LINCOLN NATIONAL CORP
Form 10-Q/A
November 08, 2012

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

FORM 10-Q/A
(Amendment No. 1)

(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, 2012
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. (Check one):

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

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

As of November 5, 2012, there were 275,015,830 shares of the registrant’s common stock outstanding.

Explanatory Note

This amendment to our quarterly report on Form 10-Q for the quarter ended September 30, 2012, is being filed for the sole purpose of amending Exhibits 32.1 and 32.2 to correct the quarter end referenced to September 30, 2012. No other changes have been made to the Form 10-Q. This amendment to the Form 10-Q does not reflect events occurring after the filing of Form 10-Q, nor does it modify or update the disclosures and information contained in the Form 10-Q in any way other than as described above.

Lincoln National Corporation

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of September 30, 2012 (Unaudited)	As of December 31, 2011
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2012 - $71,778; 2011 - $68,988)	$ 81,179	$ 75,433
Variable interest entities' fixed maturity securities (amortized cost: 2012 - $676; 2011 - $673)	706	700
Equity securities (cost: 2012 - $143; 2011 - $135)	156	139
Trading securities	2,650	2,675
Mortgage loans on real estate	6,690	6,942
Real estate	112	137
Policy loans	2,780	2,884
Derivative investments	3,072	3,151
Other investments	1,123	1,069
Total investments	98,468	93,130
Cash and invested cash	4,373	4,510
Deferred acquisition costs and value of business acquired	5,813	6,776
Premiums and fees receivable	366	408
Accrued investment income	1,067	981
Reinsurance recoverables	6,424	6,526
Funds withheld reinsurance assets	846	874
Goodwill	2,273	2,273
Other assets	2,502	2,536
Separate account assets	93,326	83,477
Total assets	$ 215,458	$ 201,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 19,232	$ 19,813
Other contract holder funds	70,706	69,466
Short-term debt	200	300
Long-term debt	5,494	5,391
Reinsurance related embedded derivatives	215	168
Funds withheld reinsurance liabilities	987	1,045
Deferred gain on business sold through reinsurance	338	394
Payables for collateral on investments	4,566	3,733
Variable interest entities' liabilities	121	193
Other liabilities	5,036	4,273
Separate account liabilities	93,326	83,477
Total liabilities	200,221	188,253

Contingencies and Commitments (See Note 9)

Stockholders' Equity				
Preferred stock - 10,000,000 shares authorized; Series A - 9,532 and 10,072 sharesissued and outstanding as of September 30, 2012, and December 31, 2011, respectively		-		-
Common stock - 800,000,000 shares authorized; 275,073,618 and 291,319,222 shares issued and outstanding as of September 30, 2012, and December 31, 2011, respectively		7,214		7,590
Retained earnings		3,873		2,969
Accumulated other comprehensive income (loss)		4,150		2,679
Total stockholders' equity		15,237		13,238
Total liabilities and stockholders' equity	$	215,458	$	201,491

See accompanying Notes to Consolidated Financial Statements

1

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

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Revenues				
Insurance premiums	$ 606	$ 559	$ 1,825	$ 1,721
Insurance fees	990	864	2,784	2,582
Net investment income	1,146	1,151	3,509	3,522
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(47)	(44)	(194)	(135)
Portion of loss recognized in other comprehensive income	15	18	82	37
Net other-than-temporary impairment losses on securitiesrecognized in earnings	(32)	(26)	(112)	(98)
Realized gain (loss), excluding other-than-temporaryimpairment losses on securities	102	(137)	140	(72)
Total realized gain (loss)	70	(163)	28	(170)
Amortization of deferred gain on business sold through reinsurance	19	19	56	56
Other revenues and fees	123	117	366	362
Total revenues	2,954	2,547	8,568	8,073
Expenses				
Interest credited	610	625	1,851	1,864
Benefits	811	664	2,615	2,527
Commissions and other expenses	1,047	1,024	2,731	2,467
Interest and debt expense	68	79	203	223
Total expenses	2,536	2,392	7,400	7,081
Income (loss) from continuing operations before taxes	418	155	1,168	992
Federal income tax expense (benefit)	45	(6)	224	214
Income (loss) from continuing operations	373	161	944	778
Income (loss) from discontinued operations, net of federalincome taxes	29	(8)	27	(8)
Net income (loss)	402	153	971	770
Other comprehensive income (loss), net of tax	771	1,437	1,471	1,813
Comprehensive income (loss)	$ 1,173	$ 1,590	$ 2,442	$ 2,583
Earnings (Loss) Per Common Share - Basic				
Income (loss) from continuing operations	$ 1.35	$ 0.53	$ 3.33	$ 2.51
Income (loss) from discontinued operations	0.10	(0.03)	0.10	(0.03)
Net income (loss)	$ 1.45	$ 0.50	$ 3.43	$ 2.48
Earnings (Loss) Per Common Share - Diluted				
Income (loss) from continuing operations	$ 1.31	$ 0.50	$ 3.26	$ 2.43
Income (loss) from discontinued operations	0.10	(0.03)	0.09	(0.03)
Net income (loss)	$ 1.41	$ 0.47	$ 3.35	$ 2.40

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,	
	2012	2011
Common Stock		
Balance as of beginning-of-year	$ 7,590	$ 8,124
Stock compensation/issued for benefit plans	24	13
Retirement of common stock/cancellation of shares	(400)	(345)
Balance as of end-of-period	7,214	7,792
Retained Earnings		
Balance as of beginning-of-year	2,969	3,934
Cumulative effect from adoption of new accounting standards	-	(1,095)
Net income (loss)	971	770
Retirement of common stock	-	(30)
Dividends declared: Common (2012 - $0.240; 2011 - $0.150)	(67)	(48)
Balance as of end-of-period	3,873	3,531
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	2,679	748
Cumulative effect from adoption of new accounting standards	-	103
Other comprehensive income (loss), net of tax	1,471	1,813
Balance as of end-of-period	4,150	2,664
Total stockholders' equity as of end-of-period	$ 15,237	$ 13,987

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, 2012	2011
Cash Flows from Operating Activities		
Net income (loss)	$ 971	$ 770
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	(96)	(44)
Trading securities purchases, sales and maturities, net	124	33
Change in premiums and fees receivable	42	(48)
Change in accrued investment income	(86)	(90)
Change in future contract benefits and other contract holder funds	(264)	141
Change in reinsurance related assets and liabilities	71	(210)
Change in federal income tax accruals	44	255
Realized (gain) loss	(28)	170
(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	1	3
Other	(57)	2
Net cash provided by (used in) operating activities	666	934
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(8,437)	(8,540)
Sales of available-for-sale securities	965	1,274
Maturities of available-for-sale securities	4,471	3,988
Purchases of other investments	(1,418)	(2,202)
Sales or maturities of other investments	1,622	2,336
Increase (decrease) in payables for collateral on investments	833	2,196
Other	(103)	(63)
Net cash provided by (used in) investing activities	(2,067)	(1,011)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(300)	(275)
Issuance of long-term debt, net of issuance costs	300	298
Increase (decrease) in commercial paper, net	-	(100)
Deposits of fixed account values, including the fixed portion of variable	7,612	8,187
Withdrawals of fixed account values, including the fixed portion of variable	(4,103)	(3,750)
Transfers to and from separate accounts, net	(1,775)	(1,763)
Common stock issued for benefit plans and excess tax benefits	(3)	(6)
Repurchase of common stock	(400)	(375)
Dividends paid to common and preferred stockholders	(67)	(48)
Net cash provided by (used in) financing activities	1,264	2,168

Net increase (decrease) in cash and invested cash, including discontinued operations	(137)	2,091
Cash and invested cash, including discontinued operations, as of beginning-of-year	4,510	2,741
Cash and invested cash, including discontinued operations, as of end-of-period	$ 4,373	$ 4,832

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 14 for additional details. The collective group of businesses uses "Lincoln Financial Group" as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products. 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, 2011 ("2011 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 2011 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, 2012, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012. All material intercompany accounts and transactions have been eliminated in consolidation.

See Note 2 "Financial Services – Insurance Industry Topic" below for information about the retrospective restatement of amounts due to the adoption of new accounting guidance. In addition, 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

Comprehensive Income Topic

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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"); however, in December 2011, the FASB deferred a portion of the presentation requirements by issuing ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" ("ASU 2011- 12"). For a more detailed description of ASU 2011-05 and ASU 2011-12, see "Future Adoption of New Accounting Standards – Comprehensive Income Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-05 as of January 1, 2012, after considering the deferral in ASU 2011-12, and have included a single continuous statement of comprehensive income in Item 1 of this quarterly report on Form 10-Q for the quarterly period ended September 30, 2012.

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. For a more detailed description of ASU 2011-04 see "Future Adoption of New Accounting Standards – Fair Value Measurements and Disclosures Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-04 effective January 1, 2012, and have included the additional disclosures required for fair value measurements in Note 13 for the quarterly period ended September 30, 2012.

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. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. The determination of deferability must be made on a contract-level basis.

Prior to the adoption of ASU 2010-26, we defined deferred acquisition costs ("DAC") as commissions and other costs of acquiring UL insurance, VUL insurance, traditional life insurance, annuities and other investments contracts that vary with and are related primarily to new or renewal business, regardless of whether the acquisition efforts were successful or unsuccessful. Upon the adoption of ASU 2010-26, we revised our accounting policy to only defer acquisition costs directly related to successful contract acquisitions or renewals, and excluded from DAC those costs incurred for soliciting potential customers, market research, training, administration, management of distribution and underwriting functions, unsuccessful acquisition or renewal efforts and product development. In addition, indirect acquisition costs including administrative costs, rent, depreciation, occupancy costs, equipment costs and other general overhead are excluded from DAC. The costs that are considered non-deferrable acquisition costs under ASU 2010-26 are expensed in the period incurred.

We adopted the provisions of ASU 2010-26 as of January 1, 2012, and elected to retrospectively restate all prior periods. The following summarizes the prior period increases (decreases) (in millions) reflected in our Consolidated Balance Sheets and Consolidated Statements of Stockholders' Equity related to the adoption:

	As of December 31,	
	2011	2010
Assets		
Deferred acquisition costs	$ (1,415)	$ (1,516)
Liabilities and Stockholders' Equity		
Other liabilities - deferred income taxes	$ (490)	$ (524)
Stockholders' equity:		
Retained earnings	(1,157)	(1,095)
Accumulated other comprehensive income (loss)	232	103
Total stockholders' equity	(925)	(992)
Total liabilities and stockholders' equity	$ (1,415)	$ (1,516)

6

The following summarizes the prior period increases (decreases) to income from continuing operations and earnings (loss) per share ("EPS") (in millions, except per share data) reflected in our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2011, related to the adoption:

	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2011
Revenues		
Realized gain (loss)	$ -	$ 8
Expenses		
Commissions and other expenses	15	(66)
Income (loss) from continuing operations before taxes	15	(58)
Federal income tax expense (benefit)	(5)	20
Income (loss) from continuing operations	$ 10	$ (38)
Earnings (Loss) Per Common Share - Basic	$ 0.03	$ (0.12)
Earnings (Loss) Per Common Share - Diluted	$ 0.03	$ (0.12)

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. For a more detailed description of ASU 2011-08, see "Future Adoption of New Accounting Standards – Intangibles – Goodwill and Other Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-08 effective January 1, 2012. The adoption did not 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. For a more detailed description of ASU 2011-03, see "Future Adoption of New Accounting Standards – Transfers and Servicing Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-03 effective January 1, 2012. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Future Adoption of New Accounting Standards

Balance Sheet Topic

In December 2011, the FASB issued ASU No. 2011-11, “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”), to address certain comparability issues between financial statements prepared in accordance with GAAP and those prepared in accordance with International Financial Reporting Standards. For a more detailed description of ASU 2011-11, see “Future Adoption of New Accounting Standards – Balance Sheet Topic” in Note 2 of our 2011 Form 10-K. We will adopt the disclosure requirements in ASU 2011-11 beginning with our first quarter 2013 financial statements and are currently evaluating the appropriate location for these disclosures in the notes to our financial statements.

Intangibles – Goodwill and Other

In July 2012, the FASB issued ASU No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment” (“ASU 2012-02”), which provides an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If based on the qualitative assessment an entity determines that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the quantitative impairment test is not required. In addition, an entity has the option to bypass the qualitative assessment in any period and proceed directly to the quantitative assessment, with the option to return to the qualitative assessment in any subsequent period. The amendments in ASU 2012-02 are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We will adopt the provisions of ASU 2012-02 in the fourth quarter of 2012 and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

3. Dispositions

Discontinued 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. 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.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Disposal				
Gain (loss) on disposal, before federal income taxes	$ -	$ (3)	$ (1)	$ (3)
Federal income tax expense (benefit)	(29)	5	(28)	5
Gain (loss) on disposal	29	(8)	27	(8)
Income (loss) from discontinued operations	$ 29	$ (8)	$ 27	$ (8)

The income from discontinued operations for the three and nine months ended September 30, 2012, related to the release of reserves associated with prior tax years that were closed out during the quarter associated with our former subsidiaries. In addition, the nine months ended September 30, 2012, included a purchase price adjustment associated with the termination of a portion of the investment advisory agreement with Delaware. The loss from discontinued operations for the three and nine months ended September 30, 2011, related to prior year tax return true-ups.

4. Variable Interest Entities ("VIEs")

Consolidated VIEs

See Note 4 in our 2011 Form 10-K for a detailed discussion of our consolidated VIEs, which information is incorporated herein by reference.

The following summarizes information regarding the credit-linked note ("CLN") structures (dollars in millions) as of September 30, 2012:

	Amount and Date of Issuance	
	$400	$200
	December	April

	2006	2007
Original attachment point (subordination)	5.50%	2.05%
Current attachment point (subordination)	4.17%	1.48%
Maturity	12/20/2016	3/20/2017
Current rating of tranche	BB-	Ba2
Current rating of underlying collateral pool	Aa1-B3	Aaa-Caa2
Number of defaults in underlying collateral pool	2	2
Number of entities	123	99
Number of countries	20	21

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of September 30, 2012:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Financial intermediaries	- %	2.1 %	7.6 %	0.9 %	- %	- %	- %	10.6 %
Telecommunications	- %	- %	5.5 %	4.5 %	- %	0.5 %	- %	10.5 %
Oil and gas	0.3 %	2.1 %	1.0 %	4.6 %	- %	- %	- %	8.0 %
Utilities	- %	- %	2.6 %	2.0 %	- %	- %	- %	4.6 %
Chemicals and plastics	- %	- %	2.3 %	1.2 %	0.3 %	- %	- %	3.8 %
Drugs	0.3 %	2.7 %	0.7 %	- %	- %	- %	- %	3.7 %
Retailers (except foodand drug)	- %	- %	2.1 %	0.9 %	0.5 %	- %	- %	3.5 %
Industrial equipment	- %	- %	3.0 %	0.3 %	- %	- %	- %	3.3 %
Sovereign	- %	0.7 %	1.2 %	1.3 %	- %	- %	- %	3.2 %
Conglomerates	- %	2.3 %	0.9 %	- %	- %	- %	- %	3.2 %
Forest products	- %	- %	- %	1.6 %	1.4 %	- %	- %	3.0 %
Other	- %	4.5 %	14.9 %	17.9 %	4.1 %	0.9 %	0.3 %	42.6 %
Total	0.6 %	14.4 %	41.8 %	35.2 %	6.3 %	1.4 %	0.3 %	100.0 %

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

	As of September 30, 2012			As of December 31, 2011		
	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	$ -	$ 596	N/A	$ -	$ 592
U.S. government bonds	N/A	-	110	N/A	-	108
Excess mortality swap	1	100	-	1	100	-
Total assets (1)	1	$ 100	$ 706	1	$ 100	$ 700
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 175	2	$ 600	$ 295
Contingent forwards	2	-	(1)	2	-	(4)
Total non-qualifying hedges	4	600	174	4	600	291
Federal income tax	N/A	-	(53)	N/A	-	(98)
Total liabilities (2)	4	$ 600	$ 121	4	$ 600	$ 193

(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 available-for-sale ("AFS") securities for these VIEs, see Note 4.

As described more fully in Note 1 of our 2011 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, 2012.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Non-Qualifying Hedges				
Credit default swaps	$ 58	$ (105)	$ 120	$ (92)
Contingent forwards	(1)	2	(3)	1
Total non-qualifying hedges (1)	$ 57	$ (103)	$ 117	$ (91)

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

Unconsolidated VIEs

See Note 4 in our 2011 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

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 2011 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, 2012				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 58,531	$ 8,335	$ 292	$ 98	$ 66,476
U.S. government bonds	441	67	-	-	508
Foreign government bonds	570	91	-	-	661
Residential mortgage-backed securities ("RMBS")	6,278	530	11	60	6,737
Commercial mortgage-backed securities ("CMBS")	1,104	75	32	21	1,126
Collateralized debt obligations ("CDOs")	159	-	4	8	147
State and municipal bonds	3,519	826	7	-	4,338
Hybrid and redeemable preferred securities	1,176	95	85	-	1,186
VIEs' fixed maturity securities	676	30	-	-	706
Total fixed maturity securities	72,454	10,049	431	187	81,885
Equity securities	143	21	8	-	156
Total AFS securities	$ 72,597	$ 10,070	$ 439	$ 187	$ 82,041

	As of December 31, 2011				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 53,661	$ 6,185	$ 517	$ 68	$ 59,261
U.S. government bonds	439	55	-	-	494
Foreign government bonds	668	65	-	-	733
RMBS	7,690	548	73	126	8,039
CMBS	1,642	73	106	9	1,600
CDOs	121	-	19	-	102
State and municipal bonds	3,490	566	9	-	4,047
Hybrid and redeemable preferred securities	1,277	50	170	-	1,157
VIEs' fixed maturity securities	673	27	-	-	700
Total fixed maturity securities	69,661	7,569	894	203	76,133
Equity securities	135	16	12	-	139
Total AFS securities	$ 69,796	$ 7,585	$ 906	$ 203	$ 76,272

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of September 30, 2012, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 2,841	$ 2,895
Due after one year through five years	12,308	13,414
Due after five years through ten years	24,171	27,194
Due after ten years	25,593	30,372
Subtotal	64,913	73,875
Mortgage-backed securities ("MBS")	7,382	7,863
CDOs	159	147
Total fixed maturity AFS securities	$ 72,454	$ 81,885

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, 2012					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed maturity securities:						
Corporate bonds	$ 1,534	$ 140	$ 1,095	$ 250	$ 2,629	$ 390
RMBS	257	41	226	30	483	71
CMBS	64	21	137	32	201	53
CDOs	20	8	57	4	77	12
State and municipal bonds	-	-	23	7	23	7
Hybrid and redeemable preferred securities	12	3	405	82	417	85
Total fixed maturity securities	1,887	213	1,943	405	3,830	618
Equity securities	8	1	4	7	12	8
Total AFS securities	$ 1,895	$ 214	$ 1,947	$ 412	$ 3,842	$ 626
Total number of AFS securities in an unrealized loss position						583

	As of December 31, 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	$ 2,848	$ 162	$ 1,452	$ 423	$ 4,300	$ 585
RMBS	565	125	429	74	994	199
CMBS	178	15	146	100	324	115
CDOs	9	1	80	18	89	19
State and municipal bonds	31	-	30	9	61	9
Hybrid and redeemablepreferred securities	324	23	353	147	677	170
Total fixed maturity securities	3,955	326	2,490	771	6,445	1,097
Equity securities	38	12	-	-	38	12
Total AFS securities	$ 3,993	$ 338	$ 2,490	$ 771	$ 6,483	$ 1,109
Total number of AFS securities in an unrealized loss position						897

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

12

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 2011 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of September 30, 2012		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,283	$ 1,016	$ 267
AFS securities backed by pools of commercial mortgages	282	219	63
Total	$ 1,565	$ 1,235	$ 330
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 1,279	$ 1,012	$ 267
AFS securities backed by pools of commercial mortgages	63	39	24
Total	$ 1,342	$ 1,051	$ 291

	As of December 31, 2011		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 2,023	$ 1,553	$ 470
AFS securities backed by pools of commercial mortgages	472	344	128
Total	$ 2,495	$ 1,897	$ 598
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 2,015	$ 1,545	$ 470
AFS securities backed by pools of commercial mortgages	126	61	65
Total	$ 2,141	$ 1,606	$ 535

For the nine months ended September 30, 2012 and 2011, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $6 million and $42 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 $(31) million and $9 million, respectively, was recognized in OCI and $37 million and $33 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, 2012			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 13	$ 5	$ 1	11
Six months or greater, but less than nine months	18	10	-	5
Nine months or greater, but less than twelve months	7	2	-	1
Twelve months or greater	546	289	142	154
Total	$ 584	$ 306	$ 143	171

	As of December 31, 2011			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 385	$ 125	$ 31	56
Six months or greater, but less than nine months	53	30	12	18
Nine months or greater, but less than twelve months	2	-	1	7
Twelve months or greater	615	470	111	175
Total	$ 1,055	$ 625	$ 155	256

(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 $483 million for the nine months ended September 30, 2012. As discussed further below, we believe the unrealized loss position as of September 30, 2012, 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, 2012, 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, 2012, 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, 2012, the unrealized losses associated with our MBS and 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, 2012, 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.

14

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, 2012	2011	For the Nine Months Ended September 30, 2012	2011
Balance as of beginning-of-period	$ 415	$ 340	$ 390	$ 319
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	19	11	74	40
Credit losses on securities for which an OTTI waspreviously recognized	18	17	60	57
Decreases attributable to:				
Securities sold	(19)	(6)	(91)	(54)
Balance as of end-of-period	$ 433	$ 362	$ 433	$ 362

During 2012 and 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, 2012				
	Amortized Cost	Gains	Gross Unrealized Losses and OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 259	$ 2	$ 104	$ 157	$ 78
RMBS	662	19	42	639	267
CMBS	43	1	20	24	88
Total	$ 964	$ 22	$ 166	$ 820	$ 433

As of December 31, 2011

	Amortized Cost	Gains	Gross Unrealized Losses and OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 169	$ 1	$ 67	$ 103	$ 51
RMBS	690	1	128	563	301
CMBS	17	-	10	7	38
Total	$ 876	$ 2	$ 205	$ 673	$ 390

Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for 32% of mortgage loans on real estate as of September 30, 2012, and December 31, 2011.

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

	As of September 30, 2012	As of December 31, 2011
Current	$ 6,646	$ 6,858
60 to 90 days past due	15	26
Greater than 90 days past due	40	76
Valuation allowance associated with impaired mortgage loans on real estate	(21)	(31)
Unamortized premium (discount)	10	13
Total carrying value	$ 6,690	$ 6,942

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, 2012	As of December 31, 2011
Number of impaired mortgage loans on real estate	9	12
Principal balance of impaired mortgage loans on real estate	$ 65	$ 100
Valuation allowance associated with impaired mortgage loans on real estate	(21)	(31)
Carrying value of impaired mortgage loans on real estate	$ 44	$ 69

The average carrying value on the 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,	
	2012	2011	2012	2011
Average carrying value for impaired mortgage loans on real estate	$ 42	$ 58	$ 52	$ 55
Interest income recognized on impaired mortgage loans on real estate	1	-	1	2
Interest income collected on impaired mortgage loans on real estate	1	-	1	2

As described in Note 1 in our 2011 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

As of September 30, 2012			As of December 31, 2011		
Principal	% of	Debt-Service Coverage	Principal	% of	Debt-Service Coverage

Loan-to-Value	Amount	Total	Ratio	Amount	Total	Ratio
Less than 65%	$ 5,258	78.5 %	1.66	$ 5,338	76.7 %	1.61
65% to 74%	948	14.1 %	1.39	1,198	17.2 %	1.37
75% to 100%	424	6.3 %	0.80	308	4.4 %	0.92
Greater than 100%	71	1.1 %	0.60	116	1.7 %	0.36
Total mortgage loans on real estate	$ 6,701	100.0%		$ 6,960	100.0%	

16

Alternative Investments

As of September 30, 2012, and December 31, 2011, alternative investments included investments in 99 and 96 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,	
	2012	2011	2012	2011
Fixed maturity AFS securities:				
Gross gains	$ 4	$ 17	$ 12	$ 84
Gross losses	(49)	(63)	(161)	(177)
Equity AFS securities:				
Gross gains	-	-	1	10
Gain (loss) on other investments	(10)	(3)	(8)	1
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	1	4	3	(10)
Total realized gain (loss) related to certain investments	$ (54)	$ (45)	$ (153)	$ (92)

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,	
	2012	2011	2012	2011
OTTI Recognized in Net Income (Loss)				
Corporate bonds	$ (5)	$ (3)	$ (34)	$ (9)
RMBS	(16)	(22)	(48)	(65)
CMBS	(14)	(8)	(50)	(47)
CDOs	(2)	-	(2)	(1)
Hybrid and redeemable preferred securities	-	-	-	(2)
Gross OTTI recognized in net income (loss)	(37)	(33)	(134)	(124)
Associated amortization of DAC, VOBA, DSI and DFEL	5	7	22	26
Net OTTI recognized in net income (loss), pre-tax	$ (32)	$ (26)	$ (112)	$ (98)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ (17)	$ (21)	$ (96)	$ (48)
Change in DAC, VOBA, DSI and DFEL	2	3	14	11
Net portion of OTTI recognized in OCI, pre-tax	$ (15)	$ (18)	$ (82)	$ (37)

Determination of Credit Losses on Corporate Bonds and CDOs

As of September 30, 2012, and December 31, 2011, we reviewed our corporate bond and CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2012, and December 31, 2011, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2012, and December 31, 2011, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $2.8 billion and $2.6 billion and a fair value of $2.7 billion and $2.4 billion, respectively. As of September 30, 2012, and December 31, 2011, 98% and 97%, respectively, of the fair value of our CDO portfolio was rated investment grade. As of September 30, 2012, and December 31, 2011, the portion of our CDO portfolio rated below investment grade had an amortized cost and fair value of $3.5 million and $2.6 million, respectively. Based upon the analysis discussed above, we believed as of September 30, 2012, and December 31, 2011, that we would recover the amortized cost of each investment grade corporate bond and CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the nine months ended September 30, 2012 and 2011, the recovery as a percentage of amortized cost was 93% and 98%, respectively, for corporate bonds and 90% and 0% respectively for CDOs.

Determination of Credit Losses on MBS

As of September 30, 2012, and December 31, 2011, 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, 2012		As of December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$ 2,953	$ 2,953	$ 2,980	$ 2,980
Securities pledged under securities lending agreements (2)	196	190	200	193
Securities pledged under reverse repurchase agreements (3)	280	294	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	37	52	173	199
Investments pledged for Federal Home Loan Bank ofIndianapolis Securities ("FHLBI") (5)	1,100	1,870	100	142
Total payables for collateral on investments	$ 4,566	$ 5,359	$ 3,733	$ 3,808

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.
(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
(3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed maturity AFS securities.
(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.
(5) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

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,	
	2012	2011
Collateral payable held for derivative investments	$ (27)	$ 1,793

Securities pledged under securities lending agreements	(4)	(1)
Securities pledged for TALF	(136)	(96)
Investments pledged for FHLBI	1,000	500
Total increase (decrease) in payables for collateral on investments	$ 833	$ 2,196

Investment Commitments

As of September 30, 2012, our investment commitments were $966 million, which included $231 million of limited partnerships (“LPs”), $405 million of private placements and $330 million of mortgage loans on real estate.

Concentrations of Financial Instruments

As of September 30, 2012, and December 31, 2011, 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 $4.1 billion and $5.0 billion, respectively, or 4% and 5% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of $2.4 billion and $2.6 billion, respectively, or 2% and 3% of our invested assets portfolio, respectively. These investments are included in corporate bonds in the tables above.

As of September 30, 2012, and December 31, 2011, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $8.5 billion and $7.7 billion, respectively, or 9% and 8% of our invested assets portfolio, respectively, and our investment securities in the banking industry with a fair value of $4.9 billion and $5.6 billion, or 5% and 6% 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

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. See Note 1 in our 2011 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2011 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy which information is incorporated herein by reference. In addition, we have entered into forward-starting interest rate swaps that hedge the interest rate risk of floating rate bond coupon payments by replicating a fixed rate bond. See Note 13 for additional disclosures related to the fair value of our derivative instruments and Note 4 for derivative instruments related to our consolidated VIEs.

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

	As of September 30, 2012			As of December 31, 2011		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	$ 3,336	$ 210	$ -	$ 2,512	$ 130	$ -
Foreign currency contracts (1)	420	25	-	340	38	-
Total cash flow hedges	3,756	235	-	2,852	168	-
Fair value hedges:						
Interest rate contracts (1)	875	307	-	1,675	319	-
Equity collar (1)	9	-	-	-	-	-
Total fair value hedges	884	307	-	1,675	319	-
Non-Qualifying Hedges						
Interest rate contracts (1)	36,714	750	-	30,232	568	-
Foreign currency contracts (1)	138	-	-	4	-	-
Equity market contracts (1)	19,276	1,780	-	16,401	2,096	-
Credit contracts (1)	47	-	3	48	-	-
Credit contracts (2)	188	-	16	148	-	16
Embedded derivatives:						

Indexed annuity contracts (3)	-	-	733	-	-	399
Guaranteed living benefits ("GLB") reserves (3)	-	-	1,411	-	-	2,217
Reinsurance related (4)	-	-	215	-	-	168
Total derivative instruments	$ 61,003	$ 3,072	$ 2,378	$ 51,360	$ 3,151	$ 2,800

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

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

	Remaining Life as of September 30, 2012					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Interest rate contracts (1)	$ 3,110	$ 20,203	$ 6,307	$ 10,092	$ 1,213	$ 40,925
Foreign currency contracts (2)	138	179	191	50	-	558
Equity market contracts	9,917	3,863	5,477	25	3	19,285
Credit contracts	40	195	-	-	-	235
Total derivative instruments with notional amounts	$ 13,205	$ 24,440	$ 11,975	$ 10,167	$ 1,216	$ 61,003

(1) As of September 30, 2012, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was June 2042.
(2) As of September 30, 2012, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2028.

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

	For the Nine Months Ended September 30,	
	2012	2011
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 119	$ (15)
Other comprehensive income (loss):		
Cumulative effect from adoption of new accounting standards	-	4
Unrealized holding gains (losses) arising during the year:		
Cash flow hedges:		
Interest rate contracts	67	178
Foreign currency contracts	(3)	7
Fair value hedges:		
Interest rate contracts	3	3
Change in foreign currency exchange rate adjustment	(7)	(1)
Change in DAC, VOBA, DSI and DFEL	9	(1)
Transfers from derivative instruments to bonds through basis adjustment	13	-
Income tax benefit (expense)	(30)	(65)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	(17)	(6)
Interest rate contracts (2)	-	3
Foreign currency contracts (1)	3	(3)
Fair value hedges:		
Interest rate contracts (2)	3	3
Associated amortization of DAC, VOBA, DSI and DFEL	2	-
Income tax benefit (expense)	3	1
Balance as of end-of-period	$ 177	$ 112

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts (1)	$ (6)	$ (2)	$ (17)	$ (7)
Foreign currency contracts (1)	2	2	4	3
Total cash flow hedges	(4)	-	(13)	(4)
Fair value hedges:				
Interest rate contracts (2)	5	13	28	38
Non-Qualifying Hedges				
Interest rate contracts (1)	(4)	(25)	(23)	(41)
Interest rate contracts (3)	(2)	982	206	1,008
Foreign currency contracts (3)	(4)	(5)	(8)	(11)
Equity market contracts (3)	(343)	694	(773)	560
Equity market contracts (4)	(136)	154	(246)	120
Credit contracts (1)	-	(1)	(1)	(1)
Credit contracts (3)	(7)	(8)	(2)	(6)
Embedded derivatives:				
Indexed annuity contracts (3)	(63)	135	(143)	81
GLB reserves (3)	570	(2,065)	861	(1,935)
Reinsurance related (3)	(30)	(58)	(48)	(76)
AFS securities (1)	-	-	-	1
Total derivative instruments	$ (18)	$ (184)	$ (162)	$ (266)

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Gain (loss) recognized as a component of OCI with the offset to net investment income	$ (5)	$ -	$ (15)	$ (4)

As of September 30, 2012, $22 million of the deferred net losses on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to the interest rate variances related to the interest rate swap agreements.

For the three and nine months ended September 30, 2012 and 2011, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

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

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
Gain (loss) recognized as a component of OCI with the offset to interest expense	$ 1	$ 1	$ 3	$ 3

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

As of September 30, 2012						
Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	$ -	$ 40
12/20/2016 (4)	(5)	(6)	BBB-	3	(6)	68
03/20/2017 (4)	(5)	(6)	BBB-	4	(11)	81
				11	$ (17)	$ 189

As of December 31, 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)	BBB+	3	(12)	68
03/20/2017 (4)	(5)	(6)	BBB	2	(4)	40
				9	$ (16)	$ 148

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
(2) Broker quotes are used to determine the market value of credit default swaps.
(3) These credit default swaps were sold to our contract holders prior to 2007, 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 2011 Form 10-K.
(5) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.
(6)

Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

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

	As of September 30, 2012	As of December 31, 2011
Maximum potential payout	$ 189	$ 148
Less:		
Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 189	$ 148

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post approximately $16 million as of September 30, 2012, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

Credit Risk

We 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, 2012, the nonperformance risk adjustment was $4 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2012, our exposure was $50 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, 2012		As of December 31, 2011	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA	$ 46	$ -	$ 35	$ -

AA-	76	-	219	-
A+	668	-	848	-
A	879	(83)	1,681	(120)
A-	1,415	-	387	-
BBB	2	-	-	-
	$ 3,086	$ (83)	$ 3,170	$ (120)

24

7. Federal Income Taxes

A reconciliation of the effective tax rate differences (in millions) was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Tax rate times pre-tax income	$ 146	$ 54	$ 409	$ 347
Effect of:				
Tax-preferred investment income	(32)	(47)	(101)	(107)
Tax credits	(17)	(14)	(38)	(35)
Change in uncertain tax positions	(83)	-	(83)	-
Other items	31	1	37	9
Federal income tax expense (benefit)	$ 45	$ (6)	$ 224	$ 214
Effective tax rate	11 %	-4 %	19 %	22 %

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The tax-preferred investment income relates primarily to separate account dividends-received deductions. The change in uncertain tax positions relates primarily to the lapse of statute of limitations for prior year tax returns and excludes amounts included in other items. Additional amounts related to uncertain tax positions are included in discontinued operations. See Note 3 for information on amounts reflected in discontinued operations. Other items include corrections of immaterial errors in prior period financial statements.

As of September 30, 2012 and 2011, $94 million and $231 million, respectively, of our unrecognized tax benefits presented below, if recognized, would have affected our income tax expense and effective tax rate. A reconciliation of the unrecognized tax benefits (in millions) was as follows:

	For the Nine Months Ended September 30,	
	2012	2011
Balance as of beginning-of-year	$ 316	$ 318
Decreases for prior year tax positions	(200)	(12)
Increases for current year tax positions	27	2
Decreases for lapse of statute of limitations	(74)	-
Balance as of end-of-period	$ 69	$ 308

8. Guaranteed Benefit Features

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

	As of September 30, 2012	As of December 31, 2011
Return of Net Deposits		
Total account value	$ 61,418	$ 54,004
Net amount at risk (1)	460	1,379
Average attained age of contract holders	60 years	59 years
Minimum Return		
Total account value	$ 152	$ 155
Net amount at risk (1)	37	48
Average attained age of contract holders	72 years	72 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 22,968	$ 21,648
Net amount at risk (1)	1,305	2,939
Average attained age of contract holders	67 years	67 years

(1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing September 30, 2012, to December 31, 2011, was attributable primarily to the increase in the equity markets during the first nine months of 2012.

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, 2012	2011
Balance as of beginning-of-year	$ 84	$ 44
Changes in reserves	54	108
Benefits paid	(36)	(34)
Balance as of end-of-period	$ 102	$ 118

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

As of As of

	September 30, 2012	December 31, 2011
Asset Type		
Domestic equity	$ 37,679	$ 34,286
International equity	14,466	13,095
Bonds	20,347	17,735
Money market	7,225	5,892
Total	$ 79,717	$ 71,008
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 Life Insurance segment. These UL and VUL products with secondary guarantees represented 38% of permanent life insurance in force as of September 30, 2012, and 26% and 31% of total sales for these products for the three and nine months ended September 30, 2012, respectively.

9. Contingencies and Commitments

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

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

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

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of September 30, 2012. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC’s financial position.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of September 30, 2012, we estimate the aggregate range of reasonably possible losses, including amounts in excess of amounts accrued for these matters as of such date, to be up to approximately $200 million.

27

On June 13, 2009, a single named plaintiff filed a putative national class action in the Circuit Court of Allen County, Indiana, captioned Peter S. Bezich v. LNL, No. 02C01-0906-PL73, asserting he was charged a cost-of-insurance fee that exceeded the applicable mortality charge, and that this fee breached the terms of the insurance contract. The parties are conducting fact discovery, and no class certification motion has yet been filed. We dispute the allegations and are vigorously defending this matter.

On July 23, 2012, The Lincoln National Life Insurance Company ("LNL") was added as a noteholder defendant to a putative class action adversary proceeding ("Adversary Proceeding") captioned Lehman Brothers Special Financing, Inc. v. Bank of America, N.A. et al., Adv. Pro. No. 10-03547 (JMP) and instituted under In re Lehman Brothers Holdings Inc. in the United States Bankruptcy Court in the Southern District of New York. Plaintiff Lehman Brothers Special Financing Inc. ("LBSF") seeks to (i) overturn the application of certain priority of payment provisions in 47 collateralized debt obligation transactions on the basis such provisions are unenforceable under the Bankruptcy Code; and (ii) recover funds paid out to Noteholders in accordance with the Note agreements. The Adversary proceeding is stayed through January 20, 2013, and LNL's response is currently due to be filed on March 5, 2013.

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 regulatory inquiries and examinations with a similar focus on the handling of unreported claims and abandoned property. The audits and related examination activity may result in 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.

See Note 13 to the consolidated financial statements in our 2011 Form 10-K for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

10. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Series A Preferred Stock				
Balance as of beginning-of-period	9,632	10,854	10,072	10,914
Conversion of convertible preferred stock (1)	(100)	-	(540)	(60)
Balance as of end-of-period	9,532	10,854	9,532	10,854
Common Stock				
Balance as of beginning-of-period	279,168,971	308,339,163	291,319,222	315,718,554
Conversion of convertible preferred stock (1)	1,600	-	8,640	960
Stock compensation/issued for benefit plans	60,238	32,712	394,633	215,618
Retirement/cancellation of shares	(4,157,191)	(6,712,700)	(16,648,877)	(14,275,957)
Balance as of end-of-period	275,073,618	301,659,175	275,073,618	301,659,175
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	275,226,130	301,832,839	275,226,130	301,832,839
Diluted basis	282,361,186	306,899,902	282,361,186	306,899,902

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

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

Average Shares

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted EPS was as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted-average shares, as used in basic calculation	277,883,878	304,779,641	282,989,766	310,357,508
Shares to cover exercise of outstanding warrants	10,150,192	10,150,292	10,150,218	10,150,292
Shares to cover conversion of preferred stock	153,886	173,664	154,165	174,293
Shares to cover non-vested stock	1,141,821	815,594	1,087,724	801,261
Average stock options outstanding during the period	513,722	500,578	540,976	698,054
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(4,840,576)	(5,153,660)	(4,787,407)	(4,223,290)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(352,501)	(342,848)	(371,115)	(459,168)
	(210)	(31,025)	(5,553)	(80,317)

Shares repurchaseable from measured but unrecognized stock option expense				
Average deferred compensation shares	-	1,105,447	-	1,070,549
Weighted-average shares, as used in diluted calculation	284,650,212	311,997,683	289,758,774	318,489,182

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

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 Comprehensive Income (Loss).

Accumulated OCI

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

	For the Nine Months Ended September 30, 2012	2011
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 2,947	$ 1,072
Cumulative effect from adoption of new accounting standards	-	105
Unrealized holding gains (losses) arising during the period	2,804	3,232
Change in foreign currency exchange rate adjustment	9	2
Change in DAC, VOBA, DSI and other contract holder funds	(724)	(791)
Income tax benefit (expense)	(779)	(837)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(148)	(83)
Associated amortization of DAC, VOBA, DSI and DFEL	1	(10)
Income tax benefit (expense)	51	33
Balance as of end-of-period	$ 4,353	$ 2,843
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ (110)	$ (129)
(Increases) attributable to:		
Cumulative effect from adoption of new accounting standards	-	(5)
Gross OTTI recognized in OCI during the period	(96)	(48)
Change in DAC, VOBA, DSI and DFEL	14	11
Income tax benefit (expense)	31	13
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	112	91
Change in DAC, VOBA, DSI and DFEL	(14)	(18)
Income tax benefit (expense)	(35)	(25)
Balance as of end-of-period	$ (98)	$ (110)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 119	$ (15)
Cumulative effect from adoption of new accounting standards	-	4
Unrealized holding gains (losses) arising during the period	67	188
Change in foreign currency exchange rate adjustment	(7)	(1)
Change in DAC, VOBA, DSI and DFEL	9	(1)
Transfers from derivative instruments to bonds through basis adjustment	13	-
Income tax benefit (expense)	(30)	(65)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(11)	(3)
Associated amortization of DAC, VOBA, DSI and DFEL	2	-
Income tax benefit (expense)	3	1
Balance as of end-of-period	$ 177	$ 112
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ 1	$ 1

Foreign currency translation adjustment arising during the period	(6)	3
Income tax benefit (expense)	2	(1)
Balance as of end-of-period	$ (3)	$ 3
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (278)	$ (181)
Adjustment arising during the period	(2)	(3)
Income tax benefit (expense)	1	1
Balance as of end-of-period	$ (279)	$ (183)

30

11. Realized Gain (Loss)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Total realized gain (loss) related to certain investments (1)	$ (54)	$ (45)	$ (153)	$ (92)
Realized gain (loss) on the mark-to-market on certain instruments (2)	59	(105)	99	(95)
Indexed annuity net derivative results: (3)				
Gross gain (loss)	(5)	(4)	14	3
Associated amortization of DAC, VOBA, DSI and DFEL	-	1	(6)	(2)
Variable annuity net derivatives results: (4)				
Gross gain (loss)	92	(12)	107	33
Associated amortization of DAC, VOBA, DSI and DFEL	(22)	2	(33)	(17)
Total realized gain (loss)	$ 70	$ (163)	$ 28	$ (170)

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

12. Stock-Based Incentive Compensation Plans

We sponsor 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. We have a policy of issuing new shares to satisfy option exercises.

LNC stock-based awards granted were as follows:

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012
Awards		
10-year LNC stock options	33,292	903,502
Performance shares	11,698	306,456
SARs	-	80,225
Restricted stock units	44,191	730,421
Non-employee:		
Agent stock options	-	99,113
Director stock options	-	51,140
Director restricted stock units	11,037	33,383

13. Fair Value of Financial Instruments

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

	As of September 30, 2012		As of December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 81,179	$ 81,179	$ 75,433	$ 75,433
VIEs' fixed maturity securities	706	706	700	700
Equity securities	156	156	139	139
Trading securities	2,650	2,650	2,675	2,675
Mortgage loans on real estate	6,690	7,338	6,942	7,608
Derivative investments	3,072	3,072	3,151	3,151
Other investments	1,123	1,123	1,069	1,069
Cash and invested cash	4,373	4,373	4,510	4,510
Separate account assets	93,326	93,326	83,477	83,477
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	(733)	(733)	(399)	(399)
GLB reserves embedded derivatives	(1,411)	(1,411)	(2,217)	(2,217)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(914)	(914)	(1,114)	(1,114)
Account values of certain investment contracts	(28,161)	(32,344)	(27,468)	(30,812)
Short-term debt (1)	(200)	(201)	(300)	(309)
Long-term debt	(5,494)	(6,266)	(5,391)	(5,345)
Reinsurance related embedded derivatives	(215)	(215)	(168)	(168)
VIEs' liabilities - derivative instruments	(174)	(174)	(291)	(291)
Other liabilities:				
Deferred compensation plans	(378)	(378)	(354)	(354)
Credit default swaps	(16)	(16)	(16)	(16)

(1) The difference between the carrying value and fair value of short-term debt as of September 30, 2012, and December 31, 2011, related to current maturities of long-term debt.

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

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

Mortgage Loans on Real Estate

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

Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments include LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. The inputs used to measure the fair value of our other investments are classified as Level 3 within the fair value hierarchy.

Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of September 30, 2012, and December 31, 2011, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

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

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2012, or December 31, 2011, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in "Summary of Significant Accounting Policies" in Note 1 of our 2011 Form 10-K:

	As of September 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 65	$ 64,556	$ 1,855	$ 66,476
U.S. government bonds	476	31	1	508
Foreign government bonds	-	585	76	661
RMBS	-	6,734	3	6,737
CMBS	-	1,083	43	1,126
CDOs	-	-	147	147
State and municipal bonds	-	4,305	33	4,338
Hybrid and redeemable preferred securities	20	1,053	113	1,186
VIEs' fixed maturity securities	111	595	-	706
Equity AFS securities	44	26	86	156
Trading securities	2	2,588	60	2,650
Derivative investments	-	839	2,233	3,072
Cash and invested cash	-	4,373	-	4,373
Separate account assets	-	93,326	-	93,326
Total assets	$ 718	$ 180,094	$ 4,650	$ 185,462
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	$ -	$ -	$ (733)	$ (733)
GLB reserves embedded derivatives	-	-	(1,411)	(1,411)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(215)	-	(215)
VIEs' liabilities - derivative instruments	-	-	(174)	(174)
Other liabilities:				
Deferred compensation plans	-	-	(378)	(378)
Credit default swaps	-	-	(16)	(16)
Total liabilities	$ -	$ (1,418)	$ (2,712)	$ (4,130)

	As of December 31, 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	$ 57,310	$ 1,888	$ 59,261
U.S. government bonds	475	18	1	494
Foreign government bonds	-	636	97	733
RMBS	-	7,881	158	8,039
CMBS	-	1,566	34	1,600
CDOs	-	-	102	102
State and municipal bonds	-	4,047	-	4,047
Hybrid and redeemable preferred securities	15	1,042	100	1,157
VIEs' fixed maturity securities	108	592	-	700
Equity AFS securities	37	46	56	139
Trading securities	2	2,605	68	2,675
Derivative investments	-	681	2,470	3,151
Cash and invested cash	-	4,510	-	4,510
Separate account assets	-	83,477	-	83,477
Total assets	$ 700	$ 164,411	$ 4,974	$ 170,085
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	$ -	$ -	$ (399)	$ (399)
GLB reserves embedded derivatives	-	-	(2,217)	(2,217)
Long-term debt	-	(1,688)	-	(1,688)
Reinsurance related embedded derivatives	-	(168)	-	(168)
VIEs' liabilities - derivative instruments	-	-	(291)	(291)
Other liabilities:				
Deferred compensation plans	-	-	(354)	(354)
Credit default swaps	-	-	(16)	(16)
Total liabilities	$ -	$ (1,856)	$ (3,277)	$ (5,133)

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

	For the Three Months Ended September 30, 2012					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,678	$ 1	$ 24	$ 225	$ (73)	$ 1,855
U.S. government bonds	1	-	-	-	-	1
Foreign government bonds	102	-	-	(2)	(24)	76
RMBS	184	-	-	-	(181)	3
CMBS	39	(2)	4	(2)	4	43
CDOs	120	(2)	2	27	-	147
State and municipal bonds	32	-	1	-	-	33
Hybrid and redeemable preferred securities	129	-	13	-	(29)	113
Equity AFS securities	85	-	1	-	-	86
Trading securities	72	-	4	(2)	(14)	60
Derivative investments	2,517	(268)	47	(63)	-	2,233
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(431)	(63)	-	(239)	-	(733)
GLB reserves embedded derivatives	(1,926)	570	-	-	-	(1,356)
VIEs' liabilities - derivative instruments (5)	(231)	57	-	-	-	(174)
Other liabilities:						
Deferred compensation plans (6)	(358)	(18)	-	(2)	-	(378)
Credit default swaps (7)	(11)	(5)	-	-	-	(16)
Total, net	$ 2,002	$ 270	$ 96	$ (58)	$ (317)	$ 1,993

37

	For the Three Months Ended September 30, 2011					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,573	$ (18)	$ (33)	$ (11)	$ (11)	$ 1,500
U.S. government bonds	2	-	-	(1)	-	1
Foreign government bonds	96	1	9	(1)	-	105
RMBS	161	(1)	2	24	(47)	139
CMBS	53	(7)	3	(12)	-	37
CDOs	126	5	(8)	(12)	-	111
Hybrid and redeemable preferred securities	106	-	(12)	(18)	16	92
Equity AFS securities	96	-	(14)	10	-	92
Trading securities	71	1	1	(5)	1	69
Derivative investments	1,492	684	340	10	-	2,526
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(506)	135	-	29	-	(342)
GLB reserves embedded derivatives	(278)	(2,065)	-	-	-	(2,343)
VIEs' liabilities - derivative instruments (5)	(198)	(109)	-	-	-	(307)
Other liabilities:						
Deferred compensation plans (6)	(360)	22	-	13	-	(325)
Credit default swaps (7)	(7)	(8)	-	-	-	(15)
Total, net	$ 2,427	$ (1,360)	$ 288	$ 26	$ (41)	$ 1,340

38

	For the Nine Months Ended September 30, 2012					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,888	$ (16)	$ 14	$ 327	$ (358)	$ 1,855
U.S. government bonds	1	-	-	-	-	1
Foreign government bonds	97	-	-	(4)	(17)	76
RMBS	158	(3)	3	(8)	(147)	3
CMBS	34	(9)	15	(10)	13	43
CDOs	102	(2)	7	34	6	147
State and municipal bonds	-	-	1	32	-	33
Hybrid and redeemable preferred securities	100	(1)	19	-	(5)	113
Equity AFS securities	56	-	5	25	-	86
Trading securities	68	2	3	(2)	(11)	60
Derivative investments	2,470	(557)	114	206	-	2,233
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(399)	(143)	-	(191)	-	(733)
GLB reserves embedded derivatives	(2,217)	861	-	-	-	(1,356)
VIEs' liabilities - derivative instruments (5)	(291)	117	-	-	-	(174)
Other liabilities:						
Deferred compensation plans (6)	(354)	(37)	-	13	-	(378)
Credit default swaps (7)	(16)	-	-	-	-	(16)
Total, net	$ 1,697	$ 212	$ 181	$ 422	$ (519)	$ 1,993

	For the Nine Months Ended September 30, 2011					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,816	$ 5	$ 10	$ (247)	$ (84)	$ 1,500
U.S. government bonds	2	-	-	(1)	-	1
Foreign government bonds	113	-	12	(3)	(17)	105
RMBS	119	(3)	7	16	-	139
CMBS	109	(53)	57	(75)	(1)	37
CDOs	172	19	(17)	(63)	-	111
Hybrid and redeemable preferred securities	119	-	(5)	(18)	(4)	92
Equity AFS securities	92	8	(13)	3	2	92
Trading securities	76	-	4	(8)	(3)	69
Derivative investments	1,495	600	335	96	-	2,526
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(497)	80	-	75	-	(342)
GLB reserves embedded derivatives	(408)	(1,935)	-	-	-	(2,343)
VIEs' liabilities - derivative instruments (5)	(209)	(98)	-	-	-	(307)
Other liabilities:						
Deferred compensation plans (6)	(363)	10	-	28	-	(325)
Credit default swaps (7)	(16)	(5)	-	6	-	(15)
Total, net	$ 2,620	$ (1,372)	$ 390	$ (191)	$ (107)	$ 1,340

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).

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

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

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

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

(6) Deferrals and subsequent changes in fair value for the participants' investment options are reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

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

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

	For the Three Months Ended September 30, 2012					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 247	$ -	$ (7)	$ (14)	$ (1)	$ 225
Foreign government bonds	-	-	-	(2)	-	(2)
CMBS	-	-	-	(2)	-	(2)
CDOs	30	-	-	(3)	-	27
Trading securities	-	(1)	-	(1)	-	(2)
Derivative investments	55	(43)	(75)	-	-	(63)
Future contract benefits:						
Indexed annuity contracts embedded derivatives	(31)	-	-	(208)	-	(239)
Other liabilities:						
Deferred compensation plans	-	-	-	(2)	-	(2)
Total, net	$ 301	$ (44)	$ (82)	$ (232)	$ (1)	$ (58)

	For the Three Months Ended September 30, 2011					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 22	$ (14)	$ (10)	$ (9)	$ -	$ (11)
U.S. government bonds	-	-	-	(1)	-	(1)
Foreign government bonds	-	-	-	-	(1)	(1)
RMBS	28	(1)	-	(3)	-	24
CMBS	-	-	-	(12)	-	(12)
CDOs	-	-	-	(12)	-	(12)
Hybrid and redeemable preferred securities	-	(18)	-	-	-	(18)
Equity AFS securities	10	-	-	-	-	10
Trading securities	-	(2)	-	(3)	-	(5)
Derivative investments	87	6	(83)	-	-	10
Future contract benefits:						
Indexed annuity contracts embedded derivatives	(11)	-	-	40	-	29
Other liabilities:						
Deferred compensation plans	-	-	-	13	-	13
Total, net	$ 136	$ (29)	$ (93)	$ 13	$ (1)	$ 26

	For the Nine Months Ended September 30, 2012					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 404	$ (27)	$ (5)	$ (41)	$ (4)	$ 327
Foreign government bonds	-	-	-	(4)	-	(4)
RMBS	-	-	(7)	(1)	-	(8)
CMBS	-	-	-	(10)	-	(10)
CDOs	47	-	-	(13)	-	34
State and municipal bonds	32	-	-	-	-	32
Equity AFS securities	25	-	-	-	-	25
Trading securities	-	-	-	(2)	-	(2)
Derivative investments	428	(40)	(182)	-	-	206
Future contract benefits:						
Indexed annuity contracts embedded derivatives	(66)	-	-	(125)	-	(191)
Other liabilities:						
Deferred compensation plans	-	-	-	13	-	13
Total, net	$ 870	$ (67)	$ (194)	$ (183)	$ (4)	$ 422

	For the Nine Months Ended September 30, 2011					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 45	$ (146)	$ (11)	$ (46)	$ (89)	$ (247)
U.S. government bonds	-	-	-	(1)	-	(1)
Foreign government bonds	-	(2)	-	-	(1)	(3)
RMBS	28	(1)	-	(11)	-	16
CMBS	-	(53)	-	(22)	-	(75)
CDOs	-	(34)	-	(29)	-	(63)
Hybrid and redeemable preferred securities	-	(18)	-	-	-	(18)
Equity AFS securities	18	(15)	-	-	-	3
Trading securities	-	(3)	-	(5)	-	(8)
Derivative investments	362	(27)	(239)	-	-	96
Future contract benefits:						
Indexed annuity contracts embedded derivatives	(49)	-	-	124	-	75
Other liabilities:						
Deferred compensation plans	-	-	-	28	-	28
Credit default swaps	-	6	-	-	-	6
Total, net	$ 404	$ (293)	$ (250)	$ 38	$ (90)	$ (191)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Investments: (1)				
Derivative investments	$ (279)	$ 696	$ (618)	$ 574
Future contract benefits: (1)				
Indexed annuity contracts embedded derivatives	4	(4)	22	-
GLB reserves embedded derivatives	556	(2,011)	924	(1,781)
VIEs' liabilities - derivative instruments (1)	57	(108)	117	(98)
Other liabilities:				
Deferred compensation plans (2)	(18)	22	(37)	10
Credit default swaps (3)	(5)	(8)	-	(7)
Total, net	$ 315	$ (1,413)	$ 408	$ (1,302)

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

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

	For the Three Months Ended September 30, 2012			For the Three Months Ended September 30, 2011		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 241	$ (314)	$ (73)	$ 4	$ (15)	$ (11)
Foreign government bonds	27	(51)	(24)	-	-	-
RMBS	-	(181)	(181)	-	(47)	(47)
CMBS	4	-	4	-	-	-
Hybrid and redeemable preferred securities	-	(29)	(29)	16	-	16
Trading securities	3	(17)	(14)	1	-	1
Total, net	$ 275	$ (592)	$ (317)	$ 21	$ (62)	$ (41)

	For the Nine Months Ended September 30, 2012			For the Nine Months Ended September 30, 2011		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 163	$ (521)	$ (358)	$ 33	$ (117)	$ (84)
Foreign government bonds	29	(46)	(17)	-	(17)	(17)
RMBS	-	(147)	(147)	-	-	-
CMBS	13	-	13	-	(1)	(1)
CDOs	6	-	6	-	-	-
Hybrid and redeemable preferred securities	35	(40)	(5)	18	(22)	(4)
Equity AFS securities	-	-	-	2	-	2
Trading securities	5	(16)	(11)	1	(4)	(3)
Total, net	$ 251	$ (770)	$ (519)	$ 54	$ (161)	$ (107)

Transfers in and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the three and nine months ended September 30, 2012 and 2011, our corporate bonds transfers in and out were attributable primarily to the securities' observable market information no longer being available or becoming available, respectively. Transfers in and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available or when these prices become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers between Levels 1 and 2 will result. For the three and nine months ended September 30, 2012 and 2011, the transfers between Levels 1 and 2 of the fair value hierarchy were less than $1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements that were developed as of September 30, 2012:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range
Assets				
Investments:				
Fixed maturity AFS and trading securities				
Corporate bonds	$ 1,065	Discounted cash flow	Liquidity/duration adjustment (1)	1.8% - 13.2%
Foreign government bonds	77	Discounted cash flow	Liquidity/duration adjustment (1)	1.8% - 6.1%
Hybrid and redeemable preferred stock	21	Discounted cash flow	Liquidity/duration adjustment (1)	2.7% - 2.8%
Equity AFS and trading securities	12	Discounted cash flow	Liquidity/duration adjustment (1)	4.3% - 4.5%
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	(733)	Discounted cash flow	Lapse rate (2)	1.0% - 15.0%
			Mortality rate (3)	(7)
GLB reserves embedded derivatives	(1,411)	Monte Carlo simulation	Long-term lapse rate (2)	1.0% - 27.0%
			Utilization of guaranteed withdrawal (5)	90.0% - 100.0%
			Non-performance risk ("NPR") (6)	0.04% - 0.47%
			Mortality rate (3)	(7)
			Volatility (4)	1.0% - 35.0%

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

(2)

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

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

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

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

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

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

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

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

- Investments – An increase in the liquidity/duration adjustment input would result in a decrease in the fair value measurement.
- Indexed annuity contracts embedded derivatives – An increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.
- GLB reserves embedded derivatives – An increase in our lapse rate, wait period, NPR or mortality rate inputs would result in a decrease in the fair value measurement. An increase in the percent of maximum withdrawal amount input would result in an increase in the fair value measurement.

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

As part of our on-going valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see "Summary of Significant Accounting Policies" in Note 1 of our 2011 Form 10-K.

14. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 22 of our 2011 Form 10-K for a brief description of these segments and Other Operations.

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

- Realized gains and losses associated with the following ("excluded realized gain (loss)"):
  - § Sales or disposals of securities;
  - § Impairments of securities;
  - § Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities;
  - § Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
  - § Changes in the fair value of the embedded derivatives of our GLB riders accounted for at fair value, net of the change in the fair value of the derivatives we own to hedge them; and
  - § Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value;
- Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
- Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
- Gains (losses) on early extinguishment of debt;
- Losses from the impairment of intangible assets;
- Income (loss) from discontinued operations; and
- Income (loss) from the initial adoption of new accounting standards.

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

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

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

Segment information (in millions) was as follows:

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Revenues				
Operating revenues:				
Annuities	$ 745	$ 711	$ 2,210	$ 2,179
Retirement Plan Services	255	247	765	771
Life Insurance	1,296	1,176	3,765	3,552
Group Protection	517	479	1,560	1,458
Other Operations	101	122	321	352
Excluded realized gain (loss), pre-tax	39	(186)	(55)	(239)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	2	2
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	(3)	-	(2)
Total revenues	$ 2,954	$ 2,547	$ 8,568	$ 8,073

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 139	$ 153	$ 433	$ 442
Retirement Plan Services	29	39	101	129
Life Insurance	154	154	434	433
Group Protection	16	27	59	77
Other Operations	(3)	(44)	(75)	(104)
Excluded realized gain (loss), after-tax	25	(121)	(35)	(156)
Gain (loss) on early extinguishment of debt, after-tax	-	(5)	-	(5)
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	1	-	1	1
Impairment of intangibles, after-tax	2	-	2	-
Benefit ratio unlocking, after-tax	10	(42)	24	(39)
Income (loss) from continuing operations, after-tax	373	161	944	778
Income (loss) from discontinued operations, after-tax	29	(8)	27	(8)
Net income (loss)	$ 402	$ 153	$ 971	$ 770

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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of September 30, 2012, compared with December 31, 2011, and the results of operations for the three and nine months ended September 30, 2012, compared with the corresponding periods in 2011 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Lincoln," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2011 ("2011 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," as updated in "Part II – Item 1A. Risk Factors" below, "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly reports on Form 10-Q filed in 2012; and our current reports on Form 8-K filed in 2012.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Financial information that follows is presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"), unless otherwise indicated. See Note 1 in our 2011 Form 10-K for a discussion of GAAP.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 14. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

Certain reclassifications have been made to prior periods' financial information.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

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

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements related to secondary guarantee universal life and annuities; regulations regarding captive reinsurance arrangements; restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. federal tax reform;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;

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

The risks included here are not exhaustive. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("SEC") include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

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

INTRODUCTION

Executive Summary

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

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in "Part I – Item 1. Business" of our 2011 Form 10-K.

For information on how we derive our revenues, see the discussion in results of operations by segment below.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in "Introduction – Executive Summary" of our 2011 Form 10-K.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

Critical Accounting Policies and Estimates

The MD&A included in our 2011 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the "Critical Accounting Policies and Estimates" provided in our 2011 Form 10-K and, accordingly, should be read in conjunction with the "Critical Accounting Policies and Estimates" discussed in our 2011 Form 10-K.

DAC, VOBA, DSI and DFEL

New DAC Methodology

In October 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" (referred to herein as the "new DAC methodology"), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. This determination of deferability must be made on a contract-level basis. This new DAC methodology contrasts to the prior guidance we followed that defined deferrable acquisition costs as costs that vary with and are related primarily to new or renewal business, regardless of whether the acquisition efforts were successful or unsuccessful.

Some examples of acquisition costs that remain subject to deferral as part of the new DAC methodology include the following:

- Employee, agent or broker commissions for successful contract acquisitions;
- Wholesaler production bonuses for successful contract acquisitions;
- Renewal commissions and bonuses to agents or brokers;
- Medical and inspection fees for successful contract acquisitions;
- Premium-related taxes and assessments; and
- A portion of the salaries and benefits of certain employees involved in the underwriting, contract issuance and processing, medical and inspection and sales force contract selling functions related to the successful issuance or renewal of an insurance contract.

All other acquisition-related costs, including costs incurred by the insurer for soliciting potential customers, market research, training, administration, management of distribution and underwriting functions, unsuccessful acquisition or renewal efforts and product development, are considered non-deferrable acquisition costs and must be expensed in the period incurred.

In addition, the following indirect costs are considered non-deferrable acquisition costs as part of the new DAC methodology and must be charged to expense in the period incurred:

- Administrative costs;
- Rent;
- Depreciation;
- Occupancy costs;
- Equipment costs (including data processing equipment dedicated to acquiring insurance contracts); and
- Other general overhead.

We adopted the new DAC methodology as of January 1, 2012, and elected to apply the guidance retrospectively. The retrospective adoption resulted in the restatement of all periods presented with a cumulative effect adjustment to the opening balance of retained earnings and accumulated other comprehensive income (loss) ("AOCI") for the earliest period presented. Further, our adoption of the new DAC methodology resulted in an overall reduction in deferrable acquisition costs, partially offset by lower DAC amortization, in each of our business segments. See Note 2 for more discussion of the effect of adoption.

Unlocking

As discussed in our 2011 Form 10-K, we conduct an annual comprehensive review of the assumptions and the projection models used for our estimates of future gross profits underlying the amortization of DAC, VOBA, DSI and DFEL and the calculations of the embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees in the third quarter of each year. As a result of this review, we may record prospective unlocking on an annual basis that result in increases or decreases to the carrying values of these items. Prospective unlocking is driven by changes in assumptions or projection models related to our expectations of future EGPs.

Details underlying the increase (decrease) to income (loss) from continuing operations from our prospective unlocking as a result of our annual comprehensive review (in millions) were as follows:

	For the Three Months Ended September 30,		
	2012	2011	Change
Income (loss) from operations:			
Annuities	$ (5)	$ (18)	72 %
Retirement Plan Services	(3)	(2)	-50 %
Life Insurance	36	51	-29 %
Excluded realized gain (loss) (1)	76	(78)	197 %
Income (loss) from continuing operations	$ 104	$ (47)	NM

(1) Includes unlocking related to the non-performance risk ("NPR") component of our guaranteed living benefit ("GLB") embedded derivative reserves (see "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivative Results" below for more information).

Our prospective unlocking – assumption changes were attributable primarily to the following:

2012

During the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates. This reduction in the interest rate assumption resulted in resetting the current new money investment rate followed by a gradual annual recovery over seven years to a rate 50 basis points below our previous ultimate long-term assumption. As a result of this assumption revision, we recorded unfavorable prospective unlocking of $110 million, after-tax, for Life Insurance, $4 million, after-tax, for Annuities, and $6 million, after-tax, for Retirement Plan Services.

- For Annuities and Retirement Plan Services, we modified our policyholder behavior assumptions and lowered our new money investment yield assumption as discussed above;
- For Life Insurance, we modified our policyholder behavior assumptions, partially offset by lowering our new money investment yield assumption as discussed above; and
  - For excluded realized gain (loss), we modified our policyholder behavior assumptions for GLB riders.

2011

- For Annuities, we lowered our long-term equity market growth rate and interest margin assumptions, partially offset by lowering our lapse assumptions;
- For Life Insurance, we updated our crediting rate assumptions to reflect actions implemented to reduce interest crediting rates; and
- For excluded realized gain (loss), we lowered our assumptions for long-term volatility, partially offset by lowering our lapse assumptions.

Reversion to the Mean ("RTM")

As equity markets do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our RTM process, as discussed in our 2011 Form 10-K.

Our long-term variable fund growth rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for our variable annuity and VUL products, is an immediate drop of approximately 11% followed by growth going forward of 8% to 9% depending on the block of business and reflecting differences in contract holder fund allocations between fixed income and equity-type investments. If we were to have unlocked our RTM assumption in the corridor as of September 30, 2012, we would have recorded a favorable prospective unlocking of approximately $215 million, pre-tax, for Annuities, approximately $20 million, pre-tax, for Retirement Plan Services, and approximately $20 million, pre-tax, for Life Insurance.

Investments

Investment Valuation

The following summarizes our available-for-sale ("AFS") and trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions):

	As of September 30, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Priced by third party pricing services	$ 719	$ 71,629	$ -	$ 72,348
Priced by independent broker quotations	-	-	3,475	3,475
Priced by matrices	-	10,766	-	10,766
Priced by other methods (1)	-	-	1,175	1,175
Total	$ 719	$ 82,395	$ 4,650	$ 87,764
Percent of total	1%	94%	5%	100%

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

For more information about the valuation of our financial instruments carried at fair value, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation" in our 2011 Form 10-K and Note 13.

As of September 30, 2012, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions. We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of deposit and collateralized debt obligations ("CDOs") when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are generally classified as Level 3 of the fair value hierarchy. As of September 30, 2012, we used broker quotes for 74 securities as our final price source, representing 1% of total securities owned.

Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 6 of this report and "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2011 Form 10-K.

Guaranteed Living Benefits

Within our individual annuity business, approximately 50% of our variable annuity account values contained a guaranteed withdrawal benefit ("GWB") rider as of September 30, 2012. Declines in the equity markets increase our exposure to potential benefits under the GWB contracts, leading to an increase in our existing liability for those benefits. For example, a GWB contract is "in the money" if the contract holder's account balance falls below the guaranteed amount. As of September 30, 2012 and 2011,

44% and 91%, respectively, of all GWB in-force contracts were "in the money," and our exposure to the guaranteed amounts, after reinsurance, as of September 30, 2012 and 2011, was $1.1 billion and $3.8 billion, respectively. Our exposure before reinsurance for these same periods was $1.2 billion and $4.1 billion, respectively. However, the only way the GWB contract holder can monetize the excess of the guaranteed amount over the account value of the contract is upon death or through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for our lifetime GWB products, the annuity payments can continue beyond the guaranteed amount. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the guaranteed amount over account value.

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

Acquisitions and Dispositions

For information about acquisitions and divestitures, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Acquisitions and Dispositions" and Note 3.

RESULTS OF CONSOLIDATED OPERATIONS

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Net Income (Loss)						
Income (loss) from operations:						
Annuities	$ 139	$ 153	-9 %	$ 433	$ 442	-2 %
Retirement Plan Services	29	39	-26 %	101	129	-22 %
Life Insurance	154	154	0 %	434	433	0 %
Group Protection	16	27	-41 %	59	77	-23 %
Other Operations	(3)	(44)	93 %	(75)	(104)	28 %
Excluded realized gain (loss), after-tax	25	(121)	121 %	(35)	(156)	78 %
Gain (loss) on early extinguishment of debt, after-tax	-	(5)	100 %	-	(5)	100 %
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	1	-	NM	1	1	0 %
Impairment of intangibles, after-tax	2	-	NM	2	-	NM
Benefit ratio unlocking, after-tax	10	(42)	124 %	24	(39)	162 %
	373	161	132 %	944	778	21 %

Income (loss) from continuing operations, after-tax						
Income (loss) from discontinued operations, after-tax	29	(8)	NM	27	(8)	NM
Net income (loss)	$ 402	$ 153	163 %	$ 971	$ 770	26 %

53

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Deposits						
Annuities	$ 2,677	$ 2,709	-1 %	$ 8,025	$ 8,274	-3 %
Retirement Plan Services	1,717	1,456	18 %	4,519	3,996	13 %
Life Insurance	1,106	1,343	-18 %	3,403	3,887	-12 %
Total deposits	$ 5,500	$ 5,508	0 %	$ 15,947	$ 16,157	-1 %
Net Flows						
Annuities	$ 396	$ 663	-40 %	$ 1,391	$ 1,845	-25 %
Retirement Plan Services	232	329	-29 %	638	285	124 %
Life Insurance	695	963	-28 %	2,169	2,652	-18 %
Total net flows	$ 1,323	$ 1,955	-32 %	$ 4,198	$ 4,782	-12 %

	As of September 30,		
	2012	2011	Change
Account Values			
Annuities	$ 94,158	$ 81,229	16 %
Retirement Plan Services	43,103	37,020	16 %
Life Insurance	36,589	34,419	6 %
Total account values	$ 173,850	$ 152,668	14 %

Comparison of the Three and Nine Months Ended September 30, 2012 to 2011

Net income increased due primarily to the following:

- The effect of favorable prospective unlocking;
- Favorable tax adjustments during 2012 due primarily to the release of reserves associated with prior tax years that were closed in the third quarter;
- Realized gains on the mark-to-market on certain instruments during 2012 as compared to realized losses during 2011 attributable to spreads narrowing on corporate credit default swaps; and
- Growth in account values, insurance in force and group earned premiums.

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

- Higher gross realized gains during 2011 originating from asset sales to reposition the investment portfolio;
- Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and
- Strategic investments in technology platforms and distribution processes, partially offset by aggressively managing expenses.

RESULTS OF ANNUITIES

Income (Loss) from Operations

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Operating Revenues						
Insurance premiums (1)	$ 29	$ 15	93 %	$ 64	$ 60	7 %
Insurance fees	332	317	5 %	980	948	3 %
Net investment income	268	271	-1 %	819	837	-2 %
Operating realized gain (loss)	30	23	30 %	82	69	19 %
Other revenues and fees (2)	86	85	1 %	265	265	0 %
Total operating revenues	745	711	5 %	2,210	2,179	1 %
Operating Expenses						
Interest credited	146	177	-18 %	480	530	-9 %
Benefits	131	87	51 %	226	165	37 %
Commissions and other expenses	295	287	3 %	974	961	1 %
Total operating expenses	572	551	4 %	1,680	1,656	1 %
Income (loss) from operations before taxes	173	160	8 %	530	523	1 %
Federal income tax expense (benefit)	34	7	NM	97	81	20 %
Income (loss) from operations	$ 139	$ 153	-9 %	$ 433	$ 442	-2 %

(1) Includes primarily our single-premium immediate annuities (“SPIA”), which have a corresponding offset in benefits for changes in reserves.
(2) Consists primarily of fees attributable to broker-dealer services that are subject to market volatility.

Comparison of the Three Months Ended September 30, 2012 to 2011

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

- More favorable tax return true-ups recorded in 2011 than in 2012 driven by the separate account dividends-received deduction (“DRD”) and other items;
- Higher benefits attributable to the effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information); and
- Higher commissions and other expenses driven by higher account values driving higher trail commissions and strategic investments in technology platforms and distribution processes.

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

- Higher net investment income, net of interest credited, driven by:
  - § The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
  - § Higher average fixed account values since the third quarter of 2011 (see the “Other Information” table within “Net Investment Income and Interest Credited” below for drivers of changes in our account values); and

§ More favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Alternative Investments” below for more information);

partially offset by:

§ Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and

§ Lower prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and

- Higher insurance fees driven by higher average daily variable account values since the third quarter of 2011 (see the "Account Value Information" table within "Insurance Fees" below for drivers of changes in our account values).

Comparison of the Nine Months Ended September 30, 2012 to 2011

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

- Higher benefits attributable to the following:
  - § The effect of prospective unlocking (see "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" for more information);
  - § Unfavorable mortality experience on SPIA during 2012 as compared to favorable experience during 2011; and
  - § An increase in the growth in benefit reserves from higher than expected GLB payments;
- More favorable tax return true-ups recorded in 2011 than in 2012 driven by the separate account DRD and other items; and
- Higher commissions and other expenses driven by higher account values driving higher trail commissions and strategic investments in technology platforms and distribution processes.

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

- Higher insurance fees driven by higher average daily variable account values since the third quarter of 2011 (see the "Account Value Information" table within "Insurance Fees" below for drivers of changes in our account values); and
- Higher net investment income, net of interest credited, driven by:
  - § The effect of prospective unlocking (see "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" for more information);
  - § Higher average fixed account values since the third quarter of 2011 (see the "Other Information" table within "Net Investment Income and Interest Credited" below for drivers of changes in our account values); and
  - § More favorable investment income on alternative investments within our surplus portfolio (see "Consolidated Investments – Alternative Investments" below for more information);

  partially offset by:
  - § Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and
  - § Lower prepayment and bond makewhole premiums (see "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums" below for more information).

Additional Information

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

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity products was 8% for the three and nine months ended September 30, 2012 and 2011.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. As mentioned in “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” above, during the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates.

For information on interest rate spreads, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein. For information on the interest rate risk due to falling interest rates, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2011 Form 10-K.

We provide information about this segment’s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain (loss), see “Realized Gain (Loss) and Benefit Ratio Unlocking” below.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

Insurance Fees

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Insurance Fees						
Mortality, expense and other assessments	$ 337	$ 316	7 %	$ 979	$ 950	3 %
Surrender charges	2	8	-75 %	12	29	-59 %
DFEL:						
Deferrals	(5)	(16)	69 %	(18)	(51)	65 %
Amortization, net of interest:						
Prospective unlocking	(6)	6	NM	(6)	6	NM
Amortization, net of interest, excluding unlocking	4	3	33 %	13	14	-7 %
Total insurance fees	$ 332	$ 317	5 %	$ 980	$ 948	3 %

	As of or For the Three Months Ended September 30,			As of or For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Account Value Information						
Variable annuity deposits (1)	$ 1,518	$ 1,415	7 %	$ 4,621	$ 4,558	1 %
Increases (decreases) in variable annuity account values:						
Net flows (1)	(97)	(41)	NM	(251)	(243)	-3 %
Change in market value (1)	3,186	(8,345)	138 %	6,576	(5,981)	210 %
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	696	609	14 %	2,064	2,140	-4 %
Variable annuity account values (1)	73,400	60,774	21 %	73,400	60,774	21 %
Average daily variable annuity account values (1)	71,535	65,169	10 %	69,926	66,625	5 %
Average daily S&P 500	1,402.14	1,227.42	14 %	1,366.26	1,282.45	7 %

(1) Excludes the fixed portion of variable.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and the equity markets. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Insurance fees include charges on both our variable and fixed annuity products, but exclude the attributed fees on our GLB products; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2011 Form 10-K for discussion of these attributed fees.

Net Investment Income and Interest Credited

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

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Change	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 236	$ 243	-3 %	$ 711	$ 735	-3 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	2	6	-67 %	8	23	-65 %
Alternative investments (2)	-	-	NM	1	-	NM
Surplus investments (3)	30	22	36 %	99	79	25 %
Total net investment income	$ 268	$ 271	-1 %	$ 819	$ 837	-2 %
Interest Credited						
Amount provided to contract holders	$ 160	$ 176	-9 %	$ 491	$ 525	-6 %
DSI deferrals	(11)	(10)	-10 %	(30)	(29)	-3 %
Interest credited before DSI amortization	149	166	-10 %	461	496	-7 %
DSI amortization:						
Prospective unlocking	(14)	2	NM	(14)	2	NM
Amortization, excluding unlocking	11	9	22 %	33	32	3 %
Total interest credited	$ 146	$ 177	-18 %	$ 480	$ 530	-9 %

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

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Basis Point Change	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	Basis Point Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	4.83 %	5.08 %	(25)	4.88 %	5.18 %	(30)
Commercial mortgage loan prepayment and bond makewhole premiums	0.04 %	0.12 %	(8)	0.05 %	0.16 %	(11)
Net investment income yield on reserves	4.87 %	5.20 %	(33)	4.93 %	5.34 %	(41)
Interest rate credited to contract holders	2.94 %	3.33 %	(39)	3.04 %	3.34 %	(30)
Interest rate spread	1.93 %	1.87 %	6	1.89 %	2.00 %	(11)

	As of or For the Three Months Ended September 30,			As of or For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Other Information						
Fixed annuity deposits (1)	$ 1,159	$ 1,294	-10 %	$ 3,403	$ 3,717	-8 %
Increases (decreases) in fixed annuity account values:						
Net flows (1)	493	704	-30 %	1,641	2,089	-21 %
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(696)	(609)	-14 %	(2,064)	(2,140)	4 %
Reinvested interest credited (1)	201	45	NM	609	445	37 %
Fixed annuity account values (1)	20,757	20,455	1 %	20,757	20,455	1 %
Average fixed account values (1)	20,788	20,415	2 %	20,678	20,190	2 %
Average invested assets on reserves	19,493	19,160	2 %	19,523	18,947	3 %

(1) Includes the fixed portion of variable.

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

Benefits

Details underlying benefits (in millions) were as follows:

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Benefits						
Prospective unlocking	$ 73	$ 43	70 %	$ 73	$ 43	70 %
Net death and other benefits, excluding unlocking	58	44	32 %	153	122	25 %
Total benefits	$ 131	$ 87	51 %	$ 226	$ 165	37 %

Benefits for this segment include changes in reserves of immediate annuity account values driven by premiums, changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

Commissions and Other Expenses

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

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Change	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	Change
Commissions and Other Expenses						
Commissions:						
Deferrable	$ 124	$ 121	2 %	$ 367	$ 357	3 %
Non-deferrable	79	61	30 %	221	195	13 %
General and administrative expenses	97	85	14 %	292	265	10 %
Inter-segment reimbursement associated with reserve financing and LOC expenses (1)	-	(1)	100 %	-	(1)	100 %
Taxes, licenses and fees	9	5	80 %	23	20	15 %
Total expenses incurred, excluding broker-dealer	309	271	14 %	903	836	8 %
DAC deferrals	(138)	(137)	-1 %	(411)	(405)	-1 %
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	171	134	28 %	492	431	14 %
DAC and VOBA amortization, net of interest:						
Prospective unlocking	(57)	(11)	NM	(57)	(11)	NM
Amortization, net of interest, excluding unlocking	96	78	23 %	280	272	3 %
Broker-dealer expenses incurred	85	86	-1 %	259	269	-4 %
Total commissions and other expenses	$ 295	$ 287	3 %	$ 974	$ 961	1 %
DAC Deferrals						
As a percentage of sales/deposits	5.2 %	5.1 %		5.1 %	4.9 %	

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

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

Broker-dealer expenses that vary with and are related to sales are expensed as incurred and not deferred and amortized. Fluctuations in these expenses correspond with fluctuations in other revenues and fees.

RESULTS OF RETIREMENT PLAN SERVICES

Income (Loss) from Operations

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Operating Revenues						
Insurance fees	$ 53	$ 51	4 %	$ 158	$ 161	-2 %
Net investment income	199	193	3 %	598	598	0 %
Other revenues and fees (1)	3	3	0 %	9	12	-25 %
Total operating revenues	255	247	3 %	765	771	-1 %
Operating Expenses						
Interest credited	114	109	5 %	337	326	3 %
Benefits	-	2	-100 %	-	2	-100 %
Commissions and other expenses	102	83	23 %	293	262	12 %
Total operating expenses	216	194	11 %	630	590	7 %
Income (loss) from operations before taxes	39	53	-26 %	135	181	-25 %
Federal income tax expense (benefit)	10	14	-29 %	34	52	-35 %
Income (loss) from operations	$ 29	$ 39	-26 %	$ 101	$ 129	-22 %

(1) Consists primarily of mutual fund account program fees for mid to large employers.

Comparison of the Three Months Ended September 30, 2012 to 2011

Income from operations for this segment decreased due primarily to higher commissions and other expenses driven by the following:

- Strategic investments in technology platforms and distribution expansion efforts; and
- The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information).

Comparison of the Nine Months Ended September 30, 2012 to 2011

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

- Higher commissions and other expenses driven by strategic investments in technology platforms and distribution expansion efforts;
- Lower net investment income, net of interest credited, driven by:

§ Lower prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and

§ Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates;

partially offset by:

§ Higher average fixed account values since the third quarter of 2011 (see the “Other Information” table within “Net Investment Income and Interest Credited” below for drivers of changes in our account values); and

§ More favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Alternative Investments” below for more information); and

- Lower insurance fees driven by lower average daily variable account values since the third quarter of 2011 (see the “Account Value Information” table within “Insurance Fees” below for drivers of changes in our account values).

Additional Information

Net flows in this business fluctuate based on the timing of larger plans implementing on our platform and terminating over the course of the year, and we expect this trend will continue for the remainder of 2012.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they are an important indicator of future profitability. The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity and mutual fund products was 14% and 12% for the three and nine months ended September 30, 2012, respectively, compared to 12% for the corresponding periods in 2011.

Our lapse rate is negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Account Value Roll Forward table below as "Total Multi-Fund® and Other Variable Annuities"), which are also our higher margin product lines in this segment, due to the fact that they are mature blocks with much of the account values out of their surrender charge period. The proportion of these products to our total account values was 37% and 41% as of September 30, 2012, and 2011, respectively. Due to this expected overall shift in business mix toward products with lower returns, a significant increase in new deposit production will be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on a quarterly basis. Our ability to retain quarterly reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. As mentioned in "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" above, during the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates.

For information on interest rate spreads, see "Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" herein. For information on the interest rate risk due to falling interest rates, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2011 Form 10-K.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

Insurance Fees

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Insurance Fees						
Annuity expense assessments	$ 45	$ 43	5 %	$ 133	$ 136	-2 %
Mutual fund fees	8	7	14 %	24	23	4 %
Total expense assessments	53	50	6 %	157	159	-1 %
Surrender charges	-	1	-100 %	1	2	-50 %
Total insurance fees	$ 53	$ 51	4 %	$ 158	$ 161	-2 %

	For the Three Months Ended September 30, 2012	2011	Change	For the Nine Months Ended September 30, 2012	2011	Change
Account Value Roll Forward – By Product						
Total Micro – Small Segment:						
Balance as of beginning-of-period	$ 6,470	$ 6,566	-1 %	$ 6,168	$ 6,396	-4 %
Gross deposits	362	312	16 %	1,152	953	21 %
Withdrawals and deaths	(330)	(336)	2 %	(1,110)	(1,045)	-6 %
Net flows	32	(24)	233 %	42	(92)	146 %
Transfers between fixed and variable accounts	(5)	-	NM	(16)	(6)	NM
Investment increase and change in market value	269	(686)	139 %	572	(442)	229 %
Balance as of end-of-period	$ 6,766	$ 5,856	16 %	$ 6,766	$ 5,856	16 %
Total Mid – Large Segment:						
Balance as of beginning-of-period	$ 19,139	$ 17,333	10 %	$ 17,434	$ 16,207	8 %
Gross deposits	1,186	969	22 %	2,852	2,504	14 %
Withdrawals and deaths	(798)	(408)	-96 %	(1,697)	(1,463)	-16 %
Net flows	388	561	-31 %	1,155	1,041	11 %
Transfers between fixed and variable accounts	(17)	(19)	11 %	(24)	(57)	58 %
Investment increase and change in market value	783	(1,769)	144 %	1,728	(1,085)	259 %
Balance as of end-of-period	$ 20,293	$ 16,106	26 %	$ 20,293	$ 16,106	26 %
Total Multi-Fund® and Other Variable Annuities:						
Balance as of beginning-of-period	$ 15,788	$ 16,388	-4 %	$ 15,531	$ 16,221	-4 %
Gross deposits	169	175	-3 %	515	539	-4 %
Withdrawals and deaths	(357)	(383)	7 %	(1,074)	(1,203)	11 %
Net flows	(188)	(208)	10 %	(559)	(664)	16 %
Investment increase and change in market value	444	(1,122)	140 %	1,072	(499)	NM
Balance as of end-of-period	$ 16,044	$ 15,058	7 %	$ 16,044	$ 15,058	7 %
Total Annuities and Mutual Funds:						
Balance as of beginning-of-period	$ 41,397	$ 40,287	3 %	$ 39,133	$ 38,824	1 %
Gross deposits	1,717	1,456	18 %	4,519	3,996	13 %
Withdrawals and deaths	(1,485)	(1,127)	-32 %	(3,881)	(3,711)	-5 %
Net flows	232	329	-29 %	638	285	124 %
Transfers between fixed and variable accounts	(22)	(19)	-16 %	(40)	(63)	37 %
Investment increase and change in market value	1,496	(3,577)	142 %	3,372	(2,026)	266 %
Balance as of end-of-period (1)	$ 43,103	$ 37,020	16 %	$ 43,103	$ 37,020	16 %

(1) Includes mutual fund account values and other third-party trustee-held assets. These items are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

	As of or For the Three Months Ended September 30,			As of or For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Account Value Information						
Variable annuity deposits (1)	$ 343	$ 391	-12 %	$ 1,219	$ 1,199	2 %
Increases (decreases) in variable annuity account values:						
Net flows (1)	(103)	(120)	14 %	(291)	(415)	30 %
Change in market value (1)	632	(1,888)	133 %	1,405	(1,176)	219 %
Transfers from the variable portion of variable annuity products to the fixed portion of variable annuity products	(79)	(124)	36 %	(193)	(214)	10 %
Variable annuity account values (1)	13,788	12,122	14 %	13,788	12,122	14 %
Average daily variable annuity account values (1)	13,558	13,217	3 %	13,507	13,889	-3 %
Average daily S&P 500	1,402.14	1,227.42	14 %	1,366.26	1,282.45	7 %

(1) Excludes the fixed portion of variable.

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

Net Investment Income and Interest Credited

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 184	$ 180	2 %	$ 547	$ 536	2 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	-	1	-100 %	3	20	-85 %
Alternative investments (2)	-	-	NM	1	1	0 %
Surplus investments (3)	15	12	25 %	47	41	15 %
Total net investment income	$ 199	$ 193	3 %	$ 598	$ 598	0 %
Interest Credited	$ 114	$ 109	5 %	$ 337	$ 326	3 %

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for additional information.
(2) See “Consolidated Investments – Alternative Investments” below for additional information.
(3)

Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Three Months Ended September 30, 2012	2011	Basis Point Change	For the Nine Months Ended September 30, 2012	2011	Basis Point Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.23 %	5.53 %	(30)	5.28 %	5.57 %	(29)
Commercial mortgage loan prepayment and bond makewhole premiums	0.01 %	0.04 %	(3)	0.02 %	0.20 %	(18)
Alternative investments	0.00 %	0.00 %	-	0.01 %	0.01 %	-
Net investment income yield on reserves	5.24 %	5.57 %	(33)	5.31 %	5.78 %	(47)
Interest rate credited to contract holders	3.22 %	3.31 %	(9)	3.22 %	3.34 %	(12)
Interest rate spread	2.02 %	2.26 %	(24)	2.09 %	2.44 %	(35)

	As of or For the Three Months Ended September 30, 2012	2011	Change	As of or For the Nine Months Ended September 30, 2012	2011	Change
Other Information						
Fixed annuity deposits (1)	$ 489	$ 378	29 %	$ 1,206	$ 1,042	16 %
Increases (decreases) in fixed annuity account values:						
Net flows (1)	44	22	100 %	(13)	(87)	85 %
Transfers to the fixed portion of variable annuity products from the variable portion of variable annuity products	79	124	-36 %	193	214	-10 %
Reinvested interest credited (1)	114	111	3 %	336	327	3 %
Fixed annuity account values (1)	14,242	13,395	6 %	14,242	13,395	6 %
Average fixed account values (1)	14,126	13,244	7 %	13,918	13,048	7 %
Average invested assets on reserves	14,095	13,068	8 %	13,829	12,848	8 %

(1) Includes the fixed portion of variable.

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

Benefits

Benefits for this segment include changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

Commissions and Other Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Commissions and Other Expenses						
Commissions:						
Deferrable	$ 4	$ 5	-20 %	$ 14	$ 15	-7 %
Non-deferrable	13	11	18 %	38	35	9 %
General and administrative expenses	77	65	18 %	224	200	12 %
Taxes, licenses and fees	4	3	33 %	12	12	0 %
Total expenses incurred	98	84	17 %	288	262	10 %
DAC deferrals	(9)	(8)	-13 %	(28)	(26)	-8 %
Total expenses recognized before amortization	89	76	17 %	260	236	10 %
DAC and VOBA amortization, net of interest:						
Prospective unlocking	4	2	100 %	4	2	100 %
Amortization, net of interest, excluding unlocking	9	5	80 %	29	24	21 %
Total commissions and other expenses	$ 102	$ 83	23 %	$ 293	$ 262	12 %
DAC Deferrals						
As a percentage of annuity sales/deposits	1.1 %	1.0 %		1.2 %	1.2 %	

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain of our commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. We do not pay commissions on sales of our mutual fund products, and distribution expenses associated with the sale of these mutual fund products are expensed as incurred.

RESULTS OF LIFE INSURANCE

Income (Loss) from Operations

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Operating Revenues						
Insurance premiums	$ 103	$ 104	-1 %	$ 326	$ 324	1 %
Insurance fees	605	498	21 %	1,645	1,473	12 %
Net investment income	578	569	2 %	1,773	1,736	2 %
Operating realized gain	1	-	NM	1	-	NM
Other revenues and fees	9	5	80 %	20	19	5 %
Total operating revenues	1,296	1,176	10 %	3,765	3,552	6 %
Operating Expenses						
Interest credited	319	312	2 %	941	921	2 %
Benefits	296	152	95 %	1,248	1,209	3 %
Commissions and other expenses	465	493	-6 %	951	791	20 %
Total operating expenses	1,080	957	13 %	3,140	2,921	7 %
Income (loss) from operations before taxes	216	219	-1 %	625	631	-1 %
Federal income tax expense (benefit)	62	65	-5 %	191	198	-4 %
Income (loss) from operations	$ 154	$ 154	0 %	$ 434	$ 433	0 %

Comparison of the Three Months Ended September 30, 2012 to 2011

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

- Higher insurance fees due to the effect of prospective unlocking and growth in business in force; and
- Lower commissions and other expenses due to the effect of prospective unlocking, partially offset by a higher amortization rate as a result of higher gross profits than our model projections assumed and other reserve changes;

entirely offset by:

- Higher benefits due to:

§ The effect of prospective unlocking; and

§ Continued growth in our secondary guarantee life insurance business;

partially offset by:

§ Lower death claims.

Comparison of the Nine Months Ended September 30, 2012 to 2011

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

- Higher insurance fees due to the effect of prospective unlocking and growth in business in force; and
- Higher net investment income, net of interest credited, driven by:

§ Growth in business in force;

partially offset by:

§

Less favorable investment income on alternative investments and lower prepayment and bond makewhole premiums (see “Consolidated Investments – Alternative Investments” and “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and

§ Spread compression due to new money rates averaging below our portfolio yields, partially offset by lower interest crediting rates.

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

- Higher commissions and other expenses attributable to the effect of prospective unlocking and other reserve changes; and
- Higher benefits due to:
  - § Higher death claims; and
  - § Continued growth in our secondary guarantee life insurance business;

partially offset by:

- § The effect of prospective unlocking.

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

Strategies to Address Statutory Reserve Strain

Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation ("XXX") and Actuarial Guideline 38 ("AG38"), respectively. The calculated reserve levels exceed the expected economic levels of benefits that will arise under these products; therefore, our surplus is reduced to hold these higher reserve levels. Our insurance subsidiaries are employing strategies to reduce the surplus strain of holding the higher statutory reserves associated with term products and UL products containing secondary guarantees. As noted below, we have been successful in executing reinsurance solutions to release surplus to Other Operations. We will continue to manage our present reinsurance solutions and enter into new solutions to minimize the strain on our surplus.

Included in the LOCs issued as of September 30, 2012, was approximately $2.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements, of which approximately $65 million and $1.4 billion was issued for UL products containing secondary guarantees that will expire in 2015 and 2031, respectively, and approximately $855 million was issued for term business that will expire in 2023. We have also used the proceeds from senior note issuances of approximately $875 million to execute long-term structured solutions supporting UL products containing secondary guarantees. LOCs and related capital market alternatives lower the capital effect of term and UL products containing secondary guarantees. An inability to obtain the necessary LOC capacity or other capital market alternatives could affect our returns on our in-force UL products containing secondary guarantees. However, we believe that our insurance subsidiaries have sufficient capital to support the increase in statutory reserves, based on our current reserve projections, if such structures are not available. See "Part II – Item 1A. Risk Factors – Legislative, Regulatory and Tax – Changes to the calculation of reserves and attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations" below for further information on XXX and AG38 reserves. See the table in "Commissions and Other Expenses" below for the presentation of our expenses associated with reserve financing.

Additional Information

We expect to manage the effects of spreads on near-term income from operations through portfolio management, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. As mentioned in "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" above, during the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates.

For information on interest rate spreads, see "Part I – Item 3. Quantitative and Qualitative Disclosures About Market

Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" herein. For information on the interest rate risk due to falling interest rates, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" and "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2011 Form 10-K.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant effect on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the second half of the year with the fourth quarter being our strongest. However, we face conditions in the marketplace as discussed in "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Current Market Conditions" in our 2011 Form 10-K that may challenge our sales volume for the remainder of 2012. For example, we are implementing pricing changes to our products that reflect the current low interest rate environment that we believe will lower our sales volumes and could potentially reduce our market share until competitive conditions change.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain (loss), see "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

Insurance Premiums

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

Insurance Fees

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

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Change	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	Change
Insurance Fees						
Mortality assessments	$ 324	$ 335	-3 %	$ 991	$ 986	1 %
Expense assessments	197	230	-14 %	608	694	-12 %
Surrender charges	25	21	19 %	68	73	-7 %
DFEL:						
Deferrals	(73)	(119)	39 %	(238)	(360)	34 %
Amortization, net of interest:						
Prospective unlocking	81	(13)	NM	75	(28)	NM
Amortization, net of interest, excluding unlocking	51	44	16 %	141	108	31 %
Total insurance fees	$ 605	$ 498	21 %	$ 1,645	$ 1,473	12 %

	For the Three Months Ended September 30, 2012	For the Three Months Ended September 30, 2011	Change	For the Nine Months Ended September 30, 2012	For the Nine Months Ended September 30, 2011	Change
Sales by Product						
UL:						
Excluding MoneyGuard®	$ 38	$ 74	-49 %	$ 136	$ 242	-44 %
MoneyGuard®	40	48	-17 %	121	121	0 %
Total UL	78	122	-36 %	257	363	-29 %
VUL	9	13	-31 %	31	34	-9 %
COLI and BOLI	9	8	13 %	31	35	-11 %
Term	16	12	33 %	42	39	8 %
Total sales	$ 112	$ 155	-28 %	$ 361	$ 471	-23 %
Net Flows						
Deposits	$ 1,106	$ 1,343	-18 %	$ 3,403	$ 3,887	-12 %
Withdrawals and deaths	(411)	(380)	-8 %	(1,234)	(1,235)	0 %
Net flows	$ 695	$ 963	-28 %	$ 2,169	$ 2,652	-18 %
Contract holder assessments	$ 816	$ 819	0 %	$ 2,421	$ 2,441	-1 %

	As of September 30,		
	2012	2011	Change
Account Values			
UL	$ 28,883	$ 27,485	5 %
VUL	5,450	4,658	17 %
Interest-sensitive whole life	2,256	2,276	-1 %
Total account values	$ 36,589	$ 34,419	6 %
In-Force Face Amount			
UL and other	$ 308,470	$ 304,475	1 %
Term insurance	275,992	269,969	2 %
Total in-force face amount	$ 584,462	$ 574,444	2 %

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Insurance in force, in turn, is driven by sales, persistency and mortality experience. In-force growth should be considered independently with respect to term products versus UL and other products, as term products have a lower profitability relative to face amount compared to interest-sensitive and other products.

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

- MoneyGuard® (our linked-benefit product) – 15% of single premium deposits;
- MoneyGuard® (flexible premium option), UL (excluding linked-benefit products) and VUL (including corporate-owned UL and VUL ("COLI") and bank-owned UL and VUL ("BOLI")) – first year commissionable premiums plus 5% of excess premiums received, including an adjustment for internal replacements of approximately 50% of commissionable premiums; and
- Term – 100% of first year paid premiums.

The following table summarizes key information pertaining to our UL and VUL products with secondary guarantees:

	As of or For the Three Months Ended September 30,		As of or For the Nine Months Ended September 30,	
	2012	2011	2012	2011
As a percentage of interest sensitive life insurance in force	38 %	38 %	38 %	38 %
As a percentage of sales	26 %	46 %	31 %	49 %

Changes in the marketplace and continuing efforts to increase sales of higher return products are resulting in a shift in our business mix away from UL products with secondary guarantees to products like Indexed UL, VUL and term. Actuarial Guideline 37, or Variable Life Reserves for Guaranteed Minimum Death Benefits, and AG38 impose additional statutory reserve requirements for these products.

Net Investment Income and Interest Credited

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 541	$ 524	3 %	$ 1,630	$ 1,563	4 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	2	5	-60 %	10	21	-52 %
Alternative investments (2)	3	13	-77 %	30	61	-51 %
Surplus investments (3)	32	27	19 %	103	91	13 %
Total net investment income	$ 578	$ 569	2 %	$ 1,773	$ 1,736	2 %
Interest Credited	$ 319	$ 312	2 %	$ 941	$ 921	2 %

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

	For the Three Months Ended September 30,		Basis Point Change	For the Nine Months Ended September 30,		Basis Point Change
	2012	2011		2012	2011	
Interest Rate Yields and Spread						
Attributable to interest-sensitive products:						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.60 %	5.74 %	(14)	5.70 %	5.82 %	(12)
Commercial mortgage loan prepayment and bond makewhole premiums	0.02 %	0.06 %	(4)	0.04 %	0.08 %	(4)
Alternative investments	0.03 %	0.16 %	(13)	0.12 %	0.26 %	(14)
Net investment income yield on reserves	5.65 %	5.96 %	(31)	5.86 %	6.16 %	(30)
Interest rate credited to contract holders	3.92 %	4.10 %	(18)	3.93 %	4.09 %	(16)
Interest rate spread	1.73 %	1.86 %	(13)	1.93 %	2.07 %	(14)
Attributable to traditional products:						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.67 %	5.90 %	(23)	5.73 %	5.93 %	(20)
Commercial mortgage loan prepayment and bond makewhole premiums	0.00 %	0.03 %	(3)	0.01 %	0.04 %	(3)
Alternative investments	0.00 %	0.00 %	-	0.01 %	0.01 %	-
Net investment income yield on reserves	5.67 %	5.93 %	(26)	5.75 %	5.98 %	(23)

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Averages						
Attributable to interest-sensitive products:						
Invested assets on reserves	$ 34,321	$ 32,080	7 %	$ 33,801	$ 31,454	7 %
Account values - universal and whole life	31,666	30,237	5 %	31,442	29,832	5 %
Attributable to traditional products:						
Invested assets on reserves	4,374	4,311	1 %	4,310	4,290	0 %

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

Benefits

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Benefits						
Death claims direct and assumed	$ 703	$ 759	-7 %	$ 2,283	$ 2,179	5 %
Death claims ceded	(317)	(377)	16 %	(1,102)	(1,047)	-5 %
Reserves released on death	(132)	(108)	-22 %	(375)	(345)	-9 %
Net death benefits	254	274	-7 %	806	787	2 %
Change in secondary guarantee life insurance product reserves:						
Prospective unlocking	(154)	(355)	57 %	(145)	(162)	10 %
Change in reserves, excluding unlocking	111	128	-13 %	356	362	-2 %
Other benefits:						
Prospective unlocking	-	33	-100 %	-	33	-100 %
Other benefits, excluding unlocking (1)	85	72	18 %	231	189	22 %
Total benefits	$ 296	$ 152	95 %	$ 1,248	$ 1,209	3 %
Death claims per $1,000 of in-force	1.74	1.91	-9 %	1.85	1.85	0 %

(1) Includes primarily traditional product changes in reserves and dividends.

Benefits for this segment includes claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits includes the change in secondary guarantee life insurance product reserves. The reserve for secondary guarantees is affected by changes in expected future trends of expense assessments causing prospective unlocking adjustments to this liability similar to DAC, VOBA and DFEL. See "Future Contract Benefits and Other Contract Holder Funds" in Note 1 of our 2011 Form 10-K for additional information.

Commissions and Other Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Commissions and Other Expenses						
Commissions	$ 115	$ 161	-29 %	$ 371	$ 500	-26 %
General and administrative expenses	118	116	2 %	357	343	4 %
Expenses associated with reserve financing	17	14	21 %	49	42	17 %
Taxes, licenses and fees	33	40	-18 %	102	110	-7 %
Total expenses incurred	283	331	-15 %	879	995	-12 %
DAC and VOBA deferrals	(131)	(183)	28 %	(420)	(569)	26 %
Total expenses recognized before amortization	152	148	3 %	459	426	8 %
DAC and VOBA amortization, net of interest:						
Prospective unlocking	180	231	-22 %	147	17	NM
Amortization, net of interest, excluding unlocking	132	113	17 %	342	345	-1 %
Other intangible amortization	1	1	0 %	3	3	0 %
Total commissions and other expenses	$ 465	$ 493	-6 %	$ 951	$ 791	20 %
DAC and VOBA Deferrals						
As a percentage of sales	117.0%	118.1%		116.3%	120.8%	

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

RESULTS OF GROUP PROTECTION

Income (Loss) from Operations

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Operating Revenues						
Insurance premiums	$ 473	$ 440	8 %	$ 1,431	$ 1,337	7 %
Net investment income	41	37	11 %	121	115	5 %
Other revenues and fees	3	2	50 %	8	6	33 %
Total operating revenues	517	479	8 %	1,560	1,458	7 %
Operating Expenses						
Interest credited	1	1	0 %	3	2	50 %
Benefits	360	319	13 %	1,078	991	9 %
Commissions and other expenses	132	118	12 %	389	347	12 %
Total operating expenses	493	438	13 %	1,470	1,340	10 %
Income (loss) from operations before taxes	24	41	-41 %	90	118	-24 %
Federal income tax expense (benefit)	8	14	-43 %	31	41	-24 %
Income (loss) from operations	$ 16	$ 27	-41 %	$ 59	$ 77	-23 %

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Income (Loss) from Operations by Product Line						
Life	$ 6	$ 11	-45 %	$ 18	$ 28	-36 %
Disability	7	15	-53 %	37	48	-23 %
Dental	2	-	NM	-	(3)	100 %
Total non-medical	15	26	-42 %	55	73	-25 %
Medical	1	1	0 %	4	4	0 %
Income (loss) from operations	$ 16	$ 27	-41 %	$ 59	$ 77	-23 %

Comparison of the Three and Nine Months Ended September 30, 2012 to 2011

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

- Unfavorable total non-medical loss ratio experience; and
- Higher commissions and other expenses attributable to strategic investments in sales and distribution processes and technology platforms as well as an increase in business.

The decrease in income from operations was partially offset by growth in insurance premiums driven by normal, organic business growth in our non-medical products.

Additional Information

Management compares trends in actual loss ratios to pricing expectations because group-underwriting risks change over time. We expect normal fluctuations in our composite non-medical loss ratios of this segment, as claims experience is inherently uncertain. During the third quarter of 2012, our total non-medical loss ratio of 75.7% was above our long-term expectation of 71% to 74%

due primarily to unfavorable long-term disability claims severity and, to a lesser extent, adverse mortality experience. Non-medical loss ratios in general are likely to remain at the high end of our long-term expectation of 71% to 74% during the fourth quarter of 2012. For every one percent increase in the loss ratio above our expectation, we would expect an approximate annual $10 million to $12 million decrease to income from operations.

We are evaluating the potential effects that health care reform may have on the value and profitability of this segment's products and income from operations, including, but not limited to, potential changes to traditional sources of income for our brokers who may seek additional portfolio options and/or modification to compensation structures.

For information on the effects of current interest rates on our long-term disability claim reserves, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" in our 2011 Form 10-K.

Sales relate to long-duration contracts sold to new contract holders and new programs sold to existing contract holders. We believe that the trend in sales is an important indicator of development of business in force over time.

We provide information about this segment's operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

Insurance Premiums

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Insurance Premiums by Product Line						
Life	$ 194	$ 174	11 %	$ 570	$ 517	10 %
Disability	207	190	9 %	610	568	7 %
Dental	49	46	7 %	142	137	4 %
Total non-medical	450	410	10 %	1,322	1,222	8 %
Medical	23	30	-23 %	109	115	-5 %
Total insurance premiums	$ 473	$ 440	8 %	$ 1,431	$ 1,337	7 %
Sales	$ 97	$ 75	29 %	$ 252	$ 187	35 %

Our cost of insurance and policy administration charges are embedded in the premiums charged to our customers. The premiums are a function of the rates priced into the product and our business in force. Business in force, in turn, is driven by sales and persistency experience. Sales in the table above are the combined annualized premiums for our life, disability and dental products.

Net Investment Income

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

Benefits and Interest Credited

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Benefits and Interest Credited by Product Line						
Life	$ 149	$ 125	19 %	$ 437	$ 386	13 %
Disability	158	134	18 %	440	396	11 %
Dental	34	35	-3 %	107	110	-3 %
Total non-medical	341	294	16 %	984	892	10 %
Medical	20	26	-23 %	97	101	-4 %
Total benefits and interest credited	$ 361	$ 320	13 %	$ 1,081	$ 993	9 %
Loss Ratios by Product Line						
Life	76.8 %	72.1 %		76.7 %	74.7 %	
Disability	76.3 %	70.4 %		72.0 %	70.0 %	
Dental	69.0 %	76.2 %		75.7 %	80.0 %	
Total non-medical	75.7 %	71.8 %		74.4 %	73.1 %	
Medical	85.4 %	86.9 %		88.1 %	87.8 %	

Commissions and Other Expenses

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
Commissions and Other Expenses						
Commissions	$ 55	$ 50	10 %	$ 162	$ 150	8 %
General and administrative expenses	70	60	17 %	200	169	18 %
Taxes, licenses and fees	12	12	0 %	37	32	16 %
Total expenses incurred	137	122	12 %	399	351	14 %
DAC deferrals	(15)	(13)	-15 %	(43)	(32)	-34 %
Total expenses recognized before amortization	122	109	12 %			