed income benefit (“GIB”) features. See “Guaranteed Living Benefit (“GLB”) Reserves Embedded Derivatives” below for further details.

See Note 14 for additional disclosures related to the fair value of our financial instruments and see Note 4 for derivative instruments related to our consolidated VIEs.

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

	As of September 30, 2011					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value Gain	Asset Carrying or Fair Value Loss	(Liability) Carrying or Fair Value Gain	(Liability) Carrying or Fair Value Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	148	$ 877	$ 34	$ (222)	$ -	$ -
Forward-starting interest rate swaps (1)	3	60	-	-	-	-
Foreign currency swaps (1)	13	340	47	(14)	-	-
Treasury and reverse treasury locks (1)	12	1,600	320	(10)	-	-
Total cash flow hedges	176	2,877	401	(246)	-	-
Fair value hedges:						
Interest rate swap agreements (2)	11	1,675	277	-	-	(277)
Total fair value hedges	11	1,675	277	-	-	(277)
Total derivative instruments designated and qualifying as hedging instruments	187	4,552	678	(246)	-	(277)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate futures (1)	5,241	935	-	-	-	-
Equity futures (1)	28,409	1,724	-	-	-	-
Interest rate swap agreements (1)	106	10,076	887	(505)	-	-
Credit default swaps - buying protection (1)	3	35	6	-	-	-
Credit default swaps - selling protection (3)	9	148	-	-	-	(15)
Total return swaps (1)	24	2,597	101	(12)	-	-
Put options (1)	172	6,477	1,878	(18)	-	-
Call options (based on S&P 500) (1)	545	4,778	118	-	-	-
Variance swaps (1)	74	40	125	(14)	-	-
Currency futures (1)	18	3	-	-	-	-
Consumer price index swaps (1)	98	51	-	(3)	-	-
Interest rate cap corridors (1)	88	16,625	34	-	-	-
Embedded derivatives:						
Deferred compensation plans (3)	6	-	-	-	-	(325)
Indexed annuity contracts (4)	145,862	-	-	-	-	(342)
GLB reserves (4)	330,244	-	-	-	503	(2,846)
Reinsurance related (5)	-	-	-	-	-	(177)
Total derivative instruments not designated and not qualifying as hedging instruments	510,899	43,489	3,149	(552)	503	(3,705)
Total derivative instruments	511,086	$ 48,041	$ 3,827	$ (798)	$ 503	$ (3,982)

	As of December 31, 2010					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value Gain	Asset Carrying or Fair Value Loss	(Liability) Carrying or Fair Value Gain	(Liability) Carrying or Fair Value Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	151	$ 926	$ 24	$ (71)	$ -	$ -
Forward-starting interest rate swaps (1)	2	150	1	-	-	-
Foreign currency swaps (1)	13	340	43	(13)	-	-
Reverse treasury locks (1)	5	1,000	11	(5)	-	-
Total cash flow hedges	171	2,416	79	(89)	-	-
Fair value hedges:						
Interest rate swap agreements (2)	11	1,675	106	(51)	-	(55)
Total fair value hedges	11	1,675	106	(51)	-	(55)
Total derivative instruments designated and qualifying as hedging instruments	182	4,091	185	(140)	-	(55)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate cap agreements (1)	3	150	-	-	-	-
Interest rate futures (1)	15,881	2,251	-	-	-	-
Equity futures (1)	13,375	907	-	-	-	-
Interest rate swap agreements (1)	81	7,955	34	(511)	-	-
Credit default swaps (3)	9	145	-	-	-	(16)
Total return swaps (1)	9	900	-	(21)	-	-
Put options (1)	145	5,602	1,151	-	-	-
Call options (based on S&P 500) (1)	544	4,083	301	-	-	-
Variance swaps (1)	50	30	46	(34)	-	-
Currency futures (1)	1,589	219	-	-	-	-
Consumer price index swaps (1)	100	55	-	(2)	-	-
Interest rate cap corridors (1)	73	8,050	52	-	-	-
Embedded derivatives:						
Deferred compensation plans (3)	6	-	-	-	-	(363)
Indexed annuity contracts (4)	132,260	-	-	-	-	(497)
GLB reserves (4)	305,962	-	-	-	518	(926)
Reinsurance related (5)	-	-	-	-	-	(102)
AFS securities (1)	1	-	15	-	-	-
Total derivative instruments not designated and not qualifying as hedging instruments	470,088	30,347	1,599	(568)	518	(1,904)
Total derivative instruments	470,270	$ 34,438	$ 1,784	$ (708)	$ 518	$ (1,959)

(1) Reported in derivative investments on our Consolidated Balance Sheets.

(2)

The asset is reported in derivative investments and the liability in long-term debt on our Consolidated Balance Sheets.

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

(4) Reported in future contract benefits on our Consolidated Balance Sheets.

(5) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

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

	Remaining Life as of September 30, 2011					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Derivative Instruments						
Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements	$ -	$ 59	$ 264	$ 547	$ 7	$ 877
Forward-starting interest rate swaps	-	-	60	-	-	60
Foreign currency swaps	-	154	105	81	-	340
Treasury and reverse treasury locks	300	1,090	210	-	-	1,600
Total cash flow hedges	300	1,303	639	628	7	2,877
Fair value hedges:						
Interest rate swap agreements	300	500	-	875	-	1,675
Total fair value hedges	300	500	-	875	-	1,675
Total derivative instruments designated and qualifying as hedging instruments	600	1,803	639	1,503	7	4,552
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate futures	935	-	-	-	-	935
Equity futures	1,724	-	-	-	-	1,724
Interest rate swap agreements	258	1,594	1,970	6,254	-	10,076
Credit default swaps - buying protection	-	35	-	-	-	35
Credit default swaps - selling protection	-	40	108	-	-	148
Total return swaps	2,447	150	-	-	-	2,597
Put options	-	1,814	4,663	-	-	6,477
Call options (based on S&P 500)	3,786	992	-	-	-	4,778
Variance swaps	-	3	37	-	-	40
Currency futures	3	-	-	-	-	3
Consumer price index swaps	4	15	13	17	2	51
Interest rate cap corridors	-	7,750	8,875	-	-	16,625
Total derivative instruments not designated and not qualifying as hedging instruments	9,157	12,393	15,666	6,271	2	43,489
Total derivative instruments with notional amounts	$ 9,757	$ 14,196	$ 16,305	$ 7,774	$ 9	$ 48,041

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

	For the Nine Months Ended September 30,	
	2011	2010
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ (15)	$ 11
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate swap agreements	(147)	(91)
Forward-starting interest rate swaps	(2)	-
Foreign currency swaps	7	20
Treasury and reverse treasury locks	327	(29)
Fair value hedges:		
Interest rate swap agreements	3	3
Change in foreign currency exchange rate adjustment	(1)	8
Change in DAC, VOBA, DSI and DFEL	(1)	(10)
Income tax benefit (expense)	(65)	35
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate swap agreements (1)	(6)	5
Foreign currency swaps (1)	3	2
Treasury and reverse treasury locks (2)	(3)	3
Fair value hedges:		
Interest rate swap agreements (2)	3	3
Associated amortization of DAC, VOBA, DSI and DFEL	-	(1)
Income tax benefit (expense)	1	(4)
Balance as of end-of-period	$ 108	$ (61)

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Derivative Instruments Designated and Qualifying as Hedging Instruments				
Cash flow hedges:				
Interest rate swap agreements (1)	$ (2)	$ (3)	$ (7)	$ 5
Foreign currency swaps (1)	2	1	3	2
Total cash flow hedges	-	(2)	(4)	7
Fair value hedges:				
Interest rate swap agreements (2)	13	12	38	29
Equity collars (3)	-	15	-	15
Total fair value hedges	13	27	38	44
Total derivative instruments designated and qualifying as hedging instruments	13	25	34	51
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments				
Interest rate futures (3)	132	134	121	348
Equity futures (3)	105	(184)	51	(172)
Interest rate swap agreements (3)	850	10	888	313
Foreign currency forwards (3)	-	-	-	43
Credit default swaps - fees (1)	-	-	-	1
Credit default swaps - buying protection - marked-to-market (1)	(1)	-	(1)	-
Credit default swaps - selling protection - marked-to-market (3)	(8)	12	(6)	4
Total return swaps (4)	154	(110)	120	(59)
Put options (3)	606	(148)	504	235
Call options (based on S&P 500) (3)	(140)	70	(78)	27
Variance swaps (3)	126	(56)	84	38
Currency futures (3)	(5)	(8)	(11)	(15)
Consumer price index swaps (3)	(3)	(4)	(1)	(4)
Interest rate cap corridors (1)	(25)	(4)	(41)	(15)
Embedded derivatives:				
Deferred compensation plans (4)	22	(14)	10	(14)
Indexed annuity contracts (3)	135	(70)	81	(19)
GLB reserves (3)	(2,065)	188	(1,935)	(805)
Reinsurance related (3)	(58)	(40)	(76)	(102)
AFS securities (1)	-	1	1	-
Total derivative instruments not designated and not qualifying as hedging instruments	(175)	(223)	(289)	(196)
Total derivative instruments	$ (162)	$ (198)	$ (255)	$ (145)

(1) Reported in net investment income on our Consolidated Statements of Income (Loss).
(2) Reported in interest and debt expense on our Consolidated Statements of Income (Loss).
(3) Reported in realized gain (loss) on our Consolidated Statements of Income (Loss).
(4)

Reported in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).

The location in the Consolidated Statements of Income (Loss) where the gains (losses) are recorded for each of the derivative instruments discussed below is specified in the table above.

Derivative Instruments Designated and Qualifying as Cash Flow Hedges

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Gain (loss) recognized as a component of OCI with the offset to net investment income	$ -	$ (3)	$ (4)	$ 7

As of September 30, 2011, $21 million of the deferred net losses on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next twelve months. This reclassification would be due primarily to the interest rate variances related to the interest rate swap agreements.

For the three and nine months ended September 30, 2011 and 2010, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

Interest Rate Swap Agreements

We use a portion of our interest rate swap agreements to hedge the interest rate risk of our exposure to floating rate bond coupon payments, replicating a fixed rate bond. An interest rate swap is a contractual agreement to exchange payments at one or more times based on the actual or expected price level, performance or value of one or more underlying interest rates. We are required to pay the counterparty the stream of variable interest payments based on the coupon payments from the hedged bonds, and in turn, receive a fixed payment from the counterparty at a predetermined interest rate. The gains or losses on interest rate swaps hedging our interest rate exposure on floating rate bond coupon payments are reclassified from accumulated OCI to net income (loss) as the related bond interest is accrued.

In addition, we use interest rate swap agreements to hedge our exposure to fixed rate bond coupon payments and the change in underlying asset values as interest rates fluctuate.

As of September 30, 2011, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was June 2042.

Forward-Starting Interest Rate Swaps

We use forward-starting interest rate swaps to hedge our exposure to interest rate fluctuations related to the forecasted purchase of certain AFS securities. The gains or losses resulting from the swap agreements are recorded in OCI. The gains or losses are reclassified from accumulated OCI to earnings over the life of the assets once the assets are purchased.

Foreign Currency Swaps

We use foreign currency swaps, which are traded over-the-counter, to hedge some of the foreign exchange risk of investments in fixed maturity securities denominated in foreign currencies. A foreign currency swap is a contractual agreement to exchange the currencies of two different countries at a specified rate of exchange in the future. The gains or losses on foreign currency swaps hedging foreign exchange risk exposure on foreign currency bond coupon

payments are reclassified from accumulated OCI to net income (loss) as the related bond interest is accrued.

As of September 30, 2011, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was July 2022.

Treasury and Reverse Treasury Locks

We use treasury locks to hedge the interest rate exposure related to our issuance of fixed rate securities or the anticipated future cash flows of floating rate fixed maturity securities due to changes in interest rates. In addition, we use reverse treasury locks to hedge the interest rate exposure related to the purchase of fixed rate securities or the anticipated future cash flows of floating rate fixed maturity securities due to changes in interest rates. These derivatives are primarily structured to hedge interest rate risk

inherent in the assumptions used to price certain liabilities. The gains or losses resulting from these derivatives are recorded in OCI and are reclassified from accumulated OCI to earnings over the life of the securities once they are purchased or issued.

Derivative Instruments Designated and Qualifying as Fair Value Hedges

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Ineffective portion recognized in realized gain (loss)	$ -	$ -	$ -	$ 1
Gain (loss) recognized as a component of OCI with the offset to interest expense	1	1	3	3

Interest Rate Swap Agreements

We used a portion of our interest rate swap agreements to hedge the risk of paying a higher fixed rate of interest on junior subordinated debentures issued to affiliated trusts, which were redeemed during 2010, and on senior debt than would be paid on long-term debt based on current interest rates in the marketplace. We are required to pay the counterparty a stream of variable interest payments based on the referenced index, and in turn, we receive a fixed payment from the counterparty at a predetermined interest rate. The net receipts or payments earned or owed from these interest rate swap agreements are recorded as an adjustment to the interest expense for the debt being hedged in the period it occurs. The changes in fair value of the interest rate swap agreements are recorded as an offsetting adjustment to derivative investments and long-term debt on our Consolidated Balance Sheets.

Equity Collars

We used an equity collar on four million shares of our Bank of America ("BOA") stock holdings. On September 7, 2010, we settled the equity collar by delivering four million shares of BOA stock, which resulted in a $15 million gain, reported within realized gain (loss) on our Consolidated Statements of Income (Loss).

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

We use various other derivative instruments for risk management and income generation purposes that either do not qualify for hedge accounting treatment or have not currently been designated by us for hedge accounting treatment.

Interest Rate Cap Agreements

We use interest rate cap agreements to provide a level of protection from the effect of rising interest rates for our annuity business, within our Annuities and Defined Contribution segments. Interest rate cap agreements entitle us to receive quarterly payments from the counterparties on specified future reset dates, contingent on future interest rates. For each cap, the amount of such quarterly payments, if any, is determined by the excess of a market interest rate over a specified cap rate, multiplied by the notional amount divided by four. Our interest rate cap agreements provide an economic hedge of our annuity business.

Interest Rate Futures and Equity Futures

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

Interest Rate Swap Agreements

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

Foreign Currency Forwards

We used foreign currency forward contracts to hedge the liability exposure on certain options in the variable annuity products. The foreign currency forward contracts obligated us to deliver a specified amount of currency at a future date and a specified exchange rate.

Credit Default Swaps

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

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

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

As of September 30, 2011

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	$ -	$ 40
12/20/2016 (4)	(5)	(6)	A-	3	(10)	68
03/20/2017 (4)	(5)	(6)	BBB	2	(5)	40
				9	$ (15)	$ 148

As of December 31, 2010

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	$ -	$ 40
12/20/2016 (4)	(5)	(6)	BBB	3	(12)	65
03/20/2017 (4)	(5)	(6)	BBB-	2	(4)	40
				9	$ (16)	$ 145

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
(2) Broker quotes are used to determine the market value of credit default swaps.
(3) These credit default swaps were sold to our contract holders where we determined there was a spread versus premium mismatch.
(4) These credit default swaps were sold to a counter-party of the consolidated VIEs as discussed in Note 4 in our 2010 Form 10-K.
(5) Credit default swap was entered into in order to generate income by providing default protection in return for a quarterly payment.
(6) Seller does not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

Details underlying the associated collateral of our open credit default swaps for which we are the seller, if credit risk related contingent features were triggered (in millions) are as follows:

	As of September 30, 2011	As of December 31, 2010
Maximum potential payout	$ 148	$ 145
Less:		
Counterparty thresholds	-	10
Maximum collateral potentially required to post	$ 148	$ 135

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post approximately $15 million as of September 30, 2011, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

Total Return Swaps

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

In addition, we use total return swaps to hedge the liability exposure on certain options in variable annuity products. We receive the total return on a portfolio of indexes and pay a floating rate of interest.

Put Options

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

Call Options (Based on S&P 500)

We use indexed annuity contracts to permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. Contract holders may elect to rebalance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, subject to minimum guarantees. We purchase call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity.

Variance Swaps

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

Currency Futures

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

Consumer Price Index Swaps

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

Interest Rate Cap Corridors

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

Deferred Compensation Plans Embedded Derivatives

We have certain deferred compensation plans that have embedded derivative instruments. The liability related to these plans varies based on the investment options selected by the participants. The liability related to certain investment options selected by the participants is marked-to-market through net income (loss).

Indexed Annuity Contracts Embedded Derivatives

We distribute indexed annuity contracts that permit the holder to elect an interest rate return or an equity market component, where interest credited to the contracts is linked to the performance of the S&P 500. This feature represents an embedded derivative under the Derivatives and Hedging Topic of the FASB ASC. Contract holders may elect to rebalance index options at renewal dates, either annually or biannually. As of each renewal date, we have the opportunity to re-price the indexed component by establishing participation rates, subject to minimum guarantees. We purchase S&P 500 call options that are highly correlated to the portfolio allocation decisions of our contract holders, such that we are economically hedged with respect to equity returns for the current reset period. The mark-to-market of the options held generally offsets the change in value of the embedded derivative within the indexed annuity.

GLB Reserves Embedded Derivatives

We have certain GLB variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC (“benefit reserves”) and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC (“embedded derivative reserves”). We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. As of September 30, 2011, we had $29.6 billion of account values that were attributable to variable annuities with a GWB feature and $11.5 billion of account values that were attributable to variable annuities with a GIB feature.

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with GWB and GIB features. The hedging strategy is designed such that changes in the value of the hedge contracts due to changes in equity markets, interest rates and implied volatilities move in the opposite direction of changes in embedded derivative reserves of the GWB and GIB caused by those same factors. As part of our current hedging program, equity markets, interest rates and volatility in market conditions are monitored on a daily basis. We rebalance our hedge positions based upon changes in these factors as needed. While we actively manage our hedge positions, these hedge positions may not be totally effective in offsetting changes in the embedded derivative reserve due to, among other things, differences in timing between when a market exposure changes and corresponding changes to the hedge positions, extreme swings in the equity markets and interest rates, market volatility, contract holder behavior, divergence between the performance of the underlying funds and the hedging indices, divergence between the actual and expected performance of the hedge instruments and

our ability to purchase hedging instruments at prices consistent with our desired risk and return trade-off.

Reinsurance Related Embedded Derivatives

We have certain modified coinsurance arrangements and coinsurance with funds withheld reinsurance arrangements with embedded derivatives related to the withheld assets of the related funds. These derivatives are considered total return swaps with contractual returns that are attributable to various assets and liabilities associated with these reinsurance arrangements. Changes in the estimated fair value of these derivatives as they occur are recorded through net income (loss). Offsetting these amounts are corresponding changes in the estimated fair value of trading securities in portfolios that support these arrangements.

AFS Securities Embedded Derivatives

We own various debt securities that either contain call options to exchange the debt security for other specified securities of the borrower, usually common stock, or contain call options to receive the return on equity-like indexes. The change in fair value of these embedded derivatives flows through net income (loss).

Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of September 30, 2011, the nonperformance risk adjustment was $19 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of the derivatives contract, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contract. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. We do not believe the inclusion of termination or collateralization events pose any material threat to the liquidity position of any insurance subsidiary of the Company. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2011, the exposure was $110 million.

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

	As of September 30, 2011		As of December 31, 2010	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AAA	$ 37	$ -	$ 1	$ -
AA	249	-	99	-
AA-	224	(1)	65	-
A+	1,067	(88)	548	(76)
A	1,454	(43)	436	(223)
	$ 3,031	$ (132)	$ 1,149	$ (299)

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). Because the pre-tax income of $139 million resulted in a tax benefit of $12 million for the three months ended September 30, 2011, the effective tax rate was not

meaningful. The effective tax rate on pre-tax income from continuing operations was 22% for the nine months ended September 30, 2011. The effective tax rate on pre-tax income from continuing operations was 18% and 23% for the three and nine months ended September 30, 2010, respectively. The effective tax rate on pre-tax income from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deduction ("DRD"), foreign tax credits and other tax preference items.

Federal income tax expense for the first nine months of 2011 was decreased by $28 million related to favorable adjustments from the 2010 tax return, filed in the third quarter of 2011, relating primarily to the separate account DRD, foreign tax credits and other tax preference items. Federal income tax expense for the first nine months of 2010 was decreased by $13 million related to favorable adjustments from the 2009 tax return, filed in the third quarter of 2010, relating primarily to the separate account DRD, foreign tax credits and other tax preference items.

8. DAC, VOBA, DSI and DFEL

Changes in DAC (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2011	2010
Balance as of beginning-of-year	$ 7,552	$ 7,424
Deferrals	1,240	1,179
Amortization, net of interest:		
Prospective unlocking - assumption changes	(339)	(26)
Prospective unlocking - model refinements	171	183
Retrospective unlocking	75	41
Other amortization	(705)	(676)
Adjustment related to realized (gains) losses	(38)	(32)
Adjustment related to unrealized (gains) losses	(837)	(1,223)
Balance as of end-of-period	$ 7,119	$ 6,870

Changes in VOBA (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2011	2010
Balance as of beginning-of-year	$ 1,378	$ 2,086
Business acquired through reinsurance	2	-
Deferrals	15	19
Amortization:		
Prospective unlocking - assumption changes	28	(40)
Prospective unlocking - model refinements	102	(30)
Retrospective unlocking	16	-
Other amortization	(235)	(270)
Accretion of interest (1)	59	68
Adjustment related to realized (gains) losses	(5)	2
Adjustment related to unrealized (gains) losses	(349)	(787)
Balance as of end-of-period	$ 1,011	$ 1,048

(1) The interest accrual rates utilized to calculate the accretion of interest ranged from 3.45% to 4.70%.

Changes in DSI (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2011	2010
Balance as of beginning-of-year	$ 286	$ 323
Deferrals	29	53
Amortization, net of interest:		
Prospective unlocking - assumption changes	(2)	2
Retrospective unlocking	11	6
Other amortization	(42)	(43)
Adjustment related to realized (gains) losses	(3)	(8)
Adjustment related to unrealized (gains) losses	(11)	(64)
Balance as of end-of-period	$ 268	$ 269

Changes in DFEL (in millions) were as follows:

	For the Nine Months Ended September 30,	
	2011	2010
Balance as of beginning-of-year	$ 1,502	$ 1,338
Deferrals	411	411
Amortization, net of interest:		
Prospective unlocking - assumption changes	(6)	(53)
Prospective unlocking - model refinements	28	62
Retrospective unlocking	7	(14)
Other amortization	(127)	(126)
Adjustment related to realized (gains) losses	(10)	(4)
Adjustment related to unrealized (gains) losses	(467)	(312)
Balance as of end-of-period	$ 1,338	$ 1,302

9. Guaranteed Benefit Features

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

	As of September 30, 2011	As of December 31, 2010
Return of Net Deposits		
Total account value	$ 50,472	$ 52,211
Net amount at risk (1)	2,364	816
Average attained age of contract holders	59 years	58 years
Minimum Return		
Total account value	$ 150	$ 187
Net amount at risk (1)	56	46
Average attained age of contract holders	71 years	70 years
Guaranteed minimum return	5 %	5 %
Anniversary Contract Value		
Total account value	$ 20,640	$ 23,483
Net amount at risk (1)	4,172	2,183
Average attained age of contract holders	67 years	66 years

(1) Represents the amount of death benefit in excess of the account balance. The increase in net amount at risk when comparing September 30, 2011, to December 31, 2010, was attributable primarily to the decline in equity markets and associated decrease in the account values.

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

	For the Nine Months Ended September 30,	
	2011	2010
Balance as of beginning-of-year	$ 44	$ 71
Changes in reserves	108	59
Benefits paid	(34)	(68)
Balance as of end-of-period	$ 118	$ 62

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

	As of September 30, 2011	As of December 31, 2010
Asset Type		
Domestic equity	$ 31,476	$ 35,659
International equity	12,169	14,172
Bonds	16,951	15,913
Money market	5,799	5,725
Total	$ 66,395	$ 71,469
Percent of total variable annuity separate account values	98 %	98 %

Future contract benefits also includes reserves for our products with secondary guarantees for our products sold through our Insurance Solutions – Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 38% of permanent life insurance in force as of September 30, 2011, and approximately 46% and 49% of total sales for these products for the three and nine months ended September 30, 2011, respectively.

10. Contingencies and Commitments

See "Contingencies and Commitments" in Note 14 to the consolidated financial statements in our 2010 Form 10-K for a discussion of commitments and contingencies, which information is incorporated herein by reference.

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

In the ordinary course of its business, LNC and its subsidiaries are involved in various pending or threatened legal proceedings, including purported class actions, arising from the conduct of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. After consultation with legal counsel and a review of available facts, it is management's opinion that these proceedings, after consideration of any reserves and rights to indemnification, ultimately will be resolved without materially affecting the consolidated financial position of LNC. However, given the large and indeterminate amounts sought in certain of these proceedings and the inherent difficulty in predicting the outcome of such legal proceedings, it is possible that an adverse outcome in certain matters could be material to our operating results for any particular reporting period.

Our life insurance subsidiaries are currently being audited on behalf of multiple states' treasury and controllers' offices for compliance with laws and regulations concerning the identification, reporting and escheatment of unclaimed contract benefits or abandoned funds. The audits focus on insurance company processes and procedures for identifying unreported death claims, and their use of the Social Security Master Death File to identify deceased policy and contract holders. In addition, our life insurance subsidiaries are the subject of multiple state Insurance Department inquiries and market conduct examinations with a similar focus on the handling of unreported claims and abandoned property. The audits and related examination activity may result in additional payments to beneficiaries, escheatment of funds deemed abandoned under state laws, administrative penalties and changes in our procedures for

the identification of unreported claims and handling of escheatable property. We are not currently able to estimate the amount of benefits which may become payable as a result of any such unreported claims or the potential increase in the cost of implementing related changes in procedures.

11. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Series A Preferred Stock				
Balance as of beginning-of-period	10,854	11,365	10,914	11,497
Conversion of convertible preferred stock (1)	-	(451)	(60)	(583)
Balance as of end-of-period	10,854	10,914	10,854	10,914
Series B Preferred Stock				
Balance as of beginning-of-period	-	-	-	950,000
Issuance (redemption) of Series B preferred stock	-	-	-	(950,000)
Balance as of end-of-period	-	-	-	-
Common Stock				
Balance as of beginning-of-period	308,339,163	316,662,480	315,718,554	302,223,281
Stock issued	-	-	-	14,137,615
Conversion of convertible preferred stock (1)	-	7,216	960	9,328
Stock compensation/issued for benefit plans	32,712	84,385	215,618	401,950
Retirement/cancellation of shares	(6,712,700)	-	(14,275,957)	(18,093)
Balance as of end-of-period	301,659,175	316,754,081	301,659,175	316,754,081
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	301,832,839	316,928,705	301,832,839	316,928,705
Diluted basis	306,899,902	324,290,798	306,899,902	324,290,798

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

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

Average Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted-average shares, as used in basic calculation	304,779,641	316,726,409	310,357,508	307,863,690
Shares to cover exercise of outstanding warrants	10,150,292	12,791,748	10,150,292	12,963,550
Shares to cover conversion of preferred stock	173,664	175,095	174,293	180,101
Shares to cover non-vested stock	815,594	584,206	801,261	602,443
Average stock options outstanding during the period	500,578	580,067	698,054	728,250
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(5,153,660)	(5,805,269)	(4,223,290)	(5,416,234)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(342,848)	(383,607)	(459,168)	(478,222)
Shares repurchaseable from measured but unrecognized stock option expense	(31,025)	(97,164)	(80,317)	(150,846)
Average deferred compensation shares	1,105,447	1,112,284	1,070,549	1,221,257
Weighted-average shares, as used in diluted calculation	311,997,683	325,683,769	318,489,182	317,513,989

In the event the average market price of LNC common stock exceeds the issue price of stock options, such options would be dilutive to our EPS and will be shown in the table above.

We have participants in our deferred compensation plans, with the exception of the non-employee directors' deferred compensation plan, who selected LNC stock as the measure for the investment return attributable to their deferral amounts. For the three and nine months ended September 30, 2011 and 2010, the effect of settling this obligation in LNC stock ("equity classification") was more dilutive than the scenario of settling it in cash ("liability classification"). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was $5 million for the three and nine months ended September 30, 2011, $1 million for the three months ended September 30, 2010, and $3 million for the nine months ended September 30, 2010.

The income used in the calculation of our diluted EPS is our net income (loss), reduced by preferred stock dividends and accretion of discount. These amounts are presented on our Consolidated Statements of Income (Loss).

Accumulated OCI

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

	For the Nine Months Ended September 30,	
	2011	2010
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 1,072	$ 49
Cumulative effect from adoption of new accounting standards	-	181
Unrealized holding gains (losses) arising during the period	3,232	4,742
Change in foreign currency exchange rate adjustment	2	(5)
Change in DAC, VOBA, DSI and other contract holder funds	(885)	(1,799)
Income tax benefit (expense)	(841)	(1,053)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(83)	(73)
Reclassification adjustment for gains (losses) on derivatives included in net income (loss)	-	135
Associated amortization of DAC, VOBA, DSI and DFEL	(13)	21
Income tax benefit (expense)	34	(29)
Balance as of end-of-period	$ 2,642	$ 2,061
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ (129)	$ (115)
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(48)	(84)
Change in DAC, VOBA, DSI and DFEL	9	7
Income tax benefit (expense)	14	27
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	91	64
Change in DAC, VOBA, DSI and DFEL	(19)	(12)
Income tax benefit (expense)	(25)	(18)
Balance as of end-of-period	$ (107)	$ (131)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ (15)	$ 11
Unrealized holding gains (losses) arising during the period	188	(97)
Change in foreign currency exchange rate adjustment	(1)	8
Change in DAC, VOBA, DSI and DFEL	(1)	(10)
Income tax benefit (expense)	(65)	35
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(3)	13
Associated amortization of DAC, VOBA, DSI and DFEL	-	(1)
Income tax benefit (expense)	1	(4)
Balance as of end-of-period	$ 108	$ (61)
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ 1	$ 3
Foreign currency translation adjustment arising during the period	3	(1)

Income tax benefit (expense)		(1)		-
Balance as of end-of-period	$	3	$	2
Funded Status of Employee Benefit Plans				
Balance as of beginning-of-year	$	(181)	$	(210)
Adjustment arising during the period		(3)		2
Income tax benefit (expense)		1		(1)
Balance as of end-of-period	$	(183)	$	(209)

12. Realized Gain (Loss)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Total realized gain (loss) related to certain investments (1)	$ (44)	$ (26)	$ (95)	$ (86)
Realized gain (loss) related to certain derivative instruments, including those associated with our consolidated VIEs, and trading securities (2)	(105)	105	(96)	72
Indexed annuity net derivative results: (3)				
Gross gain (loss)	(5)	1	3	8
Associated amortization of DAC, VOBA, DSI and DFEL	1	-	(2)	(3)
Guaranteed living benefits: (4)				
Gross gain (loss)	(34)	36	26	117
Associated amortization of DAC, VOBA, DSI and DFEL	4	(27)	(20)	(53)
Guaranteed death benefits: (5)				
Gross gain (loss)	22	(52)	8	(38)
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	6	(1)	5
Total realized gain (loss)	$ (163)	$ 43	$ (177)	$ 22

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

(2) Represents changes in the fair values of certain derivative investments (including the credit default swaps, contingent forwards and excess mortality swap associated with our consolidated VIEs), total return swaps (embedded derivatives that are theoretically included in our various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements) 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 products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.

(4) Represents the net difference in the change in embedded derivative reserves of our GLB products and the change in the fair value of the derivative instruments we own to hedge, including the cost of purchasing the hedging instruments.

(5) Represents the change in the fair value of the derivatives used to hedge our GDB riders.

13. Stock-Based Incentive Compensation Plans

We sponsor various 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 time-vested shares), stock appreciation rights ("SARs") and restricted stock units.

LNC stock-based awards granted were as follows:

	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2011
Awards		
10-year LNC stock options	-	459,093
Performance shares	-	215,137
SARs	-	106,966
Restricted stock units	12,869	524,273
Non-employee:		
Agent stock options	-	95,451
Director stock options	-	32,560
Director restricted stock units	17,547	36,961

14. Fair Value of Financial Instruments

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

	As of September 30, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 74,591	$ 74,591	$ 68,030	$ 68,030
VIEs' fixed maturity securities	700	700	584	584
Equity securities	137	137	197	197
Trading securities	2,726	2,726	2,596	2,596
Mortgage loans on real estate	6,893	7,596	6,752	7,183
Derivative investments	3,029	3,029	1,076	1,076
Other investments	1,105	1,105	1,038	1,038
Cash and invested cash	4,833	4,833	2,741	2,741
Separate account assets	78,195	78,195	84,630	84,630
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	(342)	(342)	(497)	(497)
GLB reserves embedded derivatives	(2,343)	(2,343)	(408)	(408)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(1,115)	(1,115)	(1,119)	(1,119)
Account values of certain investment contracts	(27,190)	(29,888)	(26,130)	(27,142)
Short-term debt (1)	(550)	(564)	(351)	(364)
Long-term debt	(5,348)	(4,898)	(5,399)	(5,512)
Reinsurance related embedded derivatives	(177)	(177)	(102)	(102)
VIEs' liabilities - derivative instruments	(307)	(307)	(209)	(209)
Other liabilities:				
Deferred compensation plans embedded derivatives	(325)	(325)	(363)	(363)
Credit default swaps	(15)	(15)	(16)	(16)

(1) The difference between the carrying value and fair value of short-term debt as of September 30, 2011, and December 31, 2010, related to current maturities of long-term debt.

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

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

Mortgage Loans on Real Estate

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

Other Investments

The carrying value of our assets classified as other investments approximates their fair value. Other investments include LPs and other privately held investments that are accounted for using the equity method of accounting.

Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of September 30, 2011, and December 31, 2010, the remaining guaranteed interest and similar contracts carrying value approximates 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.

Short-term and Long-term Debt

The fair value of long-term debt is based on quoted market prices or estimated using discounted cash flow analysis determined in conjunction with our incremental borrowing rate as of the balance sheet date for similar types of borrowing arrangements where quoted prices are not available. For short-term debt, excluding current maturities of long-term debt, the carrying value approximates fair value.

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2011, or December 31, 2010, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in "Summary of Significant Accounting Policies" in Note 1 of the 2010 Form 10-K:

	As of September 30, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 63	$ 56,700	$ 1,500	$ 58,263
U.S. Government bonds	267	18	1	286
Foreign government bonds	-	537	105	642
MBS:				
CMOs	-	5,189	19	5,208
MPTS	-	3,120	120	3,240
CMBS	-	1,633	37	1,670
ABS CDOs	-	-	111	111
State and municipal bonds	-	3,969	-	3,969
Hybrid and redeemable preferred securities	15	1,095	92	1,202
VIEs' fixed maturity securities	107	593		