LINCOLN NATIONAL CORP
Form 10-Q
August 03, 2011

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

FORM 10-Q

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

For the quarterly period ended 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 x No ¨

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

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

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

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

As of 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

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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

Net income (loss)	$ 1.01	$ 0.33	$ 2.07	$ 1.18

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)

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

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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 June 30,				For the Six Months Ended June 30,			
	2011		2010		2011		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).

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

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

	As of June 30, 2011				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
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

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

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

	As of 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:

	As of June 30, 2011					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed Maturity Securities						
Corporate bonds	$ 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

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

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

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

	As of 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

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

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses on AFS securities decreased $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				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
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				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 204	$ 3	$ 76	$ 131	$ 60
MBS:					
CMOs	509	2	126	385	258
CMBS	6	-	5	1	1
Total	$ 719	$ 5	$ 207	$ 517	$ 319

Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for approximately 33% and 30% of mortgage loans on real estate as of 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		
Loan-to-Value	Principal Amount	%	Debt-Service Coverage Ratio	Principal Amount	%	Debt-Service Coverage Ratio
Less than 65%	$ 5,138	74.7 %	1.62	$ 4,863	72.1 %	1.62
65% to 74%	1,335	19.4 %	1.39	1,484	22.0 %	1.40
75% to 100%	279	4.1 %	0.92	179	2.7 %	0.85
Greater than 100%	122	1.8 %	1.14	219	3.2 %	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

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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:

	As of June 30, 2011					
	Number of Instruments	Notional Amounts	Asset Carrying or Fair Value Gain	Asset Carrying or Fair Value Loss	(Liability) Carrying or Fair Value Gain	(Liability) Carrying or Fair Value Loss
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements (1)	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)

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)

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

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

(1) Reported in derivative investments on our Consolidated Balance Sheets.
(2) The asset is reported in derivative investments and the liability in long-term debt on our Consolidated Balance Sheets.
(3) Reported in other liabilities on our Consolidated Balance Sheets.
(4) Reported in future contract benefits on our Consolidated Balance Sheets.
(5) Reported in reinsurance related embedded derivatives on our Consolidated Balance Sheets.

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

	Remaining Life as of June 30, 2011					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Derivative Instruments Designated and Qualifying as Hedging Instruments						
Cash flow hedges:						
Interest rate swap agreements	$ 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).

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 than would be paid on long-term debt based on current interest rates in the marketplace. We are required to pay the counterparty a stream of variable interest payments based on the referenced index, and in turn, we receive a fixed payment from the counterparty at a predetermined interest rate. The net receipts or payments earned or owed from these interest rate swap agreements are recorded as an adjustment to the interest expense for the debt being hedged in the period it occurs. The changes in fair value of the interest rate swap agreements are recorded as an offsetting adjustment to derivative investments and long-term debt on our Consolidated Balance Sheets.

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,	As of December 31,