

LINCOLN NATIONAL CORP
Form 10-Q
August 03, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-6028

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

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1140070
(I.R.S. Employer
Identification No.)

150 N. Radnor Chester Road, Suite A305, Radnor,
Pennsylvania
(Address of principal executive offices)

19087
(Zip Code)

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

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

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

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

Large accelerated filer 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

As of July 28, 2011, there were 308,340,501 shares of the registrant's common stock outstanding.

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of June 30, 2011 (Unaudited)	As of December 31, 2010
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2011 - \$67,373; 2010 - \$65,175)	\$ 70,920	\$ 68,030
Variable interest entities' fixed maturity securities (amortized cost: 2011 - \$572; 2010 - \$570)	593	584
Equity securities (cost: 2011 - \$121; 2010 - \$179)	144	197
Trading securities	2,625	2,596
Mortgage loans on real estate	6,871	6,752
Real estate	150	202
Policy loans	2,877	2,865
Derivative investments	1,097	1,076
Other investments	1,001	1,038
Total investments	86,278	83,340
Cash and invested cash	2,912	2,741
Deferred acquisition costs and value of business acquired	9,271	8,930
Premiums and fees receivable	370	335
Accrued investment income	994	933
Reinsurance recoverables	6,556	6,527
Goodwill	3,019	3,019
Other assets	3,308	3,369
Separate account assets	88,846	84,630
Total assets	\$ 201,554	\$ 193,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	\$ 17,855	\$ 17,460
Other contract holder funds	67,864	66,478
Short-term debt	251	351
Long-term debt	5,729	5,399
Reinsurance related embedded derivatives	119	102
Funds withheld reinsurance liabilities	1,107	1,149
Deferred gain on business sold through reinsurance	431	468
Payables for collateral on investments	1,805	1,659
Variable interest entities' liabilities	130	132
Other liabilities	3,831	3,190
Separate account liabilities	88,846	84,630
Total liabilities	187,968	181,018

Contingencies and Commitments (See Note 9)

Stockholders' Equity

Preferred stock - 10,000,000 shares authorized; Series A - 10,854 and 10,914 shares issued and outstanding as of June 30, 2011, and December 31, 2010, respectively	-	-
Common stock - 800,000,000 shares authorized; 308,339,163 and 315,718,554 shares issued and outstanding as of June 30, 2011, and December 31, 2010, respectively	7,938	8,124
Retained earnings	4,536	3,934
Accumulated other comprehensive income (loss)	1,112	748
Total stockholders' equity	13,586	12,806
Total liabilities and stockholders' equity	\$ 201,554	\$ 193,824

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
Insurance premiums	\$ 594	\$ 551	\$ 1,162	\$ 1,083
Insurance fees	900	793	1,718	1,581
Net investment income	1,181	1,120	2,372	2,226
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(45)	(11)	(90)	(88)
Portion of loss recognized in other comprehensive income	15	-	21	24
Net other-than-temporary impairment losses on securities recognized in earnings	(30)	(11)	(69)	(64)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	17	16	54	43
Total realized gain (loss)	(13)	5	(15)	(21)
Amortization of deferred gain on business sold through reinsurance	19	19	38	38
Other revenues and fees	123	117	243	225
Total revenues	2,804	2,605	5,518	5,132
Benefits and Expenses				
Interest credited	625	614	1,239	1,232
Benefits	1,028	838	1,862	1,617
Underwriting, acquisition, insurance and other expenses	638	754	1,362	1,467
Interest and debt expense	72	69	144	137
Total benefits and expenses	2,363	2,275	4,607	4,453
Income (loss) from continuing operations before taxes	441	330	911	679
Federal income tax expense (benefit)	116	78	246	171
Income (loss) from continuing operations	325	252	665	508
Income (loss) from discontinued operations, net of federal income taxes	-	3	-	31
Net income (loss)	325	255	665	539
Preferred stock dividends and accretion of discount	-	(149)	-	(168)
Net income (loss) available to common stockholders	\$ 325	\$ 106	\$ 665	\$ 371
Earnings (Loss) Per Common Share - Basic				
Income (loss) from continuing operations	\$ 1.04	\$ 0.34	\$ 2.12	\$ 1.12
Income (loss) from discontinued operations	-	0.01	-	0.10
Net income (loss)	\$ 1.04	\$ 0.35	\$ 2.12	\$ 1.22
Earnings (Loss) Per Common Share - Diluted				
Income (loss) from continuing operations	\$ 1.01	\$ 0.32	\$ 2.07	\$ 1.08
Income (loss) from discontinued operations	-	0.01	-	0.10

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Net income (loss)	\$ 1.01	\$ 0.33	\$ 2.07	\$ 1.18
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See accompanying Notes to Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2011	2010
Preferred Stock		
Balance as of beginning-of-year	\$ -	\$ 806
Issuance (redemption) of Series B preferred stock	-	(950)
Accretion of discount on Series B preferred stock	-	144
Balance as of end-of-period	-	-
Common Stock		
Balance as of beginning-of-year	8,124	7,840
Issuance of common stock	-	368
Stock compensation/issued for benefit plans	9	9
Effect of amendment to deferred compensation plans	-	(29)
Retirement of common stock/cancellation of shares	(195)	-
Balance as of end-of-period	7,938	8,188
Retained Earnings		
Balance as of beginning-of-year	3,934	3,316
Cumulative effect from adoption of new accounting standards	-	(169)
Comprehensive income (loss)	1,029	1,558
Less other comprehensive income (loss), net of tax	364	1,019
Net income (loss)	665	539
Retirement of common stock	(31)	-
Dividends declared: Common (2011 - \$0.100; 2010 - \$0.020)	(32)	(6)
Dividends on preferred stock	-	(24)
Accretion of discount on Series B preferred stock	-	(144)
Balance as of end-of-period	4,536	3,512
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	748	(262)
Cumulative effect from adoption of new accounting standards	-	181
Other comprehensive income (loss), net of tax	364	1,019
Balance as of end-of-period	1,112	938
Total stockholders' equity as of end-of-period	\$ 13,586	\$ 12,638

See accompanying Notes to Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	\$ 665	\$ 539
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	(296)	(86)
Trading securities purchases, sales and maturities, net	26	31
Change in premiums and fees receivable	(35)	4
Change in accrued investment income	(61)	(56)
Change in future contract benefits and other contract holder funds	371	604
Change in reinsurance related assets and liabilities	(72)	(253)
Change in federal income tax accruals	322	202
Realized (gain) loss	15	21
Amortization of deferred gain on business sold through reinsurance	(38)	(38)
(Gain) loss on disposal of discontinued operations	-	(64)
Other	(19)	(31)
Net cash provided by (used in) operating activities	878	873
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(5,901)	(7,474)
Sales of available-for-sale securities	1,042	2,057
Maturities of available-for-sale securities	2,857	1,925
Purchases of other investments	(1,701)	(1,245)
Sales or maturities of other investments	1,527	1,443
Increase (decrease) in payables for collateral on investments	146	469
Proceeds from sale of subsidiaries/businesses, net of cash disposed	-	321
Other	(42)	(29)
Net cash provided by (used in) investing activities	(2,072)	(2,533)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	-	(250)
Issuance of long-term debt, net of issuance costs	298	749
Increase (decrease) in commercial paper, net	(100)	(1)
Deposits of fixed account values, including the fixed portion of variable	5,335	5,132
Withdrawals of fixed account values, including the fixed portion of variable	(2,515)	(2,483)
Transfers to and from separate accounts, net	(1,391)	(1,353)
Common stock issued for benefit plans and excess tax benefits	(5)	-
Issuance (redemption) of Series B preferred stock	-	(950)
Issuance of common stock	-	368
Repurchase of common stock	(226)	-
Dividends paid to common and preferred stockholders	(31)	(36)

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Net cash provided by (used in) financing activities	1,365	1,176
Net increase (decrease) in cash and invested cash, including discontinued operations	171	(484)
Cash and invested cash, including discontinued operations, as of beginning-of-year	2,741	4,184
Cash and invested cash, including discontinued operations, as of end-of-period	\$ 2,912	\$ 3,700

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries (“LNC” or the “Company,” which also may be referred to as “we,” “our” or “us”) operate multiple insurance businesses through four business segments. See Note 14 for additional details. The collective group of businesses uses “Lincoln Financial Group” as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, term life insurance, mutual funds and group life, disability and dental.

Basis of Presentation

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

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

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

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

2. New Accounting Standards

Adoption of New Accounting Standards

Fair Value Measurements and Disclosures Topic

In January 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-06, “Improving Disclosures about Fair Value Measurements” (“ASU 2010-06”), which requires additional disclosure related to the three-level fair value hierarchy. For a more detailed description of ASU 2010-06, see “Adoption of New Accounting Standards – Fair Value Measurements and Disclosures Topic” in Note 2 of our 2010 Form 10-K. We

adopted the remaining disclosure requirements in ASU 2010-06 effective January 1, 2011, and have prospectively included the disclosures related to purchases, sales, issuances and settlements for Level 3 fair value measurements in Note 13 for the period ended June 30, 2011.

Financial Services – Insurance Industry Topic

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

Intangibles – Goodwill and Other Topic

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

Receivables Topic

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

Future Adoption of New Accounting Standards

Comprehensive Income Topic

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

Fair Value Measurements and Disclosures Topic

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

Financial Services – Insurance Industry Topic

In October 2010, the FASB issued ASU No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (“ASU 2010-26”), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. For a more detailed description of ASU 2010-26, see “Future Adoption of New Accounting Standards – Financial Services – Insurance Industry Topic” in Note 2 of our 2010 Form 10-K. We will adopt the provisions of ASU 2010-26 effective January 1, 2012, and are currently evaluating the effect of the adoption on our consolidated financial condition and results of operations.

Transfers and Servicing Topic

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

3. Dispositions

Discontinued Investment Management Operations

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

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

	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010
Discontinued Operations Before Disposal		
Revenues - gain (loss) on sale of business	\$ 4	\$ 4
Income (loss) from discontinued operations before disposal, before federal income taxes	\$ 4	\$ (13)
Federal income tax expense (benefit)	1	(2)
Income (loss) from discontinued operations before disposal	3	(11)
Disposal		
Gain (loss) on disposal, before federal income taxes	-	37
Federal income tax expense (benefit)	-	13
Gain (loss) on disposal	-	24
Income (loss) from discontinued operations	\$ 3	\$ 13

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

Discontinued Lincoln UK Operations

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

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

	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2010
Disposal		
Gain (loss) on disposal, before federal income taxes	\$ -	\$ 27
Federal income tax expense (benefit)	-	9
Gain (loss) on disposal	-	18
Income (loss) from discontinued operations	\$ -	\$ 18

The income (loss) from discontinued operations for the six months ended June 30, 2010, related to additional consideration received attributable to a post-closing adjustment of the purchase price based upon a final actuarial appraisal of the value of the business as set forth in the share purchase agreement.

4. Variable Interest Entities (“VIEs”)

Consolidated VIEs

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

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

	As of June 30, 2011			As of December 31, 2010		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity corporate asset-backed credit card loan securities (1)	N/A	\$ -	\$ 593	N/A	\$ -	\$ 584
Liabilities						
Derivative instruments not designated and not qualifying as hedging instruments:						
Credit default swaps (2)	2	\$ 600	\$ 202	2	\$ 600	\$ 215
Contingent forwards (2)	2	-	(3)	2	-	(6)
Total derivative instruments not designated and not qualifying as hedging instruments	4	600	199	4	600	209
Federal income tax (2)	N/A	-	(69)	N/A	-	(77)
Total liabilities	4	\$ 600	\$ 130	4	\$ 600	\$ 132

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

(2) Reported in VIEs' liabilities on our Consolidated Balance Sheets.

For details related to the fixed maturity available-for-sale ("AFS") securities for these VIEs, see Note 5.

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments				
Credit default swaps (1)	\$ 6	\$ (70)	\$ 13	\$ (69)
Contingent forwards (1)	(1)	2	(3)	(3)
Total derivative instruments not designated and not qualifying as hedging instruments	\$ 5	\$ (68)	\$ 10	\$ (72)

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

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

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

There has been no event of default on the CLNs themselves. Based upon our analysis, the remaining subordination as represented by the attachment point should be sufficient to absorb future credit losses, subject to changing market conditions. Similar to other debt market instruments, our maximum principal loss is limited to our original investment as of June 30, 2011.

As described more fully in Note 1 of our 2010 Form 10-K, we regularly review our investment holdings for other-than-temporary impairments (“OTTIs”). Based upon this review, we believe that the fixed maturity corporate asset-backed credit card loan securities were not other-than-temporarily impaired as of June 30, 2011.

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

Industry	AAA	AA	A	BBB	BB	B	CCC	Total
Telecommunications	- %	- %	6.4 %	4.3 %	0.5 %	- %	- %	11.2 %
Financial intermediaries	0.3 %	4.0 %	6.2 %	0.5 %	- %	- %	- %	11.0 %
Oil and gas	- %	1.0 %	1.2 %	4.1 %	- %	- %	- %	6.3 %
Utilities	- %	- %	3.1 %	1.4 %	- %	- %	- %	4.5 %
Chemicals and plastics	- %	- %	2.3 %	1.2 %	0.3 %	- %	- %	3.8 %
Drugs	0.3 %	2.2 %	1.2 %	- %	- %	- %	- %	3.7 %
Retailers (except food and drug)	- %	- %	1.2 %	1.8 %	0.5 %	- %	- %	3.5 %
Industrial equipment	- %	- %	3.0 %	0.3 %	- %	- %	- %	3.3 %
Sovereign	- %	0.7 %	1.6 %	1.0 %	- %	- %	- %	3.3 %
Food products	- %	0.3 %	1.8 %	1.1 %	- %	- %	- %	3.2 %
Conglomerates	- %	2.6 %	0.5 %	- %	- %	- %	- %	3.1 %
Forest products	- %	- %	- %	1.6 %	1.4 %	- %	- %	3.0 %
Other industry < 3% (27 industries)	- %	2.0 %	15.4 %	17.3 %	3.7 %	1.4 %	0.3 %	40.1 %
Total	0.6 %	12.8 %	43.9 %	34.6 %	6.4 %	1.4 %	0.3 %	100.0 %

Unconsolidated
VIEs

Effective December 31, 2010, we issued a \$500 million long-term senior note in exchange for a corporate bond AFS security of like principal and duration from a non-affiliated VIE whose primary activities are to acquire, hold and issue notes and loans, as well as pay and collect interest on the notes and loans. We have concluded that we are not the primary beneficiary of this VIE because we do not have power over the activities that most significantly affect its economic performance. In addition, the terms of the senior note provide us with a set-off right to the corporate bond AFS security we purchased from the VIE; therefore, neither appears on our Consolidated Balance Sheets. We assigned the corporate bond AFS security to one of our subsidiaries and issued a guarantee to our subsidiary for the timely payment of the corporate bond's principal.

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

5. Investments

AFS Securities

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

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

	Amortized Cost	As of June 30, 2011 Gross Unrealized			Fair Value
		Gains	Losses	OTTI	
Fixed Maturity Securities					
Corporate bonds	\$ 51,639	\$ 3,802	\$ 541	\$ 70	\$ 54,830
U.S. Government bonds	224	18	2	-	240
Foreign government bonds	551	43	-	-	594
MBS:					
CMOs	5,248	334	66	137	5,379
MPTS	3,028	124	3	-	3,149
CMBS	1,819	89	100	2	1,806
ABS CDOs	137	5	16	-	126
State and municipal bonds	3,370	137	28	-	3,479
Hybrid and redeemable preferred securities	1,357	67	107	-	1,317
VIEs' fixed maturity securities	572	21	-	-	593
Total fixed maturity securities	67,945	4,640	863	209	71,513
Equity Securities					
Banking securities	2	-	-	-	2
Insurance securities	29	4	-	-	33
Other financial services securities	17	14	-	-	31
Other securities	73	7	2	-	78
Total equity securities	121	25	2	-	144
Total AFS securities	\$ 68,066	\$ 4,665	\$ 865	\$ 209	\$ 71,657

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

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

	As of June 30, 2011	
	Amortized Cost	Fair Value
Due in one year or less	\$ 2,242	\$ 2,293
Due after one year through five years	12,273	13,239
Due after five years through ten years	21,214	22,713
Due after ten years	21,984	22,808
Subtotal	57,713	61,053
MBS	10,095	10,334
ABS CDOs	137	126
Total fixed maturity AFS securities	\$ 67,945	\$ 71,513

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:

	Less Than or Equal to Twelve Months		As of June 30, 2011 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	\$ 6,430	\$ 241	\$ 1,625	\$ 370	\$ 8,055	\$ 611
U.S. Government bonds	51	2	2	-	53	2
MBS:						
CMOs	536	104	603	99	1,139	203
MPTS	165	3	1	-	166	3
CMBS	90	4	180	98	270	102
ABS CDOs	47	1	96	15	143	16
State and municipal bonds	755	18	66	10	821	28
Hybrid and redeemable preferred securities	133	2	489	105	622	107
Total fixed maturity securities	8,207	375	3,062	697	11,269	1,072
Equity Securities						
Other securities	10	2	-	-	10	2
Total equity securities	10	2	-	-	10	2
Total AFS securities	\$ 8,217	\$ 377	\$ 3,062	\$ 697	\$ 11,279	\$ 1,074
Total number of AFS securities in an unrealized loss position						1,100

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

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

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

	As of June 30, 2011		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	\$ 2,363	\$ 1,904	\$ 459
AFS securities backed by pools of commercial mortgages	411	297	114
Total	\$ 2,774	\$ 2,201	\$ 573
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	\$ 2,127	\$ 1,672	\$ 455
AFS securities backed by pools of commercial mortgages	116	55	61
Total	\$ 2,243	\$ 1,727	\$ 516

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

For the six months ended June 30, 2011 and 2010, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of \$44 million and \$49 million, pre-tax, respectively, and before associated amortization expense for deferred acquisition costs (“DAC”), value of business acquired (“VOBA”), deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”), of which \$4 million and \$(13) million, respectively, was recognized in OCI and \$40 million and \$62 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 June 30, 2011			Number of Securities (1)
	Fair	Gross Unrealized		
	Value	Losses	OTTI	
Less than six months	\$ 106	\$ 16	\$ 29	38
Six months or greater, but less than nine months	22	7	2	11
Nine months or greater, but less than twelve months	33	16	-	6
Twelve months or greater	702	403	125	182
Total	\$ 863	\$ 442	\$ 156	237
	As of December 31, 2010			Number of Securities (1)
	Fair	Gross Unrealized		
	Value	Losses	OTTI	
Less than six months	\$ 170	\$ 73	\$ 5	41
Six months or greater, but less than nine months	60	22	-	13
Nine months or greater, but less than twelve months	42	17	1	13
Twelve months or greater	929	520	184	224
Total	\$ 1,201	\$ 632	\$ 190	291

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses on AFS securities decreased \$334 million for the six months ended June 30, 2011. This change was attributable primarily to a decline in overall

market yields, which was driven, in part, by improved credit fundamentals. As discussed further below, we believe the unrealized loss position as of June 30, 2011, did not represent OTTI as we did not intend to sell these fixed maturity AFS securities, it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

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

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

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

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Balance as of beginning-of-period	\$ 352	\$ 293	\$ 319	\$ 268
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	3	11	29	13
Credit losses on securities for which an OTTI was previously recognized	19	-	40	27
Decreases attributable to:				
Securities sold	(34)	(11)	(48)	(15)
Balance as of end-of-period	\$ 340	\$ 293	\$ 340	\$ 293

During the three and six months ended June 30, 2011, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover

the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	As of June 30, 2011				OTTI in Credit Losses
	Amortized Cost	Gains	Gross Unrealized Losses and OTTI	Fair Value	
Corporate bonds	\$ 188	\$ 1	\$ 67	\$ 122	\$ 47
MBS:					
CMOs	594	1	121	474	268
CMBS	3	-	2	1	25
Total	\$ 785	\$ 2	\$ 190	\$ 597	\$ 340

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

Mortgage Loans on Real Estate

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

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

	As of June 30, 2011	As of December 31, 2010
Current	\$ 6,799	\$ 6,697
60 to 90 days past due	30	8
Greater than 90 days past due	45	40
Valuation allowance associated with impaired mortgage loans on real estate	(20)	(13)
Unamortized premium (discount)	17	20
Total carrying value	\$ 6,871	\$ 6,752

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 June 30, 2011	As of December 31, 2010
Number of impaired mortgage loans on real estate	10	9
Principal balance of impaired mortgage loans on real estate	\$ 79	\$ 75
Valuation allowance associated with impaired mortgage loans on real estate	(20)	(13)
Carrying value of impaired mortgage loans on real estate	\$ 59	\$ 62

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

	For the Six Months Ended June 30, 2011
Balance as of beginning-of-year	\$ 13
Additions	12
Charge-offs	(5)
Balance as of end-of-period	\$ 20

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Average carrying value for impaired mortgage loans on real estate	\$ 53	\$ 59	\$ 54	\$ 49
Interest income recognized on impaired mortgage loans on real estate	-	1	1	1
Interest income collected on impaired mortgage loans on real estate	1	1	2	1

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

	As of June 30, 2011				As of December 31, 2010			
	Principal		Debt- Service Coverage		Principal		Debt- Service Coverage	
	Amount	%	Ratio	Ratio	Amount	%	Ratio	Ratio
Loan-to-Value								
Less than 65%	\$ 5,138	74.7 %	1.62	1.62	\$ 4,863	72.1 %	1.62	1.62
65% to 74%	1,335	19.4 %	1.39	1.40	1,484	22.0 %	1.40	1.40
75% to 100%	279	4.1 %	0.92	0.85	179	2.7 %	0.85	0.85
Greater than 100%	122	1.8 %	1.14	1.06	219	3.2 %	1.06	1.06
Total mortgage loans on real estate	\$ 6,874	100.0 %			\$ 6,745	100.0 %		

Alternative Investments

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

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Fixed maturity AFS securities:				
Gross gains	\$ 31	\$ 35	\$ 67	\$ 84
Gross losses	(51)	(29)	(114)	(113)
Equity AFS securities:				
Gross gains	1	5	9	6
Gross losses	-	-	-	(4)
Gain (loss) on other investments	(8)	(8)	5	(29)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(7)	(8)	(18)	(4)
Total realized gain (loss) related to certain investments	\$ (34)	\$ (5)	\$ (51)	\$ (60)

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	\$ (2)	\$ (5)	\$ (6)	\$ (46)
MBS:				
CMOs	(23)	(12)	(43)	(36)
CMBS	(15)	-	(39)	-
ABS CDOs	-	-	(1)	(1)
Hybrid and redeemable preferred securities	-	-	(2)	(5)
Total fixed maturity securities	(40)	(17)	(91)	(88)
Equity securities:				
Other financial services securities	-	-	-	(3)
Total equity securities	-	-	-	(3)
Gross OTTI recognized in net income (loss)	(40)	(17)	(91)	(91)
Associated amortization of DAC, VOBA, DSI and DFEL	10	6	22	27
Net OTTI recognized in net income (loss), pre-tax	\$ (30)	\$ (11)	\$ (69)	\$ (64)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	\$ 18	\$ -	\$ 27	\$ 22
Change in DAC, VOBA, DSI and DFEL	(3)	-	(6)	2
Net portion of OTTI recognized in OCI, pre-tax	\$ 15	\$ -	\$ 21	\$ 24

Determination of Credit Losses on Corporate Bonds and ABS CDOs

As of June 30, 2011, and December 31, 2010, we reviewed our corporate bond and ABS CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of

credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of June 30, 2011, and December 31, 2010, 96% and 95%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of June 30, 2011, and December 31, 2010, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of \$2.4 billion and \$2.6 billion and a fair value of \$2.3 billion and \$2.4 billion, respectively. As of June 30, 2011, and December 31, 2010, 88% and 91%, respectively, of the fair value of our ABS CDO portfolio was rated investment grade. As of June 30, 2011, and December 31, 2010, the portion of our ABS CDO portfolio rated below investment grade had an amortized cost of \$25 million and \$24 million and fair value of \$15 million and \$16 million, respectively. Based upon the analysis discussed above, we believed as of June 30, 2011, and December 31, 2010, that we would recover the amortized cost of each investment grade corporate bond and ABS CDO security.

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

Determination of Credit Losses on MBS

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

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

Payables for Collateral on Investments

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

	As of June 30, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	\$ 1,023	\$ 1,023	\$ 800	\$ 800
Securities pledged under securities lending agreements (2)	200	192	199	192
Securities pledged under reverse repurchase agreements (3)	280	292	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	202	231	280	318

Investments pledged for Federal Home Loan Bank of Indianapolis Securities ("FHLBI") (5)	100	126	100	115
Total payables for collateral on investments	\$ 1,805	\$ 1,864	\$ 1,659	\$ 1,719

- (1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that once exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.
- (2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
- (3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with

third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed maturity AFS securities.

- (4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.
- (5) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 85% to 95% of the fair value of the FHLBI securities. The cash received in these transactions is typically invested in cash and invested cash or fixed maturity AFS securities.

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

	For the Six Months Ended June 30,	
	2011	2010
Collateral payable held for derivative investments	\$ 223	\$ 804
Securities pledged under securities lending agreements	1	(313)
Securities pledged under reverse repurchase agreements	-	(9)
Securities pledged for TALF	(78)	(13)
Total increase (decrease) in payables for collateral on investments	\$ 146	\$ 469

Investment Commitments

As of June 30, 2011, our investment commitments were \$760 million, which included \$271 million of limited partnerships (“LPs”), \$261 million of private placements and \$228 million of mortgage loans on real estate.

Concentrations of Financial Instruments

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

As of June 30, 2011, and December 31, 2010, our most significant investments in one industry were our investment securities in the electric industry with a fair value of \$7.1 billion and \$6.7 billion, or 8% of our invested assets portfolio, respectively, and our investment securities in the CMO industry with a fair value of \$6.1 billion and \$6.5 billion, or 7% and 8% of our invested assets portfolio, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

6. Derivative Instruments

Types of Derivative Instruments and Derivative Strategies

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk,

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

We evaluate and recognize our derivative instruments in accordance with the Derivatives and Hedging Topic of the FASB ASC. As of June 30, 2011, we had derivative instruments that were designated and qualifying as cash flow hedges and fair value hedges.

We also had embedded derivatives that were economic hedges, but were not designed to meet the requirements for hedge accounting treatment. See Note 1 in our 2010 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments.

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

We use a hedging strategy designed to mitigate the risk and income statement volatility caused by changes in the equity markets, interest rates and volatility associated with living benefit guarantees offered in our variable annuity products, including the Lincoln SmartSecurity® Advantage guaranteed withdrawal benefit ("GWB") feature, the 4LATER® Advantage guaranteed income benefit ("GIB") feature and the i4LIFE® Advantage GIB feature. See "Guaranteed Living Benefit ("GLB") Reserves Embedded Derivatives" below for further details.

See Note 13 for additional disclosures related to the fair value of our financial instruments and see Note 4 for derivative instruments related to our consolidated VIEs.

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

	Number of Instruments	Notional Amounts	As of June 30, 2011		(Liability) Carrying	
			Asset Carrying or Fair Value Gain	Loss	Gain	Loss
Derivative Instruments						
Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	150	\$ 901	\$ 24	\$ (85)	\$ -	\$ -
Forward-starting interest rate swaps (1)	1	39	-	(1)	-	-
Foreign currency swaps (1)	13	340	41	(20)	-	-
Reverse treasury locks (1)	10	1,300	-	(33)	-	-
Total cash flow hedges	174	2,580	65	(139)	-	-
Fair value hedges:						
Interest rate swap agreements (2)	11	1,675	120	(37)	-	(83)
Total fair value hedges	11	1,675	120	(37)	-	(83)
Total derivative instruments designated and qualifying as hedging instruments	185	4,255	185	(176)	-	(83)
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate futures (1)	9,796	1,617	-	-	-	-
Equity futures (1)	9,638	726	-	-	-	-
Interest rate swap agreements (1)	94	8,880	52	(494)	-	-
Credit default swaps (3)	8	125	-	-	-	(7)
Total return swaps (1)	12	915	1	(7)	-	-
Put options (1)	169	6,352	1,219	-	-	-
Call options (based on S&P 500) (1)	539	4,552	293	-	-	-
Variance swaps (1)	45	28	24	(38)	-	-
Currency futures (1)	29	4	-	-	-	-
Consumer price index swaps (1)	98	51	1	(1)	-	-
Interest rate cap corridors (1)	79	8,375	38	-	-	-
Embedded derivatives:						
Deferred compensation plans (3)	6	-	-	-	-	(360)
Indexed annuity contracts (4)	141,509	-	-	-	-	(506)

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GLB reserves (4)	322,398	-	-	-	595	(873)
Reinsurance related (5)	-	-	-	-	-	(119)
Total derivative instruments not designated and not qualifying as hedging instruments	484,420	31,625	1,628	(540)	595	(1,865)
Total derivative instruments	484,605	\$ 35,880	\$ 1,813	\$ (716)	\$ 595	\$ (1,948)

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

Reinsurance related (5)	-	-	-	-	-	(102)
AFS securities (1)	1	-	15	-	-	-
Total derivative instruments not designated and not qualifying as hedging instruments	470,088	30,347	1,599	(568)	518	(1,904)
Total derivative instruments	470,270	\$ 34,438	\$ 1,784	\$ (708)	\$ 518	\$ (1,959)

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

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

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

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

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

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

	Remaining Life as of June 30, 2011					Total
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	
Derivative Instruments						
Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements	\$ 24	\$ 59	\$ 264	\$ 547	\$ 7	\$ 901
Forward-starting interest rate swaps	-	-	39	-	-	39
Foreign currency swaps	-	124	135	81	-	340
Reverse treasury locks	-	1,030	270	-	-	1,300
Total cash flow hedges	24	1,213	708	628	7	2,580
Fair value hedges:						
Interest rate swap agreements	-	800	-	875	-	1,675
Total fair value hedges	-	800	-	875	-	1,675
Total derivative instruments designated and qualifying as hedging instruments	24	2,013	708	1,503	7	4,255
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments						
Interest rate futures	1,617	-	-	-	-	1,617
Equity futures	726	-	-	-	-	726
Interest rate swap agreements	400	1,561	2,114	4,805	-	8,880
Credit default swaps	-	40	85	-	-	125
Total return swaps	615	300	-	-	-	915
Put options	-	1,664	4,688	-	-	6,352
Call options (based on S&P 500)	3,658	894	-	-	-	4,552
Variance swaps	-	3	25	-	-	28
Currency futures	4	-	-	-	-	4
Consumer price index swaps	4	15	13	17	2	51
Interest rate cap corridors	-	5,100	3,275	-	-	8,375
Total derivative instruments not designated and not qualifying as hedging instruments	7,024	9,577	10,200	4,822	2	31,625
Total derivative instruments with notional amounts	\$ 7,048	\$ 11,590	\$ 10,908	\$ 6,325	\$ 9	\$ 35,880

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

	For the Six Months Ended June 30,	
	2011	2010
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	\$ (15)	\$ 11
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period:		
Cash flow hedges:		
Interest rate swap agreements	(20)	(41)
Forward-starting interest rate swaps	(2)	-
Foreign currency swaps	5	3
Treasury locks	(19)	(29)
Fair value hedges:		
Interest rate swap agreements	2	2
Change in foreign currency exchange rate adjustment	(14)	32
Change in DAC, VOBA, DSI and DFEL	1	3
Income tax benefit (expense)	17	11
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate swap agreements (1)	(5)	9
Foreign currency swaps (1)	1	1
Treasury locks (2)	(7)	(2)
Fair value hedges:		
Interest rate swap agreements (2)	2	2
Associated amortization of DAC, VOBA, DSI and DFEL	1	(1)
Income tax benefit (expense)	3	(3)
Balance as of end-of-period	\$ (40)	\$ (14)

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Derivative Instruments Designated and Qualifying as Hedging Instruments				
Cash flow hedges:				
Interest rate swap agreements (1)	\$ (4)	\$ 6	\$ (5)	\$ 8
Foreign currency swaps (1)	(1)	-	1	1
Total cash flow hedges	(5)	6	(4)	9
Fair value hedges:				
Interest rate swap agreements (2)	13	9	25	17
Total fair value hedges	13	9	25	17
Total derivative instruments designated and qualifying as hedging instruments	8	15	21	26
Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments				
Interest rate futures (3)	13	179	(11)	214
Equity futures (3)	(10)	105	(54)	12
Interest rate swap agreements (3)	75	322	37	303
Foreign currency forwards (3)	-	-	-	43
Credit default swaps - fees (1)	-	-	-	1
Credit default swaps - marked-to-market (3)	(1)	(17)	2	(7)
Total return swaps (4)	(15)	47	(34)	51
Put options (3)	69	493	(102)	383
Call options (based on S&P 500) (3)	8	(79)	61	(43)
Variance swaps (3)	(4)	140	(41)	94
Currency futures (3)	(1)	8	(5)	(7)
Consumer price index swaps (3)	1	1	1	-
Interest rate cap corridors (1)	(10)	(11)	(16)	(11)
Embedded derivatives:				
Deferred compensation plans (4)	(5)	9	(13)	1
Indexed annuity contracts (3)	6	56	54	15
GLB reserves (3)	(160)	(1,174)	130	(993)
Reinsurance related (3)	(28)	(46)	(18)	(62)
AFS securities (1)	-	(1)	1	-
Total derivative instruments not designated and not qualifying as hedging instruments	(62)	32	(8)	(6)
Total derivative instruments	\$ (54)	\$ 47	\$ 13	\$ 20

(1) Reported in net investment income on our Consolidated Statements of Income (Loss).

(2) Reported in interest and debt expense on our Consolidated Statements of Income (Loss).

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

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

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

Derivative Instruments Designated and Qualifying as Cash Flow Hedges

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Gain (loss) recognized as a component of OCI with the offset to net investment income	\$ (4)	\$ 7	\$ (4)	\$ 10

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

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

Interest Rate Swap Agreements

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

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

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

Forward-Starting Interest Rate Swaps

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

Foreign Currency Swaps

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

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

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

Reverse Treasury Locks

We use reverse treasury locks to hedge the interest rate exposure related to the purchase of fixed rate securities or the anticipated future cash flows of floating rate fixed maturity securities due to changes in interest rates. These derivatives are primarily structured to hedge interest rate risk inherent in the assumptions used to price certain liabilities. The gains or losses resulting from the reverse treasury locks are recorded in OCI and are reclassified from accumulated OCI to earnings over the life of the assets once the assets are purchased.

Derivative Instruments Designated and Qualifying as Fair Value Hedges

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Ineffective portion recognized in realized gain (loss)	\$ -	\$ -	\$ -	\$ 1
Gain (loss) recognized as a component of OCI with the offset to interest expense	1	1	2	2

Interest Rate Swap Agreements

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

Derivative Instruments Not Designated and Not Qualifying as Hedging Instruments

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

Interest Rate Cap Agreements

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

Interest Rate Futures and Equity Futures

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

Interest Rate Swap Agreements

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

Credit Default Swaps

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

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

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

As of June 30, 2011						
Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	\$ -	\$ 40
12/20/2016 (4)	(5)	(6)	A	2	(4)	45
03/20/2017 (4)	(5)	(6)	BBB	2	(3)	40
				8	\$ (7)	\$ 125

As of December 31, 2010						
Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	\$ -	\$ 40
12/20/2016 (4)	(5)	(6)	BBB	3	(12)	65
03/20/2017 (4)	(5)	(6)	BBB-	2	(4)	40
				9	\$ (16)	\$ 145

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.

(2) Broker quotes are used to determine the market value of credit default swaps.

(3) These credit default swaps were sold to our contract holders where we determined there was a spread versus premium mismatch.

(4) These credit default swaps were sold to a counter-party of the consolidated VIEs as discussed in Note 4 in our 2010 Form 10-K.

(5) Credit default swap was entered into in order to generate income by providing default protection in return for a quarterly payment.

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

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

	As of June 30, 2011	As of December 31, 2010
Maximum potential payout	\$ 125	\$ 145
Less:		
Counterparty thresholds	-	10
Maximum collateral potentially required to post	\$ 125	\$ 135

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post approximately \$8 million as of June 30, 2011, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

Total Return Swaps

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

Put Options

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

Call Options (Based on S&P 500)

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

Variance Swaps

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

Currency Futures

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

Consumer Price Index Swaps

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

Interest Rate Cap Corridors

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

Deferred Compensation Plans Embedded Derivatives

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

Indexed Annuity Contracts Embedded Derivatives

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

GLB Reserves Embedded Derivatives

We have certain GLB variable annuity products with GWB and GIB features that are embedded derivatives. Certain features of these guarantees, notably our GIB, 4LATER® and Lincoln Lifetime IncomeSM Advantage features, have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC (“benefit reserves”) and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC (“embedded derivative reserves”). We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature. As of June 30, 2011, we had \$32.6 billion of account values that were attributable to variable annuities with a GWB feature and \$12.6 billion of account values that were attributable to variable annuities with a GIB feature.

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

Reinsurance Related Embedded Derivatives

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

AFS Securities Embedded Derivatives

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

Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk is based upon assumptions for each counterparty’s credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of June 30, 2011, the nonperformance risk adjustment was \$8 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed

by an International Swaps and Derivatives Association (“ISDA”) Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of the derivatives contract, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contract. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. We do not believe the inclusion of termination or collateralization events pose any material threat to the liquidity position of any insurance subsidiary of the Company. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of June 30, 2011, the exposure was \$139 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:

S&P Credit Rating of Counterparty	As of June 30, 2011		As of December 31, 2010	
	Collateral Posted by Counter- Party (Held by LNC)	Collateral Posted by LNC (Held by Counter- Party)	Collateral Posted by Counter- Party (Held by LNC)	Collateral Posted by LNC (Held by Counter- Party)
AAA	\$ 11	\$ -	\$ 1	\$ -
AA	131	-	99	-
AA-	130	-	65	-
A+	475	(58)	548	(76)
A	506	(265)	436	(223)
	\$ 1,253	\$ (323)	\$ 1,149	\$ (299)

7. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). The effective tax rate was 26% and 27% for the three and six months ended June 30, 2011, respectively. The effective tax rate was 24% and 25% for the three and six months ended June 30, 2010, respectively. The effective tax rate on pre-tax income (loss) from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deduction, foreign tax credits and other tax preference items.

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 June 30, 2011	As of December 31, 2010
Return of Net Deposits		
Total account value	\$ 55,648	\$ 52,211
Net amount at risk (1)	591	816
	58	58
Average attained age of contract holders	years	years
Minimum Return		
Total account value (2)	\$ 178	\$ 187
Net amount at risk (1)	40	46
	71	70
Average attained age of contract holders	years	years
Guaranteed minimum return	5 %	5 %
Anniversary Contract Value		
Total account value	\$ 23,757	\$ 23,483

Net amount at risk (1)	1,633	2,183
	66	66
Average attained age of contract holders	years	years

- (1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing June 30, 2011, to December 31, 2010, was attributable primarily to the rise in equity markets and associated increase in the account values.
- (2) The decrease in total account value when comparing June 30, 2011, to December 31, 2010, was attributable primarily to an increase in contract surrender rates.

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 Six Months Ended June 30,	
	2011	2010
Balance as of beginning-of-year	\$ 44	\$ 71
Changes in reserves	16	81
Benefits paid	(19)	(46)
Balance as of end-of-period	\$ 41	\$ 106

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

	As of June 30, 2011	As of December 31, 2010
Asset Type		
Domestic equity	\$ 37,280	\$ 35,659
International equity	14,763	14,172
Bonds	17,256	15,913
Money market	6,016	5,725
Total	\$ 75,315	\$ 71,469
Percent of total variable annuity separate account values	98 %	98 %

Future contract benefits also includes reserves for our products with secondary guarantees for our products sold through our Insurance Solutions – Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 38% of permanent life insurance in force as of June 30, 2011, and approximately 51% of total sales for these products for the three and six months ended June 30, 2011.

9. Contingencies and Commitments

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

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

In the ordinary course of its business, LNC and its subsidiaries are involved in various pending or threatened legal proceedings, including purported class actions, arising from the conduct of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. After consultation with legal counsel and a review of available facts, it is management’s opinion that these proceedings, after consideration of any reserves and

rights to indemnification, ultimately will be resolved without materially affecting the consolidated financial position of LNC. However, given the large and indeterminate amounts sought in certain of these proceedings and the inherent difficulty in predicting the outcome of such legal proceedings, it is possible that an adverse outcome in certain matters could be material to our operating results for any particular reporting period.

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Series A Preferred Stock				
Balance as of beginning-of-period	10,914	11,365	10,914	11,497
Conversion of convertible preferred stock (1)	(60)	-	(60)	(132)
Balance as of end-of-period	10,854	11,365	10,854	11,365
Series B Preferred Stock				
Balance as of beginning-of-period	-	950,000	-	950,000
Issuance (redemption) of Series B preferred stock	-	(950,000)	-	(950,000)
Balance as of end-of-period	-	-	-	-
Common Stock				
Balance as of beginning-of-period	313,456,824	302,467,034	315,718,554	302,223,281
Stock issued	-	14,137,615	-	14,137,615
Conversion of convertible preferred stock (1)	960	-	960	2,112
Stock compensation/issued for benefit plans	30,772	57,831	182,906	317,565
Retirement/cancellation of shares	(5,149,393)	-	(7,563,257)	(18,093)
Balance as of end-of-period	308,339,163	316,662,480	308,339,163	316,662,480
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	308,512,827	316,844,320	308,512,827	316,844,320
Diluted basis	316,821,550	325,852,768	316,821,550	325,852,768

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

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

Average Shares

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Weighted-average shares, as used in basic calculation	311,391,263	304,483,369	313,192,667	303,358,882
Shares to cover exercise of outstanding warrants	10,150,292	13,049,451	10,150,292	13,049,451
Shares to cover conversion of preferred stock	174,603	181,840	174,613	182,645
Shares to cover non-vested stock	816,834	620,528	794,095	611,940
Average stock options outstanding during the period	633,711	824,066	796,792	802,341
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(3,846,217)	(5,015,012)	(3,758,105)	(5,221,717)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(400,374)	(535,667)	(517,329)	(525,529)
Shares repurchaseable from measured but unrecognized stock option expense	(36,857)	(192,996)	(104,962)	(177,687)
Average deferred compensation shares	1,031,814	1,196,054	1,053,100	1,275,743
Weighted-average shares, as used in diluted calculation	319,915,069	314,611,633	321,781,163	313,356,069

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

We have participants in our deferred compensation plans, with the exception of the non-employee directors’ deferred compensation plan, who selected LNC stock as the measure for the investment return attributable to their deferral amounts. For the three months and six months ended June 30, 2011 and 2010, the effect of settling this obligation in LNC stock (“equity classification”) was more dilutive than the scenario of settling it in cash (“liability classification”). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was \$1 million for the three months ended June 30, 2011, and \$2 million for the three and six months ended June 30, 2010.

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

Accumulated OCI

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

	For the Six Months Ended June 30,	
	2011	2010
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	\$ 1,072	\$ 49
Cumulative effect from adoption of new accounting standards	-	181
Unrealized holding gains (losses) arising during the period	627	2,691
Change in foreign currency exchange rate adjustment	22	(32)
Change in DAC, VOBA, DSI and other contract holder funds	(132)	(1,070)
Income tax benefit (expense)	(185)	(573)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(38)	(27)
Reclassification adjustment for gains (losses) on derivatives included in net income (loss)	-	(2)
Associated amortization of DAC, VOBA, DSI and DFEL	(19)	(3)
Income tax benefit (expense)	20	11
Balance as of end-of-period	\$ 1,441	\$ 1,267
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	\$ (129)	\$ (115)
(Increases) attributable to:		
Gross OTTI recognized in OCI during the period	(27)	(22)
Change in DAC, VOBA, DSI and DFEL	6	(2)
Income tax benefit (expense)	7	8
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	66	42
Change in DAC, VOBA, DSI and DFEL	(13)	(10)
Income tax benefit (expense)	(18)	(11)
Balance as of end-of-period	\$ (108)	\$ (110)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	\$ (15)	\$ 11
Unrealized holding gains (losses) arising during the period	(34)	(65)
Change in foreign currency exchange rate adjustment	(14)	32
Change in DAC, VOBA, DSI and DFEL	1	3
Income tax benefit (expense)	17	11
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(9)	10
Associated amortization of DAC, VOBA, DSI and DFEL	1	(1)
Income tax benefit (expense)	3	(3)
Balance as of end-of-period	\$ (40)	\$ (14)
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	\$ 1	\$ 3
Foreign currency translation adjustment arising during the period	(6)	(2)
Income tax benefit (expense)	2	-
Balance as of end-of-period	\$ (3)	\$ 1

Funded Status of Employee Benefit Plans

Balance as of beginning-of-year	\$ (181)	\$ (210)
Adjustment arising during the period	5	6
Income tax benefit (expense)	(2)	(2)
Balance as of end-of-period	\$ (178)	\$ (206)

11. Realized Gain (Loss)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Total realized gain (loss) related to certain investments (1)	\$ (34)	\$ (5)	\$ (51)	\$ (60)
Realized gain (loss) related to certain derivative instruments, including those associated with our consolidated VIEs, and trading securities (2)	(1)	(46)	9	(33)
Indexed annuity net derivative results: (3)				
Gross gain (loss)	1	4	7	9
Associated amortization of DAC, VOBA, DSI and DFEL	-	(1)	(2)	(4)
Guaranteed living benefits: (4)				
Gross gain (loss)	38	41	60	80
Associated amortization of DAC, VOBA, DSI and DFEL	(13)	(14)	(23)	(26)
Guaranteed death benefits: (5)				
Gross gain (loss)	(4)	29	(15)	14
Associated amortization of DAC, VOBA, DSI and DFEL	-	(3)	1	(1)
Total realized gain (loss)	\$ (13)	\$ 5	\$ (14)	\$ (21)

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

- (2) Represents changes in the fair values of certain derivative investments (including the credit default swaps and contingent forwards associated with our consolidated VIEs), total return swaps (embedded derivatives that are theoretically included in our various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements) and trading securities.
- (3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.
- (4) Represents the net difference in the change in embedded derivative reserves of our GLB products and the change in the fair value of the derivative instruments we own to hedge, including the cost of purchasing the hedging instruments.

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

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.

LNC stock-based awards granted were as follows:

	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2011
Awards		
10-year LNC stock options	-	459,093
Performance shares	-	215,137
SARs	-	106,966
Restricted stock units	60,314	511,404
Non-employee:		
Agent stock options	-	95,571
Director stock options	-	32,560
Director restricted stock units	9,635	19,414

13. Fair Value of Financial Instruments

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

	As of June 30, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	\$ 70,920	\$ 70,920	\$ 68,030	\$ 68,030
VIEs' fixed maturity securities	593	593	584	584
Equity securities	144	144	197	197
Trading securities	2,625	2,625	2,596	2,596
Mortgage loans on real estate	6,871	7,444	6,752	7,183
Derivative investments	1,097	1,097	1,076	1,076
Other investments	1,001	1,001	1,038	1,038
Cash and invested cash	2,912	2,912	2,741	2,741
Separate account assets	88,846	88,846	84,630	84,630
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	(506)	(506)	(497)	(497)
GLB reserves embedded derivatives	(278)	(278)	(408)	(408)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(1,156)	(1,156)	(1,119)	(1,119)
Account values of certain investment contracts	(26,832)	(27,628)	(26,130)	(27,142)
Short-term debt (1)	(251)	(257)	(351)	(364)
Long-term debt	(5,729)	(5,858)	(5,399)	(5,512)
Reinsurance related embedded derivatives	(119)	(119)	(102)	(102)
VIEs' liabilities - derivative instruments	(198)	(198)	(209)	(209)
Other liabilities:				
Deferred compensation plans embedded derivatives	(360)	(360)	(363)	(363)
Credit default swaps	(7)	(7)	(16)	(16)

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

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

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

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location,

market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans on real estate is based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price or the fair value of the collateral if the loan is collateral dependent.

Other Investments

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

Other Contract Holder Funds

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

Short-term and Long-term Debt

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

Financial Instruments Carried at Fair Value

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

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

	As of June 30, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	\$ 61	\$ 53,196	\$ 1,573	\$ 54,830
U.S. Government bonds	235	3	2	240
Foreign government bonds	-	498	96	594
MBS:				
CMOs	-	5,351	28	5,379
MPTS	-	3,016	133	3,149
CMBS	-	1,753	53	1,806
ABS CDOs	-	-	126	126
State and municipal bonds	-	3,479	-	3,479
Hybrid and redeemable preferred securities	25	1,186	106	1,317
VIEs' fixed maturity securities	-	593	-	593
Equity AFS securities:				
Banking securities	-	2	-	2
Insurance securities	3	-	30	33
Other financial services securities	-	9	22	31
Other securities	34	-	44	78
Trading securities	2	2,552	71	2,625
Derivative investments	-	(395)	1,492	1,097
Cash and invested cash	-	2,912	-	2,912
Separate account assets	-	88,846	-	88,846
Total assets	\$ 360	\$ 163,001	\$ 3,776	\$ 167,137
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	\$ -	\$ -	\$ (506)	\$ (506)
GLB reserves embedded derivatives	-	-	(278)	(278)
Long-term debt - interest rate swap agreements	-	(83)	-	(83)
Reinsurance related embedded derivatives	-	(119)	-	(119)
VIEs' liabilities - derivative instruments	-	-	(198)	(198)
Other liabilities:				
Deferred compensation plans embedded derivatives	-	-	(360)	(360)
Credit default swaps	-	-	(7)	(7)
Total liabilities	\$ -	\$ (202)	\$ (1,349)	\$ (1,551)

	As of December 31, 2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	\$ 60	\$ 49,864	\$ 1,816	\$ 51,740
U.S. Government bonds	160	3	2	165
Foreign government bonds	-	395	113	508
MBS:				
CMOs	-	5,734	23	5,757
MPTS	-	2,985	96	3,081
CMBS	-	1,944	109	2,053
ABS CDOs	-	2	172	174
State and municipal bonds	-	3,155	-	3,155
Hybrid and redeemable preferred securities	18	1,260	119	1,397
VIEs' fixed maturity securities	-	584	-	584
Equity AFS securities:				
Banking securities	-	58	-	58
Insurance securities	3	-	34	37
Other financial services securities	-	8	24	32
Other securities	34	2	34	70
Trading securities	2	2,518	76	2,596
Derivative investments	-	(419)	1,495	1,076
Cash and invested cash	-	2,741	-	2,741
Separate account assets	-	84,630	-	84,630
Total assets	\$ 277	\$ 155,464	\$ 4,113	\$ 159,854
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	\$ -	\$ -	\$ (497)	\$ (497)
GLB reserves embedded derivatives	-	-	(408)	(408)
Long-term debt - interest rate swap agreements	-	(55)	-	(55)
Reinsurance related embedded derivatives	-	(102)	-	(102)
VIEs' liabilities - derivative instruments	-	-	(209)	(209)
Other liabilities:				
Deferred compensation plans embedded derivatives	-	-	(363)	(363)
Credit default swaps	-	-	(16)	(16)
Total liabilities	\$ -	\$ (157)	\$ (1,493)	\$ (1,650)

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.

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	For the Three Months Ended June 30, 2011					
	Beginning	Items	Gains	Issuances,	Transfers	Ending
	Fair	Included	(Losses)	Sales,	In or	Fair
	Value	in	in	Maturities,	Out	Value
		Net	OCI	Settlements,	of	
		Income	and	Calls,	Level 3,	
			Other (1)	Net	Net (2)	
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 1,806	\$ 23	\$ 33	\$ (200)	\$ (89)	\$ 1,573
U.S. Government bonds	2	-	-	-	-	2
Foreign government bonds	100	-	(4)	-	-	96
MBS:						
CMOs	22	(1)	1	6	-	28
MPTS	93	-	2	38	-	133
CMBS	64	(22)	24	(12)	(1)	53
ABS:						
ABS CDOs	136	-	2	(12)	-	126
Hybrid and redeemable preferred securities	124	-	4	-	(22)	106
Equity AFS securities:						
Insurance securities	28	-	-	2	-	30
Other financial services securities	22	-	-	-	-	22
Other securities	46	-	(2)	-	-	44
Trading securities	71	-	4	(1)	(3)	71
Derivative investments	1,439	62	7	(16)	-	1,492
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(528)	6	-	16	-	(506)
GLB reserves embedded derivatives	(118)	(160)	-	-	-	(278)
VIEs' liabilities - derivative instruments (5)	(203)	5	-	-	-	(198)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(357)	(5)	-	2	-	(360)
Credit default swaps (7)	(6)	(1)	-	-	-	(7)
Total, net	\$ 2,741	\$ (93)	\$ 71	\$ (177)	\$ (115)	\$ 2,427

	For the Three Months Ended June 30, 2010					
	Beginning	Items	Gains	Issuances,	Transfers	Ending
	Fair	Included	(Losses)	Sales	In or	Fair
	Value	in	in	Maturities,	Out	Value
		Net	OCI	Settlements,	of	
		Income	and	Calls,	Level 3,	
			Other (1)	Net	Net (2)	
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 2,281	\$ (5)	\$ 21	\$ (11)	\$ (377)	\$ 1,909
U.S. Government bonds	2	-	-	-	2	4
Foreign government bonds	90	-	2	-	-	92
MBS:						
CMOs	31	(1)	1	(1)	(1)	29
MPTS	174	-	3	(76)	-	101
CMBS	250	(2)	10	(17)	(122)	119
ABS:						
ABS CDOs	159	-	1	(5)	1	156
State and municipal bonds	-	-	-	20	-	20
Hybrid and redeemable preferred securities	135	8	(12)	(38)	-	93
Equity AFS securities:						
Insurance securities	30	-	(4)	-	-	26
Other financial services securities	27	-	(4)	-	-	23
Other securities	34	-	-	-	-	34
Trading securities	75	-	6	(2)	(2)	77
Derivative investments	1,281	620	5	99	-	2,005
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(457)	56	-	18	-	(383)
GLB reserves embedded derivatives	(495)	(1,174)	-	-	-	(1,669)
VIEs' liabilities - derivative instruments (5)	(229)	(68)	-	-	-	(297)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(300)	9	-	(28)	-	(319)
Credit default swaps (7)	(44)	(17)	-	31	-	(30)
Total, net	\$ 3,044	\$ (574)	\$ 29	\$ (10)	\$ (499)	\$ 1,990

	For the Six Months Ended June 30, 2011					
	Beginning	Items	Gains	Issuances,	Transfers	Ending
	Fair	Included	(Losses)	Sales,	In or	Fair
	Value	in	in	Maturities,	Out	Value
		Net	OCI	Settlements,	of	
		Income	and	Calls,	Level 3,	
			Other (1)	Net	Net (2)	
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	\$ 1,816	\$ 23	\$ 44	\$ (221)	\$ (89)	\$ 1,573
U.S. Government bonds	2	-	-	-	-	2
Foreign government bonds	113	-	3	(3)	(17)	96
MBS:						
CMOs	23	(3)	3	5	-	28
MPTS	96	-	1	36	-	133
CMBS	109	(45)	54	(64)	(1)	53
ABS:						
ABS CDOs	172	14	(9)	(51)	-	126
Hybrid and redeemable preferred securities	119	(1)	5	-	(17)	106
Equity AFS securities:						
Insurance securities	34	1	-	(5)	-	30
Other financial services securities	24	7	(1)	(8)	-	22
Other securities	34	-	2	6	2	44
Trading securities	76	-	2	(3)	(4)	71
Derivative investments	1,495	(84)	(11)	92	-	1,492
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(497)	54	-	(63)	-	(506)
GLB reserves embedded derivatives	(408)	130	-	-	-	(278)
VIEs' liabilities - derivative instruments (5)	(209)	11	-	-	-	(198)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(363)	(13)	-	16	-	(360)
Credit default swaps (7)	(16)	2	-	7	-	(7)
Total, net	\$ 2,620	\$ 96	\$ 93	\$ (256)	\$ (126)	\$ 2,427

For the Six Months Ended June 30, 2010

	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	\$ 2,070	\$ (9)	\$ 11	\$ (119)	\$ (44)	\$ 1,909
U.S. Government bonds	3	-	-	(1)	2	4
Foreign government bonds	92	-	2	(3)	1	92
MBS:						
CMOs	35	(2)	1	(3)	(2)	29
MPTS	101	-	4	(4)	-	101
CMBS	259	(2)	20	(36)	(122)	119
ABS:						
CDOs	153	-	11	(11)	3	156
CLNs	322	-	278	-	(600)	-
State and municipal bonds	-	-	-	20	-	20
Hybrid and redeemable preferred securities	156	3	(37)	(29)	-	93
Equity AFS securities:						
Insurance securities	43	-	(4)	(13)	-	26
Other financial services securities	22	(3)	4	-	-	23
Other securities	23	-	-	11	-	34
Trading securities	91	1	(10)	(5)	-	77
Derivative investments	1,368	489	7	141	-	2,005
Future contract benefits: (4)						
Indexed annuity contracts embedded						
derivatives	(419)	15	-	21	-	(383)
GLB reserves embedded derivatives	(676)	(993)	-	-	-	(1,669)
VIEs' liabilities - derivative instruments (5)	-	(72)	-	-	(225)	(297)
Other liabilities:						
Deferred compensation plans embedded						
derivatives (6)	(332)	1	-	12	-	(319)
Credit default swaps (7)	(65)	(7)	-	42	-	(30)
Total, net	\$ 3,246	\$ (579)	\$ 287	\$ 23	\$ (987)	\$ 1,990

- (1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments. See "Derivatives Instruments Designated and Qualifying as Fair Value Hedges" section in Note 6.
- (2) Transfers in or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. For AFS and trading securities, the difference between beginning-of-period amortized cost

and beginning-of-period fair value was included in OCI and earnings, respectively, in prior periods.

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

- (6) Deferrals and subsequent changes in fair value for the participants' investment options are reported in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).
- (7) Gains (losses) from sales, maturities, settlements and calls are included in net investment income on our Consolidated Statements of 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 June 30, 2011						Total
	Issuances	Sales	Maturities	Settlements	Calls		
Investments:							
Fixed maturity AFS securities:							
Corporate bonds	\$ 22	\$ (125)	\$ -	\$ (9)	\$ (88)	\$ (200)	
MBS:							
CMOs	7	-	-	(1)	-	6	
MPTS	40	-	-	(2)	-	38	
CMBS	-	(9)	-	(3)	-	(12)	
ABS CDOs	-	-	-	(12)	-	(12)	
Equity AFS securities:							
Insurance securities	2	-	-	-	-	2	
Trading securities	-	(1)	-	-	-	(1)	
Derivative investments	107	(25)	(98)	-	-	(16)	
Future contract benefits:							
Indexed annuity contracts embedded derivatives	(20)	-	-	36	-	16	
Other liabilities:							
Deferred compensation plans embedded derivatives	-	-	-	2	-	2	
Total, net	\$ 158	\$ (160)	\$ (98)	\$ 11	\$ (88)	\$ (177)	

	For the Six Months Ended June 30, 2011						Total
	Issuances	Sales	Maturities	Settlements	Calls		
Investments:							
Fixed maturity AFS securities:							
Corporate bonds	\$ 38	\$ (133)	\$ (1)	\$ (36)	\$ (89)	\$ (221)	
Foreign government bonds	-	(3)	-	-	-	(3)	
MBS:							
CMOs	8	-	-	(3)	-	5	
MPTS	40	-	-	(4)	-	36	
CMBS	-	(53)	-	(11)	-	(64)	
ABS CDOs	-	(33)	-	(18)	-	(51)	
Equity AFS securities:							
Insurance securities	2	(7)	-	-	-	(5)	
Other financial services securities	-	(8)	-	-	-	(8)	
Other securities	6	-	-	-	-	6	
Trading securities	-	(1)	-	(2)	-	(3)	
Derivative investments	275	(27)	(156)	-	-	92	
Future contract benefits:							
Indexed annuity contracts embedded derivatives	(38)	-	-	(25)	-	(63)	
Other liabilities:							
Deferred compensation plans embedded derivatives	-	-	-	16	-	16	
Credit default swaps	-	7	-	-	-	7	
Total, net	\$ 331	\$ (258)	\$ (157)	\$ (83)	\$ (89)	\$ (256)	

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Investments: (1)				
Derivative investments	\$ 62	\$ 599	\$ (94)	\$ 487
Future contract benefits: (1)				
Indexed annuity contracts embedded derivatives	-	(78)	(4)	(5)
GLB reserves embedded derivatives	(108)	(1,130)	229	(910)
VIEs' liabilities - derivative instruments (1)	5	(68)	11	(72)
Other liabilities:				
Deferred compensation plans embedded derivatives (2)	5	9	13	1
Credit default swaps (3)	(1)	(26)	1	(27)
Total, net	\$ (37)	\$ (694)	\$ 156	\$ (526)

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

- (2) Included in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).
- (3) Included in net investment income on our Consolidated Statements of 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 June 30, 2011			For the Three Months Ended June 30, 2010		
	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	\$ 21	\$ (110)	\$ (89)	\$ 39	\$ (416)	\$ (377)
U.S. Government bonds	-	-	-	2	-	2
MBS:						
CMOs	-	-	-	-	(1)	(1)
CMBS	-	(1)	(1)	3	(125)	(122)
ABS CDOs	-	-	-	1	-	1
Hybrid and redeemable preferred securities	-	(22)	(22)	-	-	-
Trading securities	-	(3)	(3)	-	(2)	(2)
Total, net	\$ 21	\$ (136)	\$ (115)	\$ 45	\$ (544)	\$ (499)

	For the Six Months Ended June 30, 2011			For the Six Months Ended June 30, 2010		
	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	\$ 34	(123)	\$ (89)	\$ 143	(187)	\$ (44)
U.S. Government bonds	-	-	-	2	-	2
Foreign government bonds	-	(17)	(17)	1	-	1
MBS:						
CMOs	-	-	-	-	(2)	(2)
CMBS	-	(1)	(1)	3	(125)	(122)
ABS:						
CDOs	-	-	-	3	-	3
CLNs	-	-	-	-	(600)	(600)
Hybrid and redeemable preferred securities	4	(21)	(17)	-	-	-
Equity AFS securities:						
Other securities	2	-	2	-	-	-
Trading securities	-	(4)	(4)	-	-	-
VIEs' liabilities - derivative instruments	-	-	-	(225)	-	(225)
Total, net	\$ 40	\$ (166)	\$ (126)	\$ (73)	\$ (914)	\$ (987)

For the three and six months ended June 30, 2011, our corporate bonds transfers in and out were attributable primarily to the securities' observable market information being available or no longer being available. For the three and six months ended June 30, 2010, our corporate bonds transfers in and out were attributable primarily to the securities' observable market information being available or no longer being available and the ABS CLNs transfer out of Level 3

and VIEs' liabilities – derivative instruments transfer into Level 3 were related to new accounting guidance that is discussed in Note 4 of our 2010 Form 10-K. For the three and six months ended June 30, 2011 and 2010, there were no significant transfers between Level 1 and 2 of the fair value hierarchy.

14. Segment Information

We provide products and services in two operating businesses and report results through four business segments as follows:

Business	Corresponding Segments
Retirement Solutions	Annuities Defined Contribution
Insurance Solutions	Life Insurance Group Protection

We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. The following is a brief description of these segments and Other Operations.

Retirement Solutions

The Retirement Solutions business provides its products through two segments: Annuities and Defined Contribution. The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities and variable annuities. The Defined Contribution segment provides employer-sponsored variable and fixed annuities, defined benefit, individual retirement accounts and mutual-fund based programs in the retirement plan marketplaces.

Insurance Solutions

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single (including corporate-owned UL and VUL and bank-owned UL and VUL) and survivorship versions of UL and VUL insurance products. The Group Protection segment offers group life, disability and dental insurance to employers. These offices develop business through employee benefit brokers, third-party administrators and other employee benefit firms.

Other Operations

Other Operations includes investments related to the excess capital in our insurance subsidiaries; investments in media properties and other corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance to Swiss Re in 2001; the results of certain disability income business due to the rescission of a reinsurance agreement with Swiss Re; the Institutional Pension business, which is a closed-block of pension business, the majority of which was sold on a group annuity basis, and is currently in run-off; and debt costs. We are actively managing our remaining radio station clusters to maximize performance and future value.

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)”):
 - § Sale or disposal of securities;
 - § Impairments of securities;
- § Change in the fair value of derivative investments, embedded derivatives within certain reinsurance arrangements and our trading securities;
 - § Change in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
- § Change in the GLB embedded derivative reserves, net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves; 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 under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC;
- Change in reserves accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC resulting from benefit ratio unlocking on our GDB and GLB riders (“benefit ratio unlocking”);
 - Income (loss) from the initial adoption of new accounting standards;

- Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
 - Gain (loss) on early extinguishment of debt;
 - Losses from the impairment of intangible assets; and
 - Income (loss) from discontinued operations.

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

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

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 June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
Operating revenues:				
Retirement Solutions:				
Annuities	\$ 734	\$ 645	\$ 1,465	\$ 1,275
Defined Contribution	260	245	523	486
Total Retirement Solutions	994	890	1,988	1,761
Insurance Solutions:				
Life Insurance	1,229	1,135	2,376	2,264
Group Protection	501	470	979	915
Total Insurance Solutions	1,730	1,605	3,355	3,179
Other Operations	114	121	232	244
Excluded realized gain (loss), pre-tax	(35)	(11)	(58)	(52)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	1	1
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	(1)	-	(1)
Total revenues	\$ 2,804	\$ 2,605	\$ 5,518	\$ 5,132

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net Income (Loss)				
Income (loss) from operations:				
Retirement Solutions:				
Annuities	\$ 150	\$ 116	\$ 297	\$ 235
Defined Contribution	42	36	91	72
Total Retirement Solutions	192	152	388	307
Insurance Solutions:				
Life Insurance	152	151	319	288
Group Protection	26	23	51	44
Total Insurance Solutions	178	174	370	332
Other Operations	(22)	(36)	(59)	(73)
Excluded realized gain (loss), after-tax	(22)	(7)	(38)	(34)
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	1	1
Benefit ratio unlocking, after-tax	(1)	(31)	3	(25)
Income (loss) from continuing operations, after-tax	325	252	665	508
Income (loss) from discontinued operations, after-tax	-	3	-	31
Net income (loss)	\$ 325	\$ 255	\$ 665	\$ 539

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 June 30, 2011, compared with December 31, 2010, and the results of operations for the three and six months ended June 30, 2011, compared with the corresponding periods in 2010 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, 2010 (“2010 Form 10-K”), including the sections entitled “Part I – Item 1A. Risk Factors,” “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 2011; and our current reports on Form 8-K filed in 2011.

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. Income (loss) from operations is net income recorded in accordance with United States of America generally accepted accounting principles (“GAAP”) 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;
- § Change in the fair value of derivative investments, embedded derivatives within certain reinsurance arrangements and our trading securities;
- § Change in the fair value of the derivatives we own to hedge our guaranteed death benefit (“GDB”) riders within our variable annuities, which is referred to as “GDB derivatives results”;
- § Change in the fair value of the embedded derivatives of our guaranteed living benefit (“GLB”) riders within our variable annuities accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification™ (“ASC”) (“embedded derivative reserves”), net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves, the net of which is referred to as “GLB net derivative results”; 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 under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC (“indexed annuity forward-starting option”);
- Change in reserves accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC resulting from benefit ratio unlocking on our GDB and GLB riders (“benefit ratio unlocking”);
 - Income (loss) from the initial adoption of new accounting standards;
 - Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance;
 - Gain (loss) on early extinguishment of debt;
 - Losses from the impairment of intangible assets; and
 - Income (loss) from discontinued operations.

Income (loss) from operations available to common stockholders is net income (loss) available to common stockholders (used in the calculation of earnings (loss) per share) in accordance with GAAP, excluding the after-tax effects of the items above and the acceleration of our Series B preferred stock discount as a result of redemption prior to five years from the date of issuance.

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

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

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 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.

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.

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 in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Forward-looking statements 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 capital and credit market conditions could cause us to realize impairments on investments and certain intangible assets, including goodwill and a 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 reserves and/or risk-based capital (“RBC”) requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline 43 (also known as Commissioners Annuity Reserve Valuation Method for Variable Annuities or VACARVM); restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;
- 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 extra-contractual and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
-

Changes in or sustained low interest rates causing reductions of investment income, estimated gross profits relating to our variable annuity and universal life products, the margins of our subsidiaries' fixed annuity and life insurance businesses and demand for their products;

- 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 amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and DFEL and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our 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 amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in GAAP, including convergence with International Financial Reporting Standards, as well as the methodologies, estimations and assumptions thereunder, 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 or corporate governance issues that may adversely affect the value of certain investments in our portfolios requiring that we realize losses on such investments;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including our ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
 - 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 business 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"), linked-benefit UL, term life insurance, mutual funds and group life, disability and dental.

We provide products and services in two operating businesses and report results through four business segments as follows:

Business	Corresponding
Retirement	Segments
Solutions	Annuities
	Defined Contribution
	Life Insurance

Insurance
Solutions

Group Protection

These operating businesses and their segments are described in “Part I – Item 1. Business” of our 2010 Form 10-K. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments.

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

Current Market Conditions

Recent unfavorable market conditions including, but not limited to, the following concerns are weighing on and threatening the financial stability of the U.S. economy:

- Uncertainty regarding the long-term effect of the recently passed Budget Control Act of 2011;
Revision of Standard and Poor’s (“S&P’s”) outlook on the long-term rating of the U.S. sovereign debt to negative from stable in April 2011 followed by placing the long-term and short-term debt ratings on watch with negative implications in July 2011; a credit rating review for the first time since 1996 by Moody’s Investors Service (“Moody’s”) followed by placing the ratings of the U.S. sovereign debt, Fannie Mae, Freddie Mac, the Federal Home Loan Bank System and the Farm Credit System on review for possible downgrade in July 2011; and warnings of possible downgrades of the U.S. sovereign debt by Fitch Ratings (“Fitch”) in June 2011;

- Persistent high unemployment, shrinking unemployment benefits and weak job creation;
 - Slow and unpredictable U.S. housing market, as evidenced by the following:
 - § The S&P/Case-Shiller® U.S. national home price index confirmed in May 2011 a double-dip in home prices across much of the U.S. based on data through March 2011, as home prices fell to their mid-2002 levels, followed by an increase in home prices for two consecutive months due to seasonal demand based on data through May 2011; and
 - § U.S. home sales remained flat in June 2011, although contract cancellations, tight credit and tightened lending standards continued to constrain the housing market;
 - Stressed economic and political conditions in Europe;
 - Declining consumer confidence; and
 - Ongoing conflicts in the Middle East.

The Federal Reserve's projections for the remainder of 2011 and 2012 announced in June 2011 reflect weak growth and a slowing economic recovery. In the face of these economic challenges, we continue to focus on building our businesses through these difficult markets and beyond by developing and introducing high quality products, expanding distribution into new and existing key accounts and channels and targeting market segments that have high growth potential while maintaining a disciplined approach to managing our expenses.

As a result of our focus on building strong liquidity and capital positions and improving earnings in our core businesses, Moody's improved its outlook on our company to positive from stable on June 22, 2011. For more information about ratings, see "Part I – Item 1. Business – Ratings" in our 2010 Form 10-K.

Significant Operational Matters

Earnings from Account Values

The Annuities and Defined Contribution segments are the most sensitive to the equity markets, as well as, to a lesser extent, our Life Insurance segment. We discuss the earnings effect of the equity markets on account values and the related asset-based earnings below in "Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Effect of Equity Market Sensitivity." From December 31, 2010, to June 30, 2011, our account values were up \$6.4 billion driven primarily by an increase in equity markets during the first six months of 2011 and positive net flows.

Improvement of Return on Equity

One of our highest priorities continues to be increasing our return on equity ("ROE"). Growth in ROE will be driven by a number of items including:

- Earnings mix shift to businesses with higher returns;
 - Continued sales of products that have higher returns than the products already in force; and
- Capital management actions consisting of redeployment of excess capital (including returning capital to common stockholders) and further generation of excess capital.

Strategic Investments

We continue to make strategic investments in our businesses to grow revenues, further spur productivity and improve our efficiency and service to our customers. These efforts include investments in technology and system upgrades, new products for the voluntary market and expanded distribution focus.

Industry Trends

We continue to be influenced by a variety of trends that affect the industry. For information on these trends, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Industry Trends” in our 2010 Form 10-K.

Issues and Outlook

For the remainder of 2011 and the near term, significant issues include:

- Increased actions by government and regulatory authorities to introduce regulations that could have a significant effect on our earnings and/or business models;

- Continuation of the low interest rate environment in comparison to historical periods;
- Implementation of new accounting requirements in 2012 that could have a significant effect on the earnings and/or business models of companies within the insurance industry, including Lincoln; and
 - Loss ratios remaining at the high end of our long-term expectations in our Group Protection segment.

In the face of these issues and potential issues, we expect to focus on the following:

- Closely monitoring our capital and liquidity positions taking into account the uncertain economic recovery and changing statutory accounting and reserving practices;
- Continuing to explore additional financing strategies addressing the statutory reserve strain related to our secondary guarantee UL products in order to manage our capital position effectively in accordance with our pricing guidelines;
 - Taking actions to manage the risk of a continuation of lower interest rates;
 - Closely monitoring ongoing changes in the legal and regulatory environment;
 - Controlling our non-medical loss ratios through continued focus on claims risk management;
- Increasing our product development activities together with identifying future product development initiatives;
- Evaluating opportunities for strategic investments in our businesses to grow revenues and further spur productivity; and
- Managing our expenses aggressively through process improvement initiatives combined with continued financial discipline and execution excellence throughout our operations.

For additional factors that could cause actual results to differ materially from those set forth in this section, see “Part I – Item 1A. Risk Factors” in our 2010 Form 10-K and “Forward-Looking Statements – Cautionary Language.”

Critical Accounting Policies and Estimates

The MD&A included in our 2010 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 2010 Form 10-K and, accordingly, should be read in conjunction with the “Critical Accounting Policies and Estimates” discussed in our 2010 Form 10-K.

DAC, VOBA, DSI and DFEL

Unlocking

As discussed and defined in our 2010 Form 10-K, we may record retrospective unlocking, prospective unlocking – assumption changes and prospective unlocking – model refinements on a quarterly basis that result in increases or decreases to the carrying values of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees. The primary distinction between retrospective and prospective unlocking is that retrospective unlocking is driven by the difference between actual gross profits compared to estimated gross profits (“EGPs”) each period, while prospective unlocking is driven by changes in assumptions or projection models related to our expectations of future EGPs.

Reversion to the Mean

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 “reversion to the mean” (“RTM”) process, as discussed in our 2010 Form 10-K.

As of June 30, 2011, our long-term separate account growth assumption rate is an immediate drop of approximately 15% and growth going forward of 9%, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, as this component is related primarily to underlying investments in equity funds within the separate accounts. If we were to have unlocked our RTM assumption in the corridor as of June 30, 2011, we would have recorded a favorable prospective unlocking of approximately \$400 million, pre-tax, for our Retirement Solutions business, and approximately \$35 million, pre-tax, for our Insurance Solutions business, as a result of improved market conditions since our last unlock of RTM in the fourth quarter of 2008.

Goodwill and Other Intangible Assets

As discussed in our 2010 Form 10-K, our stock price trading below book value requires us to evaluate and reassess each reporting period whether or not there is an indicator that would require us to perform an impairment test. We believe that our stock price has been unfavorably affected by macroeconomic events and concerns about the economic recovery and other concerns about the global economy as discussed above in “Current Market Conditions” and continues to be lower than our book value. We believe that our stock price is not representative of the underlying fair value of our reporting units and do not believe there is an indicator that requires us to perform an interim impairment test since our annual evaluation as of October 1, 2010. However, we will

continue to reassess each reporting period whether or not there is an indicator that would require us to perform an impairment test.

Investments

Investment Valuation

The following summarizes our investments carried at fair value by pricing source and the Fair Value Measurements and Disclosures Topic of the FASB ASC hierarchy level (in millions):

	As of June 30, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Priced by third party pricing services	\$ 360	\$ 62,569	\$ -	\$ 62,929
Priced by independent broker quotations	-	-	2,345	2,345
Priced by matrices	-	8,674	-	8,674
Priced by other methods (1)	-	-	1,431	1,431
Total	\$ 360	\$ 71,243	\$ 3,776	\$ 75,379
Percent of total	1%	94%	5%	100%

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

For more information about the three-level hierarchy that we use to categorize 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 2010 Form 10-K and Note 13.

As of June 30, 2011, 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 an internationally recognized pricing service as our primary pricing source, and we generally do not obtain multiple prices for our financial instruments. We generally use prices from the pricing service rather than broker quotes as we have documentation from the pricing service on the observable market inputs that they use to determine the prices in contrast to the broker quotes where we have limited information on the pricing inputs. As of June 30, 2011, we only obtained multiple prices for 44 available-for-sale (“AFS”) and trading securities. These multiple prices were related primarily to instances where the vendor was providing a price for the first time and we also received a broker quote. In these instances, we used the price from the pricing service due to the higher reliability as discussed above. As of June 30, 2011, we used broker quotes for 116 securities as our final price source, representing approximately 2% 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 2010 Form 10-K.

Guaranteed Living Benefits

As of June 30, 2011, the fair value of our derivative assets, which hedge both our GLB and GDB features, and including margins generated by futures contracts, was \$992 million. As of June 30, 2011, the sum of all GLB liabilities at fair value, excluding the non-performance risk (“NPR”) adjustment, and GDB reserves was \$373 million, comprised of \$332 million for GLB liabilities and \$41 million for the GDB reserves. The fair value of the hedge assets exceeded the estimated liabilities by \$619 million. However, the relationship of hedge assets to the liabilities for the guarantees may vary in any given reporting period due to market conditions, hedge performance and/or changes to the hedging strategy.

Approximately 46% of our variable annuity account values contained a guaranteed withdrawal benefit (“GWB”) rider as of June 30, 2011. 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. The increase in the equity markets over the recent months has decreased our existing liability. For example, a GWB contract is “in the money” if the contract holder’s account balance falls below the guaranteed amount. As of June 30, 2011, and June 30, 2010, 34% and 83% respectively, of all GWB in-force contracts were “in the money,” and our exposure to the guaranteed amounts, after reinsurance, as of June 30, 2011, and June 30, 2010, was \$853 million and \$3.1 billion, respectively. Our exposure before reinsurance for these same periods was \$968 million and \$3.5 billion, respectively.

For information on our GLB and GDB hedging results, see our discussion in “Realized Gain (Loss)” below.

Acquisitions and Dispositions

For information about acquisitions and divestitures, see Note 3 in this report and “Part I – Item 1. Business – Acquisitions and Dispositions,” “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Acquisitions and Dispositions” and Note 3 in our 2010 Form 10-K.

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 June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Revenues						
Insurance premiums	\$ 594	\$ 551	8%	\$ 1,162	\$ 1,083	7%
Insurance fees	900	793	13%	1,718	1,581	9%
Net investment income	1,181	1,120	5%	2,372	2,226	7%
Realized gain (loss):						
Total OTTI losses on securities	(45)	(11)	NM	(90)	(88)	-2%
Portion of loss recognized in OCI	15	-	NM	21	24	-13%
Net OTTI losses on securities recognized in earnings	(30)	(11)	NM	(69)	(64)	-8%
Realized gain (loss), excluding OTTI losses on securities	17	16	6%	54	43	26%
Total realized gain (loss)	(13)	5	NM	(15)	(21)	29%
Amortization of deferred gain on business sold through reinsurance	19	19	0%	38	38	0%
Other revenues and fees	123	117	5%	243	225	8%
Total revenues	2,804	2,605	8%	5,518	5,132	8%
Benefits and Expenses						
Interest credited	625	614	2%	1,239	1,232	1%
Benefits	1,028	838	23%	1,862	1,617	15%
Underwriting, acquisition, insurance and other expenses	638	754	-15%	1,362	1,467	-7%
Interest and debt expense	72	69	4%	144	137	5%
Total benefits and expenses	2,363	2,275	4%	4,607	4,453	3%
Income (loss) from continuing operations before taxes	441	330	34%	911	679	34%
Federal income tax expense (benefit)	116	78	49%	246	171	44%
Income (loss) from continuing operations	325	252	29%	665	508	31%
Income (loss) from discontinued operations, net of federal income taxes	-	3	-100%	-	31	-100%
Net income (loss)	\$ 325	\$ 255	27%	\$ 665	\$ 539	23%

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	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Revenues						
Operating revenues:						
Retirement Solutions:						
Annuities	\$ 734	\$ 645	14%	\$ 1,465	\$ 1,275	15%
Defined Contribution	260	245	6%	523	486	8%
Total Retirement Solutions	994	890	12%	1,988	1,761	13%
Insurance Solutions:						
Life Insurance	1,229	1,135	8%	2,376	2,264	5%
Group Protection	501	470	7%	979	915	7%
Total Insurance Solutions	1,730	1,605	8%	3,355	3,179	6%
Other Operations	114	121	-6%	232	244	-5%
Excluded realized gain (loss), pre-tax	(35)	(11)	NM	(58)	(52)	-12%
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	0%	1	1	0%
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	(1)	100%	-	(1)	100%
Total revenues	\$ 2,804	\$ 2,605	8%	\$ 5,518	\$ 5,132	8%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Net Income (Loss)						
Income (loss) from operations:						
Retirement Solutions:						
Annuities	\$ 150	\$ 116	29%	\$ 297	\$ 235	26%
Defined Contribution	42	36	17%	91	72	26%
Total Retirement Solutions	192	152	26%	388	307	26%
Insurance Solutions:						
Life Insurance	152	151	1%	319	288	11%
Group Protection	26	23	13%	51	44	16%
Total Insurance Solutions	178	174	2%	370	332	11%
Other Operations	(22)	(36)	39%	(59)	(73)	19%
Excluded realized gain (loss), after-tax	(22)	(7)	NM	(38)	(34)	-12%
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	-	-	NM	1	1	0%
Benefit ratio unlocking, after-tax	(1)	(31)	97%	3	(25)	112%
Income (loss) from continuing operations, after-tax	325	252	29%	665	508	31%
Income (loss) from discontinued operations, after-tax	-	3	-100%	-	31	-100%
Net income (loss)	\$ 325	\$ 255	27%	\$ 665	\$ 539	23%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Deposits						
Retirement Solutions:						
Annuities	\$ 2,927	\$ 2,823	4%	\$ 5,566	\$ 5,099	9%
Defined Contribution	1,199	1,374	-13%	2,540	2,681	-5%
Insurance Solutions - Life Insurance	1,274	1,063	20%	2,544	2,140	19%
Total deposits	\$ 5,400	\$ 5,260	3%	\$ 10,650	\$ 9,920	7%
Net Flows						
Retirement Solutions:						
Annuities	\$ 700	\$ 1,153	-39%	\$ 1,183	\$ 1,728	-32%
Defined Contribution	(178)	182	NM	(44)	291	NM
Insurance Solutions - Life Insurance	868	650	34%	1,689	1,252	35%
Total net flows	\$ 1,390	\$ 1,985	-30%	\$ 2,828	\$ 3,271	-14%
Account Values						
Retirement Solutions:						
Annuities	\$ 88,840	\$ 73,324	21%			
Defined Contribution	40,287	35,040	15%			
Insurance Solutions - Life Insurance	34,567	31,965	8%			
Total account values	\$ 163,694	\$ 140,329	17%			

Comparison of the Three Months Ended June 30, 2011 to 2010

Net income increased due primarily to the following:

- Higher earnings from our variable annuity and mutual fund (within our Defined Contribution segment) products as a result of higher average account values driven by increases in the equity markets, and an increase in insurance fees, excluding unlocking, attributable primarily to growth in insurance in force;
- A \$24 million favorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for life insurance and annuity products with living benefit and death benefit guarantees and a lower DAC, VOBA, DSI and DFEL amortization rate, net of interest, excluding unlocking, during the second quarter of 2011, compared to a \$21 million unfavorable retrospective unlocking during the second quarter of 2010:
 - § The favorable retrospective unlocking during the second quarter of 2011 was due primarily to higher equity markets, expense assessments and prepayment and bond makewhole premiums and lower lapses than our model projections assumed;
 - § The lower amortization rate during the second quarter of 2011 was due primarily to higher EGPs attributable to rider fees related to our products with living benefit guarantees and an overall shift in business mix towards products with lower deferrable expense rates; and
 - § The unfavorable retrospective unlocking during the second quarter of 2010 was due primarily to the increase in the change in GDB reserves due to our GDB benefit ratio unlocking, partially offset by higher equity markets and expense assessments and lower lapses than our model projections assumed;
- Higher net investment income and relatively flat interest credited, excluding unlocking, driven primarily by:

- § Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to positive net flows and interest credited to contract holders, partially offset by transfers from fixed to variable;
 - § Higher prepayment and bond makewhole premiums, higher portfolio yields on surplus and more favorable investment income on alternative investments (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” and “Consolidated Investments – Alternative Investments” below for more information); and
 - § Reductions in crediting rates after the second quarter of 2010;
- partially offset by:

- § The decline in new money rates and interest rates in general; and
- A \$6 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for life insurance and annuity products with living benefit and death benefit guarantees during the second quarter of 2011 compared to a \$5 million favorable prospective unlocking during the second quarter of 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” for more information):
- § The favorable prospective unlocking during the second quarter of 2011 was recorded in the Life Insurance segment and was due to a \$4 million favorable unlocking from assumption changes and a \$2 million favorable unlocking from model refinements; and
- § The favorable prospective unlocking during the second quarter of 2010 was due to assumption changes in the Annuities segment.

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

- Higher benefits, excluding unlocking, driven primarily by:
 - § Higher death claims; and
 - § An increase in secondary guarantee life insurance product reserves from continued growth in the business;partially offset by:
 - § A decrease in the change in GDB reserves from a decrease in our expected GDB benefit payments attributable primarily to the increase in account values above guaranteed levels due to the more favorable equity markets; and
 - § More favorable non-medical loss ratio experience within our Group Protection segment;
 - Higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to:
 - § Higher account values driving higher trail commissions;
 - § Higher incentive compensation accruals as a result of higher earnings and production performance relative to targets; and
 - § An increase in expenses associated with reserve financing supporting our secondary guarantee UL and term business due primarily to higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see “Results of Insurance Solutions – Life Insurance – Income (Loss) from Operations – Strategies to Address Statutory Reserve Strain” below for more information);
- partially offset by:
- § Higher legal expenses in 2010; and
 - Realized losses in 2011 as compared to realized gains in 2010 attributable primarily to (see our discussion in “Realized Gain (Loss)” below for more information):
 - § Higher other-than-temporary impairment (“OTTI”) on our AFS mortgage-backed securities (“MBS”) securities due to continued weakness within the commercial and residential real estate market that affected select residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”); and
 - § Gains on GDB derivative results in 2010 as a result of the effect of unfavorable equity markets during 2010;
- partially offset by:
- § The realized loss related to certain derivative instruments and trading securities during the second quarter of 2010 attributable primarily to spreads widening on corporate credit default swaps, which affected the derivative instruments related to our consolidated VIEs, partially offset by gains on our trading securities due to the decline in interest rates.

Comparison of the Six Months Ended June 30, 2011 to 2010

Net income increased due primarily to the following:

- Higher earnings from our variable annuity and mutual fund (within our Defined Contribution segment) products as a result of higher average account values driven by increases in the equity markets, and an increase in insurance fees, excluding unlocking, attributable primarily to growth in insurance in force;
 - Higher net investment income and relatively flat interest credited, excluding unlocking, driven primarily by:
 - § Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to positive net flows and interest credited to contract holders, partially offset by transfers from fixed to variable;
 - § Higher prepayment and bond makewhole premiums, more favorable investment income on alternative investments and higher portfolio yields on surplus (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” and “Consolidated Investments – Alternative Investments” below for more information); and
 - § Reductions in crediting rates after the second quarter of 2010;
- partially offset by:
- § The decline in new money rates and interest rates in general;
 - A lower DAC, VOBA, DSI and DFEL amortization rate, net of interest, excluding unlocking, during the first six months of 2011 and a \$37 million favorable retrospective unlocking of DAC, VOBA, DSI, DFEL and the reserves for life insurance and

annuity products with living benefit and death benefit guarantees during the first six months of 2011, compared to a \$5 million favorable retrospective unlocking during the first six months of 2010:

- § The lower amortization rate during the first six months of 2011 was due primarily to higher EGPs attributable to rider fees related to our products with living benefit guarantees and an overall shift in business mix towards products with lower deferrable expense rates;
- § The favorable retrospective unlocking during the first six months of 2011 was due primarily to higher equity markets, expense assessments and prepayment and bond makewhole premiums and lower lapses than our model projections assumed, partially offset by lower premiums received than our model projections assumed; and
- § The favorable retrospective unlocking during the first six months of 2010 was due primarily to higher equity markets and expense assessments and lower lapses than our model projections assumed, partially offset by the increase in the change in GDB reserves due to our GDB benefit ratio unlocking; and
- The realized loss related to certain derivative instruments and trading securities during the first six months of 2010 attributable primarily to spreads widening on corporate credit default swaps, which affected the derivative instruments related to our consolidated VIEs, partially offset by gains on our trading securities due to the decline in interest rates.

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

- Higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to:

- § Higher account values driving higher trail commissions;

- § Higher incentive compensation accruals as a result of higher earnings and production performance relative to targets;

- § An increase in expenses associated with reserve financing supporting our secondary guarantee UL and term business due primarily to higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see “Results of Insurance Solutions – Life Insurance – Income (Loss) from Operations – Strategies to Address Statutory Reserve Strain” below for more information); and

- § Investments in strategic initiatives related to updating information technology and expanding distribution and support during the first six months of 2011;

partially offset by:

- § Higher legal expenses during the first six months of 2010;

- Higher benefits, excluding unlocking, driven primarily by:

- § Higher death claims; and

- § An increase in secondary guarantee life insurance product reserves from continued growth in the business;

partially offset by:

- § A decrease in the change in GDB reserves from a decrease in our expected GDB benefit payments attributable primarily to the increase in account values above guaranteed levels due to the more favorable equity markets and favorable mortality experience on single-premium immediate annuities; and

- § More favorable non-medical loss ratio experience within our Group Protection segment;

- Income from discontinued operations of \$31 million during the first six months of 2010 related to our former Lincoln UK and Investment Management segments (see Note 3 for more information on our discontinued operations); and

- A \$20 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for life insurance and annuity products with living benefit and death benefit guarantees during the first six months of 2011 compared to a \$26 million favorable prospective unlocking during the first six months of 2010 (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” for more information):

- § The favorable prospective unlocking during the first six months of 2011 was recorded in the Life Insurance segment and was due to a \$19 million favorable unlocking from model refinements and a \$1 million favorable

unlocking from assumption changes; and

§ The favorable prospective unlocking during the first six months of 2010 was due to assumption changes in the Annuities segment.

The foregoing items are discussed in further detail in results of operations by segment discussions and “Realized Gain (Loss)” below. In addition, for a discussion of the earnings effect of the equity markets, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Equity Market Risk – Effect of Equity Market Sensitivity.”

RESULTS OF RETIREMENT SOLUTIONS

The Retirement Solutions business provides its products through two segments: Annuities and Defined Contribution. The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities, and variable annuities. The Defined Contribution segment provides employer-sponsored variable and fixed annuities, defined benefit, individual retirement accounts and mutual-fund based programs in the retirement plan marketplaces.

For factors that could cause actual results to differ materially from those set forth in this section, see “Part I – Item 1A. Risk Factors” in our 2010 Form 10-K and “Forward-Looking Statements – Cautionary Language” above.

Annuities

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,			Change
	2011	2010	Change	2011	2010	Change	
Operating Revenues							
Insurance premiums (1)	\$ 22	\$ 10	120%	\$ 45	\$ 20	125%	
Insurance fees	321	270	19%	631	530	19%	
Net investment income	278	272	2%	566	542	4%	
Operating realized gain (loss)	22	16	38%	43	31	39%	
Other revenues and fees (2)	91	77	18%	180	152	18%	
Total operating revenues	734	645	14%	1,465	1,275	15%	
Operating Expenses							
Interest credited	178	177	1%	352	353	0%	
Benefits	43	41	5%	78	85	-8%	
Underwriting, acquisition, insurance and other expenses	326	282	16%	659	542	22%	
Total operating expenses	547	500	9%	1,089	980	11%	
Income (loss) from operations before taxes	187	145	29%	376	295	27%	
Federal income tax expense (benefit)	37	29	28%	79	60	32%	
Income (loss) from operations	\$ 150	\$ 116	29%	\$ 297	\$ 235	26%	

(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 June 30, 2011 to 2010

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

- Higher insurance fees driven primarily by higher average daily variable account values due to more favorable equity markets;
 - A \$30 million favorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders and a lower DAC, VOBA, DSI and DFEL amortization rate, net of interest, excluding unlocking, during the second quarter of 2011, compared to a \$21 million favorable retrospective unlocking during the second quarter of 2010;
- § The favorable retrospective unlocking during the second quarter of 2011 was due primarily to higher equity markets, expense assessments and prepayment and bond makewhole premiums and lower lapses than our model projections assumed;

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The lower amortization rate during the second quarter of 2011 was due primarily to higher EGPs attributable to rider fees related to our products with living benefit guarantees; and

- § The favorable retrospective unlocking during the second quarter of 2010 was due primarily to higher equity markets and expense assessments and lower lapses than our model projections assumed; and
- Lower benefits, excluding SPIA (see footnote one above), due primarily to a decrease in the change in GDB reserves from a decrease in our expected GDB benefit payments attributable primarily to the increase in account values above guaranteed levels due to the more favorable equity markets.

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

- Higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to:
 - § Higher account values driving higher trail commissions; and
- § Investments in strategic initiatives related to updating information technology and expanding distribution and support during the second quarter of 2011; and
- A \$5 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders during the second quarter of 2010 from assumption changes due to revising the estimate in our models for rider fees related to our annuity products with living benefit guarantees.

Comparison of the Six Months Ended June 30, 2011 to 2010

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

- Higher insurance fees driven primarily by higher average daily variable account values due to more favorable equity markets;
- A \$56 million favorable retrospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders and a lower DAC, VOBA, DSI and DFEL amortization rate, net of interest, excluding unlocking, during the first six months of 2011, compared to a \$44 million favorable retrospective unlocking during the first six months of 2010:
 - § The favorable retrospective unlocking during the first six months of 2011 was due primarily to higher equity markets, expense assessments and prepayment and bond makewhole premiums and lower lapses than our model projections assumed;
 - § The lower amortization rate during the first six months of 2011 was due primarily to higher EGPs attributable to rider fees related to our products with living benefit guarantees; and
 - § The favorable retrospective unlocking during the first six months of 2010 was due primarily to higher equity markets and expense assessments and lower lapses than our model projections assumed;
- Lower benefits, excluding SPIA (see footnote one above), due primarily to a decrease in the change in GDB reserves from a decrease in our expected GDB benefit payments attributable primarily to the increase in account values above guaranteed levels due to the more favorable equity markets and favorable mortality experience on single-premium immediate annuities; and
 - Higher net investment income and relatively flat interest credited, excluding unlocking, driven primarily by:
- § Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to positive net flows and interest credited to contract holders, partially offset by transfers from fixed to variable since the second quarter of 2010; and
- § Higher prepayment and bond makewhole premiums, an increase in surplus investments allocated to this segment, higher portfolio yields on surplus and more favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” and “Consolidated Investments – Alternative Investments” below for more information);

partially offset by:

- § The decline in new money rates and interest rates in general.

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

- Higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to:
 - § Higher account values driving higher trail commissions; and

§

Investments in strategic initiatives related to updating information technology and expanding distribution and support during the first six months of 2011; and

- A \$26 million favorable prospective unlocking of DAC, VOBA, DSI, DFEL and reserves for our guarantee riders during the first six months of 2010 from assumption changes due to including an estimate in our models for rider fees related to our annuity products with living benefit guarantees.

Additional Information

During 2010, we completed the planned conversion of our actuarial valuation systems to a uniform platform for certain blocks of business. We have other blocks of business that we intend to convert. Although we expect some differences to emerge as a result of the planned conversion of the other blocks of business, based upon the current status of these efforts, we are not able to provide an estimate or range of the effects to our results of operations until completion of the conversion. In the third quarter of each year, we also conduct our annual comprehensive review of the assumptions and 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 annuity products with living benefit and death benefit guarantees. See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and

DFEL” in our 2010 Form 10-K for a detailed discussion of our prospective unlocking process and information on our actuarial system conversion.

We expect higher expenses for this segment for the remainder of 2011 than was experienced in the first half of 2011. The expected increase is attributable primarily to expected increases in investments in strategic initiatives.

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 six months ended June 30, 2011, compared to 7% for the corresponding periods in 2010.

See Note 8 for information on contractual guarantees to contract holders related to GDB features for our Retirement Solutions business.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and the interest rate risk due to falling interest rates, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein and “Part I – Item 1A. Risk Factors – 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 2010 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)” below.

Insurance Fees

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Insurance Fees						
Mortality, expense and other assessments	\$ 325	\$ 273	19%	\$ 636	\$ 536	19%
Surrender charges	10	10	0%	20	20	0%
DFEL:						
Deferrals	(19)	(20)	5%	(35)	(37)	5%
Amortization, net of interest:						
Retrospective unlocking	(1)	1	NM	(1)	-	NM
Amortization, net of interest,						

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excluding unlocking	6	6	0%	11	11	0%
Total insurance fees	\$ 321	\$ 270	19%	\$ 631	\$ 530	19%

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	As of June 30,		
	2011	2010	Change
Account Values			
Variable portion of variable annuities	\$ 68,551	\$ 53,921	27%
Fixed portion of variable annuities	3,286	3,896	-16%
Total variable annuities	71,837	57,817	24%
Fixed annuities, including indexed	17,938	16,501	9%
Fixed annuities ceded to reinsurers	(935)	(994)	6%
Total fixed annuities	17,003	15,507	10%
Total account values	\$ 88,840	\$ 73,324	21%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Averages						
Daily variable account values, excluding the fixed portion of variable	\$ 68,262	\$ 56,788	20%	\$ 67,365	\$ 56,301	20%
Daily S&P 500 Index® (“S&P 500”)	1,318.52	1,134.42	16%	1,310.42	1,127.97	16%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Net Flows on Account Values						
Variable portion of variable annuity deposits	\$ 1,620	\$ 1,322	23%	\$ 3,143	\$ 2,460	28%
Variable portion of variable annuity withdrawals	(1,702)	(1,214)	-40%	(3,345)	(2,429)	-38%
Variable portion of variable annuity net flows	(82)	108	NM	(202)	31	NM
Fixed portion of variable annuity deposits	736	864	-15%	1,397	1,591	-12%
Fixed portion of variable annuity withdrawals	(88)	(102)	14%	(177)	(200)	12%
Fixed portion of variable annuity net flows	648	762	-15%	1,220	1,391	-12%
Total variable annuity deposits	2,356	2,186	8%	4,540	4,051	12%
Total variable annuity withdrawals	(1,790)	(1,316)	-36%	(3,522)	(2,629)	-34%
Total variable annuity net flows	566	870	-35%	1,018	1,422	-28%
Fixed indexed annuity deposits	480	522	-8%	858	846	1%
Fixed indexed annuity withdrawals	(153)	(111)	-38%	(311)	(235)	-32%
Fixed indexed annuity net flows	327	411	-20%	547	611	-10%
Other fixed annuity deposits	91	115	-21%	168	202	-17%
Other fixed annuity withdrawals	(284)	(243)	-17%	(550)	(507)	-8%

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Other fixed annuity net flows	(193)	(128)	-51%	(382)	(305)	-25%
Total annuity deposits	2,927	2,823	4%	5,566	5,099	9%
Total annuity withdrawals	(2,227)	(1,670)	-33%	(4,383)	(3,371)	-30%
Total annuity net flows	\$ 700	\$ 1,153	-39%	\$ 1,183	\$ 1,728	-32%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Other Changes to Account Values						
Change in market value on variable, excluding the fixed portion of variable	\$ 147	\$ (4,802)	103%	\$ 2,364	\$ (3,050)	178%
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	699	800	-13%	1,531	1,572	-3%

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 “Realized Gain (Loss) – Operating Realized Gain (Loss) – GLB” below 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 June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 245	\$ 245	0%	\$ 493	\$ 493	0%
Commercial mortgage loan prepayment and bond makewhole premiums (1)	5	4	25%	17	5	240%
Surplus investments (2)	28	23	22%	56	44	27%
Total net investment income	\$ 278	\$ 272	2%	\$ 566	\$ 542	4%
Interest Credited						
Amount provided to contract holders	\$ 176	\$ 183	-4%	\$ 346	\$ 365	-5%
DSI deferrals	(9)	(18)	50%	(18)	(37)	51%
Interest credited before DSI amortization	167	165	1%	328	328	0%
DSI amortization:						
Retrospective unlocking	(4)	(2)	-100%	(6)	(4)	-50%
Amortization, excluding unlocking	15	14	7%	30	29	3%
Total interest credited	\$ 178	\$ 177	1%	\$ 352	\$ 353	0%

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

	For the Three Months Ended June 30,		Basis Point Change	For the Six Months Ended June 30,		Basis Point Change
	2011	2010		2011	2010	
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.19%	5.47%	(28)	5.24%	5.54%	(30)
Commercial mortgage loan prepayment and bond make whole premiums	0.11%	0.09%	2	0.18%	0.06%	12
Net investment income yield on reserves	5.30%	5.56%	(26)	5.42%	5.60%	(18)
Interest rate credited to contract holders	3.38%	3.51%	(13)	3.34%	3.51%	(17)
Interest rate spread	1.92%	2.05%	(13)	2.08%	2.09%	(1)

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Other Information						
Average invested assets on reserves	\$ 18,892	\$ 17,970	5%	\$ 18,841	\$ 17,814	6%
Average fixed account values, including						
the fixed portion of variable	20,668	19,754	5%	20,580	19,625	5%
Transfers to the fixed portion of variable						
annuity products from the variable portion of variable annuity products	(699)	(800)	13%	(1,531)	(1,572)	3%
Net flows for fixed annuities, including the fixed portion of variable	782	1,045	-25%	1,385	1,697	-18%

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. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management program interest expense and interest on collateral divided by average invested assets on reserves. The average invested assets on reserves is calculated based upon total invested assets, excluding hedge derivatives and collateral. The average crediting rate is calculated as interest credited before DSI amortization, plus the immediate annuity reserve change (included within benefits) divided by the average fixed account values, including the fixed portion of variable annuity contracts, net of coinsured account values. Fixed account values reinsured under modified coinsurance agreements are included in account values for this calculation. 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

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

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Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions:						
Deferrable	\$ 125	\$ 127	-2%	\$ 237	\$ 224	6%
Non-deferrable	68	50	36%	133	103	29%
General and administrative expenses	93	82	13%	180	160	13%
Taxes, licenses and fees	7	5	40%	15	13	15%
Total expenses incurred, excluding broker-dealer	293	264	11%	565	500	13%
DAC deferrals	(166)	(164)	-1%	(315)	(296)	-6%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	127	100	27%	250	204	23%
DAC and VOBA amortization, net of interest:						
Prospective unlocking - assumption changes	-	(8)	100%	-	(39)	100%
Retrospective unlocking	(33)	(20)	-65%	(62)	(47)	-32%
Amortization, net of interest, excluding unlocking	142	132	8%	289	270	7%
Broker-dealer expenses incurred	90	78	15%	182	154	18%
Total underwriting, acquisition, insurance and other expenses	\$ 326	\$ 282	16%	\$ 659	\$ 542	22%
DAC Deferrals						
As a percentage of sales/deposits	5.7%	5.8%		5.7%	5.8%	

Commissions and other costs that vary with and are related primarily to the production of new 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.

Defined Contribution

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Operating Revenues						
Insurance fees	\$ 55	\$ 49	12%	\$ 110	\$ 100	10%
Net investment income	200	191	5%	405	377	7%
Other revenues and fees (1)	5	5	0%	8	9	-11%
Total operating revenues	260	245	6%	523	486	8%
Operating Expenses						
Interest credited	109	110	-1%	217	220	-1%
Benefits	-	-	NM	-	2	-100%
Underwriting, acquisition, insurance and other expenses	91	85	7%	176	164	7%
Total operating expenses	200	195	3%	393	386	2%
Income (loss) from operations before taxes	60	50	20%	130	100	30%
Federal income tax expense (benefit)	18	14	29%	39	28	39%
Income (loss) from operations	\$ 42	\$ 36	17%	\$ 91	\$ 72	26%

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

Comparison of the Three Months Ended June 30, 2011 to 2010

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

- Higher net investment income and relatively flat interest credited driven primarily by:
 - § Higher prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information);
 - § Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to interest credited to contract holders and transfers from variable to fixed, partially offset by negative net flows, since the second quarter of 2010; and
 - § Reductions in crediting rates after the second quarter of 2010;
- Higher insurance fees driven primarily by higher average daily variable account values due to higher equity markets, partially offset by an overall shift in business mix toward products with lower expense assessment rates and negative net flows; and
- A \$2 million unfavorable retrospective unlocking of DAC, VOBA and DSI during the second quarter of 2010 due primarily to higher lapses than our model projections assumed, partially offset by higher equity markets than our model projections assumed.

The increase in income from operations was partially offset by higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to the following:

- Investments in strategic initiatives related to updating information technology and expanding distribution and support during the second quarter of 2011, as discussed in “Additional Information” below; and
 - Higher account values driving higher trail commissions.

Comparison of the Six Months Ended June 30, 2011 to 2010

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

- Higher net investment income and relatively flat interest credited driven primarily by:
 - § Higher prepayment and bond makewhole premiums and more favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” and “Consolidated Investments – Alternative Investments” below for more information);
 - § Higher average fixed account values, including the fixed portion of variable annuity contracts, attributable primarily to interest credited to contract holders and transfers from variable to fixed, partially offset by negative net flows, since the second quarter of 2010; and
 - § Reductions in crediting rates after the second quarter of 2010;
 - A lower DAC, VOBA and DSI amortization rate, net of interest and excluding unlocking, and a \$2 million favorable retrospective unlocking of DAC, VOBA and DSI during the first six months of 2011, compared to a \$3 million unfavorable retrospective unlocking during the first six months of 2010;
- § The lower amortization rate during the first six months of 2011 was due primarily to an overall shift in business mix towards products with lower deferrable expense rates for this segment and no VOBA amortization during the first six months of 2011 as our VOBA balance became fully amortized during the fourth quarter of 2010;
- § The favorable retrospective unlocking during the first six months of 2011 was due primarily to higher equity markets and prepayment and bond makewhole premiums than our model projections assumed; and
- § The unfavorable retrospective unlocking during the first six months of 2010 was due primarily to higher lapses than our model projections assumed, partially offset by higher equity markets than our model projections assumed; and
- Higher insurance fees driven primarily by higher average daily variable account values due to higher equity markets, partially offset by an overall shift in business mix toward products with lower expense assessment rates.

The increase in income from operations was partially offset by higher underwriting, acquisition, insurance and other expenses, excluding amortization of DAC and VOBA, due primarily to the following:

- Investments in strategic initiatives related to updating information technology and expanding distribution and support during the first six months of 2011, as discussed in “Additional Information” below; and
 - Higher account values driving higher trail commissions.

Additional Information

In the third quarter of each year, we conduct our annual comprehensive review of the assumptions and models used for our estimates of future gross profits underlying the amortization of DAC, VOBA and DSI. See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” in our 2010 Form 10-K for a detailed discussion of our prospective unlocking process.

We expect to continue to make investments in strategic initiatives during the remainder of 2011 similar to those made in the second quarter of 2011.

Net flows in this business fluctuate based on the timing of larger plans rolling onto our platform and rolling off over the course of the year, and we expect this trend will continue for the remainder of 2011.

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 13% and 12% for the three and six months ended June 30, 2011, compared to 11% and 12% for the corresponding periods in 2010.

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 41% and 43% as of June 30, 2011, and 2010, 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.

See Note 8 for information on contractual guarantees to contract holders related to GDB features for our Retirement Solutions business.

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. For information on interest rate spreads and the interest rate risk due to falling interest rates, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein and “Part I – Item 1A. Risk Factors – 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 2010 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.

Insurance Fees

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Insurance Fees						
Annuity expense assessments	\$ 46	\$ 41	12%	\$ 93	\$ 85	9%
Mutual fund fees	8	7	14%	16	13	23%
Total expense assessments	54	48	13%	109	98	11%
Surrender charges	1	1	0%	1	2	-50%
Total insurance fees	\$ 55	\$ 49	12%	\$ 110	\$ 100	10%

Averages	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Daily variable annuity account values, excluding the fixed portion of variable	\$ 14,284	\$ 12,855	11%	\$ 14,231	\$ 12,882	10%
Daily S&P 500	1,318.52	1,134.42	16%	1,310.42	1,127.97	16%

	As of June 30,		
	2011	2010	Change
Account Values			
Variable portion of variable annuities	\$ 14,254	\$ 11,967	19%
Fixed portion of variable annuities	6,178	6,114	1%
Total variable annuities	20,432	18,081	13%
Fixed annuities	6,847	6,466	6%
Total annuities	27,279	24,547	11%

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Mutual funds (1)	13,008	10,493	24%
Total annuities and mutual funds	\$ 40,287	\$ 35,040	15%

(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.

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	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Account Value Roll Forward – By Product						
Total Micro – Small Segment:						
Balance as of beginning-of-period	\$ 6,594	\$ 5,966	11%	\$ 6,396	\$ 5,863	9%
Gross deposits	315	265	19%	641	607	6%
Withdrawals and deaths	(325)	(334)	3%	(709)	(756)	6%
Net flows	(10)	(69)	86%	(68)	(149)	54%
Transfers between fixed and variable accounts	-	-	NM	(6)	(1)	NM
Investment increase and change in market value	(18)	(353)	95%	244	(169)	244%
Balance as of end-of-period	\$ 6,566	\$ 5,544	18%	\$ 6,566	\$ 5,544	18%
Total Mid – Large Segment:						
Balance as of beginning-of-period	\$ 17,224	\$ 14,767	17%	\$ 16,207	\$ 13,653	19%
Gross deposits	704	920	-23%	1,535	1,689	-9%
Withdrawals and deaths	(657)	(455)	-44%	(1,055)	(805)	-31%
Net flows	47	465	-90%	480	884	-46%
Transfers between fixed and variable accounts	(17)	12	NM	(38)	18	NM
Other (1)	-	-	NM	-	186	-100%
Investment increase and change in market value	79	(860)	109%	684	(357)	292%
Balance as of end-of-period	\$ 17,333	\$ 14,384	21%	\$ 17,333	\$ 14,384	21%
Total Multi-Fund® and Other Variable Annuities:						
Balance as of beginning-of-period	\$ 16,490	\$ 15,966	3%	\$ 16,221	\$ 15,786	3%
Gross deposits	180	189	-5%	364	385	-5%
Withdrawals and deaths	(395)	(403)	2%	(820)	(829)	1%
Net flows	(215)	(214)	0%	(456)	(444)	-3%
Investment increase and change in market value	113	(640)	118%	623	(230)	NM
Balance as of end-of-period	\$ 16,388	\$ 15,112	8%	\$ 16,388	\$ 15,112	8%
Total Annuities and Mutual Funds:						
Balance as of beginning-of-period	\$ 40,308	\$ 36,699	10%	\$ 38,824	\$ 35,302	10%
Gross deposits	1,199	1,374	-13%	2,540	2,681	-5%
Withdrawals and deaths	(1,377)	(1,192)	-16%	(2,584)	(2,390)	-8%
Net flows	(178)	182	NM	(44)	291	NM
Transfers between fixed and variable accounts	(17)	12	NM	(44)	17	NM

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Other (1)	-	-	NM	-	186	-100%
Investment increase and change in market value	174	(1,853)	109%	1,551	(756)	NM
Balance as of end-of-period (2)	\$ 40,287	\$ 35,040	15%	\$ 40,287	\$ 35,040	15%

- (1) Represents LINCOLN ALLIANCE® program assets held by a third-party trustee that were not previously included in the account value roll forward. Effective January 1, 2010, all such LINCOLN ALLIANCE® program activity was included in the account value roll forward.
- (2) 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.

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	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Net Flows on Account Values						
Variable portion of variable annuity deposits	\$ 393	\$ 362	9%	\$ 808	\$ 803	1%
Variable portion of variable annuity withdrawals	(516)	(527)	2%	(1,103)	(1,164)	5%
Variable portion of variable annuity net flows	(123)	(165)	25%	(295)	(361)	18%
Fixed portion of variable annuity deposits	85	77	10%	162	157	3%
Fixed portion of variable annuity withdrawals	(152)	(162)	6%	(328)	(329)	0%
Fixed portion of variable annuity net flows	(67)	(85)	21%	(166)	(172)	3%
Total variable annuity deposits	478	439	9%	970	960	1%
Total variable annuity withdrawals	(668)	(689)	3%	(1,431)	(1,493)	4%
Total variable annuity net flows	(190)	(250)	24%	(461)	(533)	14%
Fixed annuity deposits	233	250	-7%	502	486	3%
Fixed annuity withdrawals	(285)	(244)	-17%	(445)	(418)	-6%
Fixed annuity net flows	(52)	6	NM	57	68	-16%
Total annuity deposits	711	689	3%	1,472	1,446	2%
Total annuity withdrawals	(953)	(933)	-2%	(1,876)	(1,911)	2%
Total annuity net flows	(242)	(244)	1%	(404)	(465)	13%
Mutual fund deposits	488	685	-29%	1,068	1,235	-14%
Mutual fund withdrawals	(424)	(259)	-64%	(708)	(479)	-48%
Mutual fund net flows	64	426	-85%	360	756	-52%
Total annuity and mutual fund deposits	1,199	1,374	-13%	2,540	2,681	-5%
Total annuity and mutual fund withdrawals	(1,377)	(1,192)	-16%	(2,584)	(2,390)	-8%
Total annuity and mutual fund net flows	\$ (178)	\$ 182	NM	\$ (44)	\$ 291	NM
Other Changes to Account Values						
Change in market value on variable, excluding the fixed portion of variable	\$ 17	\$ (1,071)	102%	\$ 712	\$ (556)	228%
Transfers to the variable portion of						

variable annuity products from the fixed portion of variable annuity products	(40)	(47)	15%	(90)	(69)	-30%
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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 June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	\$ 179	\$ 176	2%	\$ 356	\$ 349	2%
Commercial mortgage loan prepayment and bond makewhole premiums (1)	7	1	NM	18	2	NM
Alternative investments (2)	-	1	-100%	1	1	0%
Surplus investments (3)	14	13	8%	30	25	20%
Total net investment income	\$ 200	\$ 191	5%	\$ 405	\$ 377	7%
Interest Credited	\$ 109	\$ 110	-1%	\$ 217	\$ 220	-1%

(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 June 30,			For the Six Months Ended June 30,		
	2011	2010	Basis Point Change	2011	2010	Basis Point Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.55%	5.73%	(18)	5.58%	5.71%	(13)
Commercial mortgage loan prepayment and bond makewhole premiums	0.23%	0.04%	19	0.29%	0.03%	26
Alternative investments	0.01%	0.02%	(1)	0.02%	0.02%	-
Net investment income yield on reserves	5.79%	5.79%	-	5.89%	5.76%	13
Interest rate credited to contract holders	3.34%	3.51%	(17)	3.35%	3.55%	(20)
Interest rate spread	2.45%	2.28%	17	2.54%	2.21%	33

Note: The yields, rates and spreads above are calculated using whole dollars instead of dollars rounded to millions.

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Other Information						
Average invested assets on reserves	\$ 12,830	\$ 12,342	4%	\$ 12,738	\$ 12,236	4%
Average fixed account values, including						
the fixed portion of variable	13,000	12,524	4%	12,933	12,428	4%
Transfers to the fixed portion of variable						
annuity products from the variable portion of variable annuity products	40	47	-15%	90	69	30%
Net flows for fixed annuities, including the fixed portion of variable	(119)	(79)	-51%	(109)	(104)	-5%

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. The interest rate spread for this segment represents the excess of the yield on invested assets on reserves over the average crediting rate. The yield on invested assets on reserves is calculated as net investment income, excluding the amounts attributable to our surplus investments, reverse repurchase agreement interest expense, inter-segment cash management program interest expense and interest on collateral, divided by average invested assets on reserves. The average invested assets on reserves are calculated based upon total invested assets, excluding hedge derivatives. The average crediting rate is calculated as interest credited before DSI amortization, divided by the average fixed account values, 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 GDB and GLB benefit reserves and our expected costs associated with purchases of derivatives used to hedge our GDB benefit ratio unlocking.

Underwriting, Acquisition, Insurance and Other Expenses

Details underlying underwriting, acquisition, insurance and other expenses (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Underwriting, Acquisition, Insurance and Other Expenses						
Commissions:						
Deferrable	\$ 6	\$ 7	-14%	\$ 11	\$ 13	-15%
Non-deferrable	11	9	22%	23	19	21%
General and administrative expenses	71	58	22%	134	111	21%
Taxes, licenses and fees	4	3	33%	9	7	29%
Total expenses incurred	92	77	19%	177	150	18%
DAC deferrals	(19)	(15)	-27%	(35)	(31)	-13%
Total expenses recognized before amortization	73	62	18%	142	119	19%
DAC and VOBA amortization, net of interest:						
Retrospective unlocking	-	4	-100%	(3)	5	NM
Amortization, net of interest, excluding unlocking	18	19	-5%	37	40	-8%
Total underwriting, acquisition, insurance and other expenses	\$ 91	\$ 85	7%	\$ 176	\$ 164	7%
DAC Deferrals						
As a percentage of annuity sales/deposits	2.7%	2.2%		2.4%	2.1%	

Commissions and other costs that vary with and are related primarily to the sale of annuity contracts 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 INSURANCE SOLUTIONS

The Insurance Solutions business provides its products through two segments: Life Insurance and Group Protection. The Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs) and both single (including corporate-owned UL and VUL (“COLI”) and bank-owned UL and VUL (“BOLI”)) and survivorship versions of UL and VUL insurance products. The Group Protection segment offers group life, disability and dental insurance to employers.

For factors that could cause actual results to differ materially from those set forth in this section, see “Part I – Item 1A. Risk Factors” in our 2010 Form 10-K and “Forward-Looking Statements – Cautionary Language” above.

Life Insurance

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Operating Revenues						
Insurance premiums	\$ 112	\$ 108	4%	\$ 220	\$ 220	0%
Insurance fees	523	475	10%	975	953	2%
Net investment income	588	545	8%	1,167	1,075	9%
Other revenues and fees	6	7	-14%	14	16	-13%
Total operating revenues	1,229	1,135	8%	2,376	2,264	5%
Operating Expenses						
Interest credited	307	299	3%	610	596	2%
Benefits	609	374	63%	1,057	773	37%
Underwriting, acquisition, insurance and other expenses	87	241	-64%	236	472	-50%
Total operating expenses	1,003	914	10%	1,903	1,841	3%
Income (loss) from operations before taxes	226	221	2%	473	423	12%
Federal income tax expense (benefit)	74	70	6%	154	135	14%
Income (loss) from operations	\$ 152	\$ 151	1%	\$ 319	\$ 288	11%

Comparison of the Three Months Ended June 30, 2011 to 2010

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

- Higher net investment income and relatively flat interest credited attributable primarily to:
 - § Growth in business in force;
- § More favorable investment income on alternative investments, including those within our surplus portfolio, and higher 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
 - § Reductions in crediting rates after the second quarter of 2010, discussed in “Additional Information” below;
- An increase in insurance fees, excluding unlocking, attributable primarily to growth in insurance in force and higher surrender charges due to higher UL surrender rates and lapses; and
- A \$6 million favorable prospective unlocking of DAC, VOBA, DFEL and secondary guarantee life insurance product reserves during the second quarter of 2011 due to a \$4 million favorable unlocking from assumption changes and a \$2 million favorable unlocking from model refinements.

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

- An increase in benefits, excluding unlocking, attributable primarily to:
 - § Higher death claims;

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An increase in secondary guarantee life insurance product reserves from model refinements and continued growth in the business; and

- § An increase in traditional product reserves due to the harmonization of certain processes, partially offset by a correction to traditional product surrender benefits;
- A \$3 million favorable retrospective unlocking of DAC, VOBA and DFEL during the second quarter of 2010 due primarily to lower lapses than our model projections assumed, partially offset by lower premiums received than our model projections assumed; and

- An increase in underwriting, acquisition, insurance and other underwriting expenses, excluding amortization of DAC and VOBA, attributable primarily to:
 - § An increase in expenses associated with reserve financing supporting our secondary guarantee UL and term business due primarily to higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see “Strategies to Address Statutory Reserve Strain” below for more information); and
 - § Higher incentive compensation accruals as a result of higher earnings and production performance relative to targets.

Comparison of the Six Months Ended June 30, 2011 to 2010

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

- Higher net investment income and relatively flat interest credited attributable primarily to:
 - § Growth in business in force;
 - § More favorable investment income on alternative investments, including those within our surplus portfolio, and higher 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
 - § Reductions in crediting rates after the second quarter of 2010, discussed in “Additional Information” below;
 - An increase in insurance fees, excluding unlocking, attributable primarily to growth in insurance in force; and
 - A \$20 million favorable prospective unlocking of DAC, VOBA, DFEL and secondary guarantee life insurance product reserves during the first six months of 2011 due to an \$18 million favorable unlocking from model refinements and a \$2 million favorable unlocking from assumption changes.

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

- An increase in benefits, excluding unlocking, attributable primarily to:
 - § Higher death claims;
 - § An increase in secondary guarantee life insurance product reserves from model refinements and continued growth in the business; and
 - § An increase in traditional product reserves due to the harmonization of certain processes, partially offset by a correction to traditional product surrender benefits;
 - A \$12 million unfavorable retrospective unlocking of DAC, VOBA and DFEL compared to a \$1 million unfavorable retrospective unlocking during the first six months of 2010:
 - § The unfavorable retrospective unlocking during the first six months of 2011 was due primarily to lower premiums received than our model projections assumed; and
 - § The unfavorable retrospective unlocking during the first six months of 2010 was due primarily to lower premiums received and investment income on alternative investments and prepayment and bond makewhole premiums and higher death claims than our model projections assumed, partially offset by lower lapses and expenses than our model projections assumed; and
 - An increase in underwriting, acquisition, insurance and other underwriting expenses, excluding amortization of DAC and VOBA, attributable primarily to:
 - § An increase in expenses associated with reserve financing supporting our secondary guarantee UL and term business due primarily to higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our continued efforts to reduce the strain of these statutory reserves (see “Strategies to Address Statutory Reserve Strain” below for more information); and
 - § Higher incentive compensation accruals as a result of higher earnings and production performance relative to targets.

Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and RBC levels above current regulatory required levels. Products containing secondary guarantees require reserves calculated under Actuarial Guideline 38, or The Application of the Valuation of Life Insurance Policies Model Regulation (“AG38”). Our insurance subsidiaries are employing strategies to reduce the strain of increasing AG38 and Valuation of Life Insurance Policies Model Regulation (“XXX”) statutory reserves associated with secondary guarantee UL and term products. As discussed further below, we have been successful in executing reinsurance solutions to release capital to Other Operations. We expect to regularly execute transactions designed to release capital as we continue to sell products that are subject to these reserving requirements. We also plan to refinance prior transactions with long-term structured

solutions. We have introduced secondary guarantee UL products that are more capital efficient, designed to reduce our dependency on such reinsurance solutions.

Included in the letters of credit (“LOCs”) issued as of June 30, 2011, and reported in the credit facilities table in “Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities,” was approximately \$1.4 billion of long-dated LOCs issued to support inter-company reinsurance arrangements, of which approximately \$600 million was issued for UL business with secondary guarantees through 2015 and approximately \$800 million was issued for term business through 2023. LOCs and related capital market alternatives lower the capital effect of secondary guarantee UL products. An inability to obtain the necessary LOC capacity or other capital market alternatives could affect our returns on our in-force secondary guarantee UL business. However, we believe that our insurance subsidiaries have sufficient capital to support the increase in statutory reserves if such structures are not available. See “Part I – Item 1A. Risk Factors – 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” in our 2010 Form 10-K for further information on XXX reserves. See the table in “Underwriting, Acquisition, Insurance and Other Expenses” below for the presentation of our expenses associated with reserve financing. We expect these expenses will approximately double in 2011 as compared to the level we experienced in 2010 as a result of higher pricing that has occurred in reaction to the unfavorable market conditions experienced during the recession and our expectation to execute additional reserve financing arrangements.

Additional Information

We are in the process of completing a conversion of our actuarial valuation systems to a uniform valuation platform for a significant portion of this segment’s blocks of business. Although we expect some differences to emerge as a result of this exercise, based upon the current status of these efforts, we are not able to provide an estimate or range of the effects to our results of operations until completion of the conversion. In the third quarter of each year, we also conduct our annual comprehensive review of the assumptions and models used for our estimates of future gross profits underlying the amortization of DAC, VOBA, DFEL and secondary guarantee life insurance product reserves. See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” in our 2010 Form 10-K for a detailed discussion of our prospective unlocking process and information on our actuarial system conversion.

We expect higher expenses for this segment for the remainder of 2011 than was experienced in the first half of 2011. The expected increase is attributable primarily to expected increases in investments in strategic initiatives.

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. During the second quarter of 2011, we refinanced the reverse treasury locks that we had executed during the fourth quarter of 2010 on \$1.0 billion of assets backing our secondary guarantee business. We also executed reverse treasury locks on an additional \$300 million, for a total of \$1.3 billion of assets backing our secondary guarantee business at rates in excess of those required by product pricing. We entered into these reverse treasury locks to hedge cash flows over 2012 to 2016. On January 1, 2011, we implemented a 65 basis point decrease in crediting rates on most interest-sensitive products not already at contractual guarantees, which reduced overall crediting rates by approximately 7 basis points. During the third quarter of 2010, we lowered our new money investment yield assumption to reflect the then current new money rates and to approximate the forward curve for interest rates relevant at such time. The result was a drop in the current new money investment rate followed by a gradual annual recovery over eight years to a rate of 6.31%, 54 basis points below our previous ultimate long-term assumption of 6.85%. This assumption revision had the effect of lowering the projected EGPs for this segment, thereby increasing our rate of amortization, which results in higher DAC, VOBA and DFEL amortization and lower earnings for this segment.

For information on interest rate spreads and the interest rate risk due to falling interest rates, see “Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein and “Part I – Item 1A. Risk Factors – 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 2010 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.

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.

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 June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Insurance Fees						
Mortality assessments	\$ 327	\$ 325	1%	\$ 651	\$ 643	1%
Expense assessments	234	192	22%	464	392	18%
Surrender charges	29	24	21%	53	55	-4%
DFEL:						
Deferrals	(116)	(114)	-2%	(242)	(232)	-4%
Amortization, net of interest:						
Prospective unlocking - assumption changes	19	-	NM	17	-	NM
Prospective unlocking - model refinements	(14)	-	NM	(32)	-	NM
Retrospective unlocking	5	7	-29%	(6)	15	NM
Amortization, net of interest, excluding unlocking	39	41	-5%	70	80	-13%
Total insurance fees	\$ 523	\$ 475	10%	\$ 975	\$ 953	2%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2011	2010	Change	2011	2010	Change
Sales by Product						
UL:						
Excluding MoneyGuard®	\$ 83	\$ 78	6%	\$ 168	\$ 168	0%
MoneyGuard®	39	23	70%	73	41	78%
Total UL	122	101	21%	241	209	15%
VUL	11	10	10%	21	17	24%
COLI and BOLI	10	10	0%	27	17	59%
Term	14	19	-26%	27	39	-31%
Total sales	\$ 157	\$ 140	12%	\$ 316	\$ 282	12%

Net Flows