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VUL
 50 43 36 16% 19%
COLI and BOLI
 92 63 51 46% 24%
Term
 55 70 59 -21% 19%
Total sales
$700 $637 $610 10% 4%

Net Flows

Deposits
$5,393 $4,934 $4,451 9% 11%
Withdrawals and deaths
 (1,710) (1,877) (2,030) 9% 8%
Net flows
$3,683 $3,057 $2,421 20% 26%

Contract holder assessments
$3,286 $3,119 $2,996 5% 4%

	As of December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Account Values					
UL (1)	$ 28,052	$ 26,199	$ 24,994	7 %	5 %
VUL (1)	4,929	5,108	4,468	-4 %	14 %
Interest-sensitive whole life	2,297	2,278	2,282	1 %	0 %
Total account values	$ 35,278	$ 33,585	$ 31,744	5 %	6 %
In-Force Face Amount					
UL and other (1)	$ 307,900	$ 297,837	$ 291,879	3 %	2 %
Term insurance (2)	271,931	265,154	248,726	3 %	7 %
Total in-force face amount	$ 579,831	$ 562,991	$ 540,605	3 %	4 %

(1) Effective with the March 31, 2009, transfer of certain life insurance policies to a third party, UL and VUL account values were reduced by $938 million and $640 million, respectively, and UL and other face amount in force was reduced by $20.9 billion.

(2) Excludes $19.8 billion of face amount in force associated with our assumption of the mortality risk effective October 1, 2009, on the block of business mentioned in footnote one above.

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product

and premiums received, face amount in force and account values. Insurance in force, in turn, is driven by sales, persistency and mortality experience. In-force growth should be considered independently with respect to term products versus UL and other products, as term products have a lower profitability relative to face amount compared to interest-sensitive and other products.

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

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

UL and VUL products with secondary guarantees represented approximately 38% of interest-sensitive life insurance in force as of December 31, 2011, and approximately 43% of sales for 2011. Changes in the marketplace and product focuses are resulting in a shift in our business mix away from products with secondary guarantees to accumulation products like Indexed UL, VUL, and

COLI. For example, during the fourth quarter of 2011, UL and VUL products with secondary guarantees represented only 29% of sales. Actuarial Guideline 37, or Variable Life Reserves for Guaranteed Minimum Death Benefits, and AG38 impose additional statutory reserve requirements for these products.

Net Investment Income and Interest Credited

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Net Investment Income					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 2,092	$ 2,000	$ 1,942	5 %	3 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	23	30	12	-23 %	150 %
Alternative investments (2)	62	49	(69)	27 %	171 %
Surplus investments (3)	117	107	90	9 %	19 %
Total net investment income	$ 2,294	$ 2,186	$ 1,975	5 %	11 %
Interest Credited	$ 1,235	$ 1,199	$ 1,185	3 %	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 Years Ended December 31,			Basis Point Change Over Prior Year	
	2011	2010	2009	2011	2010
Interest Rate Yields and Spread					
Attributable to interest-sensitive products:					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.79 %	5.87 %	5.93 %	(8)	(6)
Commercial mortgage loan prepayment and bond makewhole premiums	0.07 %	0.09 %	0.04 %	(2)	5
Alternative investments	0.19 %	0.17 %	-0.25 %	2	42
Net investment income yield on reserves	6.05 %	6.13 %	5.72 %	(8)	41
Interest rate credited to contract holders	4.08 %	4.16 %	4.23 %	(8)	(7)
Interest rate spread	1.97 %	1.97 %	1.49 %	(0)	48
Attributable to traditional products:					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.90 %	6.12 %	5.99 %	(22)	13
Commercial mortgage loan prepayment and bond makewhole premiums	0.03 %	0.07 %	0.01 %	(4)	6
Alternative investments	0.01 %	0.02 %	0.00 %	(1)	2

Net investment income yield on reserves	5.94 %	6.21 %	6.00 %	(27)	21

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	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Averages					
Attributable to interest-sensitive products:					
Invested assets on reserves (1)	$ 31,752	$ 29,391	$ 27,824	8 %	6 %
Account values - universal and whole life (1)	30,066	28,465	27,674	6 %	3 %
Attributable to traditional products:					
Invested assets on reserves	4,297	4,465	4,896	-4 %	-9 %

(1) We experienced declines in our average invested assets on reserves and account values attributable to interest-sensitive products subsequent to the transfer of certain life insurance policies to a third party, which reduced these balances by $927 million and $938 million, respectively, on March 31, 2009.

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

Benefits

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Benefits					
Death claims direct and assumed	$ 2,847	$ 2,538	$ 2,260	12 %	12 %
Death claims ceded	(1,368)	(1,154)	(993)	-19 %	-16 %
Reserves released on death	(452)	(433)	(394)	-4 %	-10 %
Net death benefits	1,027	951	873	8 %	9 %
Change in secondary guarantee life insurance product reserves:					
Prospective unlocking - assumption changes	(297)	84	(3)	NM	NM
Prospective unlocking - model refinements	155	71	-	118 %	NM
Change in reserves, excluding unlocking	467	306	249	53 %	23 %
Other benefits:					
Prospective unlocking - assumption changes	33	-	-	NM	NM
Other benefits, excluding unlocking (1)	284	322	254	-12 %	27 %
Total benefits	$ 1,669	$ 1,734	$ 1,373	-4 %	26 %
Death claims per $1,000 of in-force	1.80	1.72	1.63	5 %	6 %

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

Benefits for this segment includes claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits includes the change in secondary guarantee life insurance product reserves. The reserve for secondary guarantees is affected by changes in expected future trends of expense assessments causing unlocking adjustments to this liability similar to DAC, VOBA and DFEL.

Underwriting, Acquisition, Insurance and Other Expenses

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Underwriting, Acquisition, Insurance and Other Expenses					
Commissions	$ 678	$ 664	$ 676	2 %	-2 %
General and administrative expenses	473	451	451	5 %	0 %
Expenses associated with reserve financing	57	37	6	54 %	NM
Taxes, licenses and fees	145	129	115	12 %	12 %
Total expenses incurred	1,353	1,281	1,248	6 %	3 %
DAC and VOBA deferrals	(948)	(915)	(900)	-4 %	-2 %
Total expenses recognized before amortization	405	366	348	11 %	5 %
DAC and VOBA amortization, net of interest					
Prospective unlocking - assumption changes	215	129	33	67 %	291 %
Prospective unlocking - model refinements	(219)	(155)	-	-41 %	NM
Retrospective unlocking	12	28	42	-57 %	-33 %
Amortization, net of interest, excluding unlocking	531	536	496	-1 %	8 %
Other intangible amortization	4	4	4	0 %	0 %
Total underwriting, acquisition, insurance and other expenses	$ 948	$ 908	$ 923	4 %	-2 %
DAC and VOBA Deferrals					
As a percentage of sales	135.4 %	143.6 %	147.5 %		

Commissions and other general and administrative expenses that vary with and are related primarily to the production of new business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

When comparing DAC and VOBA deferrals as a percentage of sales for 2011 to 2010 and for 2010 to 2009, the decrease is primarily a result of incurred deferrable commissions declining at a rate higher than sales attributable primarily to changes in sales mix to products with lower commission rates.

RESULTS OF GROUP PROTECTION

Income (Loss) from Operations

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance premiums	$ 1,778	$ 1,682	$ 1,579	6 %	7 %
Net investment income	152	141	127	8 %	11 %
Other revenues and fees	9	8	7	13 %	14 %
Total operating revenues	1,939	1,831	1,713	6 %	7 %
Operating Expenses					
Interest credited	3	3	3	0 %	0 %
Benefits	1,314	1,296	1,116	1 %	16 %
Underwriting, acquisition, insurance and other expenses	467	422	403	11 %	5 %
Total operating expenses	1,784	1,721	1,522	4 %	13 %
Income (loss) from operations before taxes	155	110	191	41 %	-42 %
Federal income tax expense (benefit)	54	38	67	42 %	-43 %
Income (loss) from operations	$ 101	$ 72	$ 124	40 %	-42 %

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Income (Loss) from Operations by Product Line					
Life	$ 34	$ 37	$ 42	-8 %	-12 %
Disability	64	34	79	88 %	-57 %
Dental	(2)	(4)	(2)	50 %	-100%
Total non-medical	96	67	119	43 %	-44 %
Medical	5	5	5	0 %	0 %
Income (loss) from operations	$ 101	$ 72	$ 124	40 %	-42 %

Comparison of 2011 to 2010

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

- More favorable non-medical loss ratio experience;
- Growth in insurance premiums driven by normal, organic business growth in our non-medical products; and
- Higher net investment income driven by an increase in business.

The increase in income from operations was partially offset primarily by higher underwriting, acquisition, insurance and other expenses attributable to an increase in business and investments in strategic initiatives associated with enhancements to sales and distribution processes and improvements to technology platforms during 2011.

Comparison of 2010 to 2009

Income from operations for this segment decreased due to unfavorable claims incidence and, to a lesser extent, termination experience on our long-term disability business and adverse mortality and morbidity experience on our life business resulting in a non-medical loss ratio of 76.2% during 2010 that was above the high end of our historical expected range of 71% to 74%.

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

- Growth in insurance premiums driven by normal, organic business growth in our non-medical products and strong case persistency; and
- Higher net investment income driven by an increase in business and more favorable investment income on alternative investments within our surplus portfolio (see "Consolidated Investments – Alternative Investments" below for more information).

Additional Information

During 2011, our non-medical loss ratio was 72.9%, below the 76.2% we experienced during 2010, attributable primarily to improvement in disability claim incidence rates. Non-medical loss ratios in general are likely to remain within our long-term expectation of 71% to 74% during 2012. For every one percent increase in the loss ratio above our expectation, we would expect an approximate annual $10 million to $12 million decrease to income from operations.

Management compares trends in actual loss ratios to pricing expectations because group-underwriting risks change over time. We expect normal fluctuations in our composite non-medical loss ratios of this segment, as claims experience is inherently uncertain. We have taken actions to manage the effects of our loss ratio results, such as implementing price adjustments on our product lines upon renewal to better reflect our experience going forward. In addition, we have been focusing on managing the higher volume of incidence through claims risk management, including contracting additional resources to help reduce caseloads and improve claim recovery experience so that incidence volumes do not detract from our claim recovery efforts. We have also been employing tools to identify and support claimants who will return to work.

We expect to continue making strategic investments during 2012 that will result in higher expenses.

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

During the second quarter of 2011, we reviewed the discount rate assumptions associated with reserves for long-term disability and life waiver claim incurrals. Due to the persistent decline in new money investment yields, we lowered the discount rate by 50 basis points to 4.25% on new incurrals, which decreased income from operations by $3 million during the second quarter of 2011. For information on the effects of current interest rates on our long-term disability claim reserves, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates."

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

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

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

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Insurance Premiums

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Insurance Premiums by Product Line					
Life	$ 693	$ 639	$ 584	8 %	9 %
Disability	757	727	692	4 %	5 %
Dental	183	167	149	10 %	12 %
Total non-medical	1,633	1,533	1,425	7 %	8 %
Medical	145	149	154	-3 %	-3 %
Total insurance premiums	$ 1,778	$ 1,682	$ 1,579	6 %	7 %
Sales	$ 395	$ 353	$ 361	12 %	-2 %

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

Net Investment Income

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

Benefits and Interest Credited

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Benefits and Interest Credited by Product Line					
Life	$ 518	$ 484	$ 420	7 %	15 %
Disability	529	548	443	-3 %	24 %
Dental	143	136	121	5 %	12 %
Total non-medical	1,190	1,168	984	2 %	19 %
Medical	127	131	135	-3 %	-3 %
Total benefits and interest credited	$ 1,317	$ 1,299	$ 1,119	1 %	16 %
Loss Ratios by Product Line					
Life	74.8 %	75.8 %	72.0 %		
Disability	69.9 %	75.4 %	64.0 %		
Dental	77.9 %	81.5 %	81.7 %		
Total non-medical	72.9 %	76.2 %	69.1 %		
Medical	87.9 %	87.6 %	87.9 %		

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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 Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Underwriting, Acquisition, Insurance and Other Expenses					
Commissions	$ 201	$ 190	$ 176	6 %	8 %
General and administrative expenses	244	208	204	17 %	2 %
Taxes, licenses and fees	41	39	36	5 %	8 %
Total expenses incurred	486	437	416	11 %	5 %
DAC deferrals	(65)	(61)	(59)	-7 %	-3 %
Total expenses recognized before amortization	421	376	357	12 %	5 %
DAC and VOBA amortization, net of interest	46	46	46	0 %	0 %
Total underwriting, acquisition, insurance and other expenses	$ 467	$ 422	$ 403	11 %	5 %
DAC Deferrals					
As a percentage of insurance premiums	3.7 %	3.6 %	3.7 %		

Expenses, excluding broker commissions, that vary with and are related primarily to the production of new business are deferred to the extent recoverable and are amortized on either a straight-line basis or as a level percent of premium of the related contracts depending on the block of business. Broker commissions, which vary with and are related to paid premiums, are expensed as incurred. The level of expenses is an important driver of profitability for this segment as group insurance contracts are offered within an environment that competes on the basis of price and service.

RESULTS OF OTHER OPERATIONS

Income (Loss) from Operations

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Operating Revenues					
Insurance premiums	$ 1	$ 2	$ 4	-50 %	-50 %
Net investment income	307	326	307	-6 %	6 %
Amortization of deferred gain on business sold through reinsurance	72	72	73	0 %	-1 %
Media revenues (net)	77	75	68	3 %	10 %
Other revenues and fees	4	12	13	-67 %	-8 %
Total operating revenues	461	487	465	-5 %	5 %
Operating Expenses					
Interest credited	113	120	148	-6 %	-19 %
Benefits	126	139	258	-9 %	-46 %
Media expenses	69	59	53	17 %	11 %
Other expenses	90	176	125	-49 %	41 %
Interest and debt expense	285	286	261	0 %	10 %
Total operating expenses	683	780	845	-12 %	-8 %
Income (loss) from operations before taxes	(222)	(293)	(380)	24 %	23 %
Federal income tax expense (benefit)	(76)	(107)	(143)	29 %	25 %
Income (loss) from operations	$ (146)	$ (186)	$ (237)	22 %	22 %

Comparison of 2011 to 2010

Loss from operations for Other Operations decreased due primarily to lower other expenses attributable to higher legal and merger-related expenses in 2010, partially offset by an assessment associated with the New York State Department of Financial Services' liquidation plan for Executive Life Insurance Company of New York during 2011. State guaranty funds assess insurance companies to cover losses to contract holders of insolvent or rehabilitated companies.

The decrease in loss from operations was partially offset primarily by lower net investment income, net of interest credited, attributable to the following:

- Repurchases of common stock, net cash used in operating activities due primarily to interest payments and transfers to other segments for OTTI, partially offset by distributable earnings received from our insurance segments, resulting in lower average invested assets; and
- New money rates averaging below our portfolio yields.

Comparison of 2010 to 2009

Loss from operations for Other Operations decreased due primarily to the following:

- The unfavorable effect during 2009 related to rescinding the reinsurance agreement on certain disability income business sold to Swiss Re (discussed in "Reinsurance" below), which resulted in pre-tax increases in benefits of $78

million, interest credited of $15 million and other expenses of $5 million, partially offset by a $34 million tax benefit;

- Higher benefits during 2009 associated with our run-off disability income business due to increasing reserves supporting this business and writing off certain receivables upon rescinding the reinsurance agreement; and
- Higher net investment income due to distributable earnings received from our insurance segments, issuances of common stock and preferred stock and proceeds from the sale of Lincoln UK and Delaware, partially offset by redemption of our Series B preferred stock and repurchase and cancellation of associated common stock warrants, resulting in higher average invested assets.

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

- Higher other expenses due to:
  - § Settlement of the Transamerica litigation matter during 2010 (see Note 13 for more information);
  - § More favorable state income tax true-ups in 2009; and
  - § Higher branding expenses in 2010;

  partially offset by:
  - § Restructuring charges for expense initiatives in 2009; and
  - § Higher merger-related expenses in 2009; and
- Higher interest and debt expense attributable to higher average balances of outstanding debt during 2010.

Additional Information

The deferred gain on business sold through reinsurance will be fully amortized during the first half of 2017.

The results of Other Operations include our thrift business. We completed the liquidation of this business on November 30, 2011, which did not have a significant effect on the results of Other Operations.

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

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

Net Investment Income and Interest Credited

We utilize an internal formula to determine the amount of capital that is allocated to our business segments. Investment income on capital in excess of the calculated amounts is reported in Other Operations. If regulations require increases in our insurance segments' statutory reserves and surplus, the amount of capital retained by Other Operations would decrease and net investment income would be negatively affected.

Write-downs for OTTI decrease the recorded value of our invested assets owned by our business segments. These write-downs are not included in the income from operations of our operating segments. When impairment occurs, assets are transferred to the business segments' portfolios and will reduce the future net investment income for Other Operations, but should not have an effect on a consolidated basis unless the impairments are related to defaulted securities. Statutory reserve adjustments for our business segments can also cause allocations of invested assets between the affected segments and Other Operations.

The majority of our interest credited relates to our reinsurance operations sold to Swiss Re in 2001. A substantial amount of the business was sold through indemnity reinsurance transactions, which is still recorded in our consolidated financial statements. The interest credited corresponds to investment income earnings on the assets we continue to hold for this business. There is no effect to income or loss in Other Operations or on a consolidated basis for these amounts because interest earned on the blocks that continue to be reinsured is passed through to Swiss Re in the form of interest credited.

Benefits

Benefits are recognized when incurred for Institutional Pension products and disability income business.

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Other Expenses

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

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Other Expenses					
General and administrative expenses:					
Legal	$ 1	$ 77	$ 14	-99 %	NM
Branding	29	27	18	7 %	50 %
Non-brand marketing	4	11	9	-64 %	22 %
Other (1)	38	59	52	-36 %	13 %
Total general and administrative expenses	72	174	93	-59 %	87 %
Merger-related expenses (2)	-	9	17	-100%	-47 %
Restructuring charges (recoveries) for expense initiatives (3)	-	(1)	34	100 %	NM
Taxes, licenses and fees	27	(4)	(19)	NM	79 %
Inter-segment reimbursement associated with reserve financing and LOC expenses (4)	(9)	(2)	-	NM	NM
Total other expenses	$ 90	$ 176	$ 125	-49 %	41 %

(1) Includes expenses that are corporate in nature including charitable contributions, amortization of media intangible assets with a definite life, other expenses not allocated to our business segments and inter-segment expense eliminations.

(2) Includes the result of actions undertaken by us to eliminate duplicate operations and functions as a result of the Jefferson-Pilot merger along with costs related to the implementation of our unified product portfolio and other initiatives. These actions were completed during 2010. Our cumulative integration expense was approximately $225 million, pre-tax, which excluded amounts capitalized or recorded as goodwill.

(3) Includes expenses associated with a restructuring plan implemented starting in December 2008 in response to the economic downturn and sustained market volatility, which focused on reducing expenses. These actions were completed during 2009. Our cumulative pre-tax charges amounted to $41 million for severance, benefits and related costs associated with the plan for workforce reduction and other restructuring actions.

(4) Consists of reimbursements to Other Operations from the Life Insurance segment for the use of proceeds from certain issuances of senior notes that were used as long-term structured solutions, net of expenses incurred by Other Operations for its use of LOCs.

Interest and Debt Expense

Our current level of interest expense may not be indicative of the future due to, among other things, the timing of the use of cash, the availability of funds from our inter-company cash management program and the future cost of capital. For additional information on our financing activities, see “Review of Consolidated Financial Condition – Liquidity and Capital Resources – Sources of Liquidity and Cash Flow – Financing Activities” below.

REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

Details underlying realized gain (loss), after-DAC (1) and benefit ratio unlocking (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Components of Realized Gain (Loss), Pre-Tax					
Total operating realized gain (loss)	$ 89	$ 69	$ 54	29 %	28 %
Total excluded realized gain (loss)	(388)	(146)	(1,200)	NM	88 %
Total realized gain (loss), pre-tax	$ (299)	$ (77)	$ (1,146)	NM	93 %
Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax					
Total excluded realized gain (loss)	$ (252)	$ (95)	$ (780)	NM	88 %
Benefit ratio unlocking	(14)	10	89	NM	-89 %
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (266)	$ (85)	$ (691)	NM	88 %
Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax					
Realized gain (loss) related to certain investments	$ (99)	$ (118)	$ (350)	16 %	66 %
Gain (loss) on the mark-to-market on certain instruments	(54)	49	23	NM	113 %
Variable annuity net derivatives results:					
Hedge program performance	(106)	(27)	103	NM	NM
Unlocking for GLB reserves hedged	(72)	18	(157)	NM	111 %
GLB NPR component	65	(19)	(313)	NM	94 %
Total variable annuity net derivatives results	(113)	(28)	(367)	NM	92 %
Indexed annuity forward-starting option	-	12	2	-100%	NM
Realized gain (loss) on sale of subsidiaries/businesses	-	-	1	NM	-100%
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (266)	$ (85)	$ (691)	NM	88 %

(1) DAC refers to the associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities.

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

For information on our counterparty exposure, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

Comparison of 2011 to 2010

We had higher realized losses in 2011 as compared to 2010 due primarily to the following:

- Losses on the mark-to-market on certain instruments during 2011 as compared to gains in 2010 attributable to spreads widening on corporate credit default swaps, partially offset by declines in interest rates leading to an increase in the value of our trading securities; and
- Higher losses on variable annuity net derivatives results attributable to:
  - § Volatile capital markets during 2011 resulting in higher losses in our hedge program; and
  - § The effect of unlocking in 2011 as compared to 2010 (see "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" for more information);

partially offset by:

§ Widening of our credit spreads during 2011 resulting in a favorable GLB NPR component (see "Variable Annuity Net Derivatives Results" below for a discussion of how our NPR adjustment is determined).

Comparison of 2010 to 2009

We had lower realized losses in 2010 as compared to 2009 due primarily to the following:

- More favorable variable annuity net derivatives results attributable to:
  - § Narrowing of our credit spreads during 2009 resulting in an unfavorable GLB NPR component (see "Variable Annuity Net Derivatives Results" below for a discussion of how our NPR adjustment is determined); and
  - § The effect of unlocking in 2010 as compared to 2009 (see "Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking" for more information);

partially offset by:

§ Less favorable hedge program performance;

- General improvement in the credit markets leading to a decline in OTTI (see "Consolidated Investments – Realized Gain (Loss) Related to Certain Investments" below for more information); and
- Higher gains on the mark-to-market on certain instruments attributable to spreads narrowing on corporate credit default swaps and declines in interest rates leading to an increase in the value of our trading securities.

Operating Realized Gain (Loss)

Operating realized gain (loss) includes indexed annuity net derivatives results representing 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. The change in the fair value of the liability for the embedded derivative represents the amount that is credited to the indexed annuity contract.

Our GWB, GIB and 4LATER® features have elements of both benefit reserves and embedded derivative reserves. We calculate the value of the embedded derivative reserves and the benefit reserves based on the specific characteristics of each GLB feature. For our GLBs that meet the definition of an embedded derivative under the Derivatives and Hedging Topic of the FASB ASC, we record them at fair value on our Consolidated Balance Sheets with changes in fair value recorded in realized gain (loss) on our Consolidated Statements of Income (Loss). In bifurcating the embedded derivative, we attribute to the embedded derivative the portion of total fees collected from the contract holder that relates to the GLB riders (the "attributed fees"). These attributed fees represent the present value of future claims expected to be paid for the GLB at the inception of the contract (the "net valuation premium") plus a margin that a theoretical market participant would include for risk/profit (the "risk/profit margin").

We also include the risk/profit margin portion of the GLB attributed rider fees in operating realized gain (loss) and include the net valuation premium of the GLB attributed rider fees in excluded realized gain (loss). For our Annuities and Retirement Plan Services segments, the excess of total fees collected from the contract holders over the GLB attributed rider fees is reported in insurance fees.

Details underlying the effect to operating realized gain (loss) from unlocking (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Retrospective unlocking	$ 39	$ 34	$ 20	15 %	70 %

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Realized Gain (Loss) Related to Certain Investments

See "Consolidated Investments – Realized Gain (Loss) Related to Certain Investments" below.

Gain (Loss) on the Mark-to-Market on Certain Instruments

Gain (loss) on the mark-to-market on certain instruments, including those associated with our consolidated variable interest entities ("VIEs") and trading securities represents changes in the fair values of certain derivative instruments (including the credit default swaps and contingent forwards associated with 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.

See Note 4 for information about our consolidated VIEs.

Variable Annuity Net Derivatives Results

Our variable annuity net derivatives results include the net valuation premium, the change in the GLB embedded derivative reserves and the change in the fair value of the derivative instruments we own to hedge them, including the cost of purchasing the hedging instruments. In addition, these results include the changes in reserves not accounted for at fair value and resulting benefit ratio unlocking on our GDB and GLB riders and the change in the fair value of the derivative instruments we own to hedge them.

We use derivative instruments to hedge our exposure to the risks and earnings volatility that result from changes in the GLB embedded derivative reserves. The change in fair value of these derivative instruments is designed to generally offset the change in embedded derivative reserves. Our variable annuity net derivatives results can be volatile especially when sudden and significant changes in equity markets and/or interest rates occur. We do not attempt to hedge the change in the NPR component of the liability. As of December 31, 2011, the net effect of the NPR resulted in a $211 million decrease in the liability for our GLB embedded derivative reserves. The NPR factors affect the discount rate used in the calculation of the GLB embedded derivative reserve. Our methodology for calculating the NPR component of the embedded derivative reserve utilizes an extrapolated 30-year NPR spread curve applied to a series of expected cash flows over the expected life of the embedded derivative. Our cash flows consist of both expected fees to be received from contract holders and benefits to be paid, and these cash flows are different on a pre- and post- NPR basis. We utilize a model based on our holding company's credit default swap ("CDS") spreads adjusted for items, such as the liquidity of our holding company CDS. Because the guaranteed benefit liabilities are contained within our insurance subsidiaries, we apply items, such as the effect of our insurance subsidiaries' claims-paying ratings compared to holding company credit risk and the over-collateralization of insurance liabilities, in order to determine factors that are representative of a theoretical market participant's view of the NPR of the specific liability within our insurance subsidiaries.

Details underlying the NPR component and associated effect to our GLB embedded derivative reserves (dollars in millions) were as follows:

	As of December 31, 2011	As of September 30, 2011	As of June 30, 2011	As of March 31, 2011	As of December 31, 2010
10-year CDS spread	3.65%	4.42%	2.02%	1.78%	1.98%
NPR factor related to 10-year CDS spread	0.43%	0.51%	0.24%	0.17%	0.17%

Unadjusted embedded derivative liability	$ 2,418	$ 2,642	$ 306	$ 112	$ 389

Estimating what the absolute amount of the NPR effect will be period to period is difficult due to the utilization of all cash flows and the shape of the spread curve. Currently, we estimate that if the NPR factors as of December 31, 2011, were to have been zero along all points on the spread curve, then the NPR offset to the unadjusted liability would have resulted in an unfavorable effect to net income of approximately $315 million, pre-DAC and pre-tax. Alternatively, if the NPR factors were 20 basis points higher along all points on the spread curve as of December 31, 2011, then there would have been a favorable effect to net income of approximately $120 million, pre-DAC and pre-tax. In the preceding two sentences, "DAC" refers to the associated amortization of DAC, VOBA, DSI and DFEL. Changing market conditions could cause this relationship to deviate significantly in future periods. Sensitivity within this range is primarily a result of volatility in our CDS spreads and the slope of the CDS spread term structure.

For additional information on our guaranteed benefits, see "Critical Accounting Policies and Estimates – Derivatives – Guaranteed Living Benefits" above.

Indexed Annuity Forward-Starting Option

The liability for the forward-starting option reflects 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 accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC. These fair values represent an estimate of the cost of the options we will purchase in the future, discounted back to the date of the balance sheet, using current market indications of volatility and interest rates, which can vary significantly from period to period due to a number of factors and therefore can provide results that are not indicative of the underlying trends.

CONSOLIDATED INVESTMENTS

Details underlying our consolidated investment balances (in millions) were as follows:

	As of December 31,		Percentage of Total Investments As of December 31,	
	2011	2010	2011	2010
Investments				
AFS securities:				
Fixed maturity	$ 75,433	$ 68,030	81.0 %	81.6 %
VIEs' fixed maturity	700	584	0.8 %	0.7 %
Total fixed maturity	76,133	68,614	81.8 %	82.3 %
Equity	139	197	0.1 %	0.2 %
Trading securities	2,675	2,596	2.9 %	3.1 %
Mortgage loans on real estate	6,942	6,752	7.4 %	8.1 %
Real estate	137	202	0.1 %	0.3 %
Policy loans	2,884	2,865	3.1 %	3.5 %
Derivative investments	3,151	1,076	3.4 %	1.3 %
Alternative investments	807	750	0.9 %	0.9 %
Other investments	262	288	0.3 %	0.3 %
Total investments	$ 93,130	$ 83,340	100.0%	100.0%

Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion on our risk management process, see “Item 7A. Quantitative and Qualitative Disclosures About Market Risk.”

Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either

wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

We have the ability to maintain our investment holdings throughout credit cycles because of our capital position, the long-term nature of our liabilities and the matching of our portfolios of investment assets with the liabilities of our various products.

Fixed Maturity and Equity Securities Portfolios

Fixed maturity securities and equity securities consist of portfolios classified as AFS and trading. Mortgage-backed and private securities are included in both of the AFS and trading portfolios.

Details underlying our fixed maturity and equity securities portfolios by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of AFS securities in Note 5; however, the categories below represent a more detailed breakout of the AFS portfolio; therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

	As of December 31, 2011				
	Amortized Cost	Unrealized Gains	Unrealized Losses and OTTI	Fair Value	% Fair Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 8,926	$ 607	$ 158	$ 9,375	12.3 %
Basic industry	3,394	323	27	3,690	4.8 %
Capital goods	3,933	455	9	4,379	5.8 %
Communications	3,247	364	37	3,574	4.7 %
Consumer cyclical	3,226	345	36	3,535	4.6 %
Consumer non-cyclical	7,956	1,190	1	9,145	12.0 %
Energy	5,026	690	6	5,710	7.5 %
Technology	1,682	192	3	1,871	2.5 %
Transportation	1,360	166	1	1,525	2.0 %
Industrial other	755	74	3	826	1.1 %
Utilities	10,644	1,457	27	12,074	15.8 %
Collateralized mortgage and other obligations ("CMOs"):					
Agency backed	3,226	357	-	3,583	4.7 %
Non-agency backed	1,481	12	199	1,294	1.7 %
Mortgage pass through securities ("MPTS"):					
Agency backed	2,982	179	-	3,161	4.2 %
Non-agency backed	1	-	-	1	0.0 %
Commercial mortgage-backed securities ("CMBS"):					
Non-agency backed	1,642	73	115	1,600	2.1 %
Corporate asset-backed securities ("ABS"):					
CDOs	88	-	6	82	0.1 %
Commercial real estate ("CRE") CDOs	33	-	13	20	0.0 %
Credit card	790	47	-	837	1.1 %
Home equity	905	3	271	637	0.8 %
Manufactured housing	85	5	1	89	0.1 %
Auto loan	52	1	-	53	0.1 %
Other	246	29	1	274	0.4 %
Municipals:					
Taxable	3,452	565	9	4,008	5.3 %
Tax-exempt	38	1	-	39	0.1 %
Government and government agencies:					
United States	1,468	232	-	1,700	2.2 %
Foreign	1,746	152	4	1,894	2.5 %
Hybrid and redeemable preferred securities	1,277	50	170	1,157	1.5 %
Total fixed maturity AFS securities	69,661	7,569	1,097	76,133	100.0%
Equity AFS Securities	135	16	12	139	

Total AFS securities	69,796	7,585	1,109	76,272
Trading Securities (1)	2,301	408	34	2,675
Total AFS and trading securities	$ 72,097	$ 7,993	$ 1,143	$ 78,947

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	As of December 31, 2010				
	Amortized Cost	Unrealized Gains	Unrealized Losses and OTTI	Fair Value	% Fair Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 8,377	$ 438	$ 148	$ 8,667	12.7 %
Basic industry	2,478	203	20	2,661	3.9 %
Capital goods	3,425	243	45	3,623	5.3 %
Communications	3,050	251	32	3,269	4.8 %
Consumer cyclical	2,772	185	47	2,910	4.2 %
Consumer non-cyclical	7,259	628	20	7,867	11.5 %
Energy	4,533	428	17	4,944	7.2 %
Technology	1,414	108	9	1,513	2.2 %
Transportation	1,379	116	3	1,492	2.2 %
Industrial other	884	53	10	927	1.4 %
Utilities	9,800	708	62	10,446	15.2 %
CMOs:					
Agency backed	3,975	308	1	4,282	6.2 %
Non-agency backed	1,718	16	259	1,475	2.1 %
MPTS:					
Agency backed	2,978	106	5	3,079	4.5 %
Non-agency backed	2	-	-	2	0.0 %
CMBS:					
Non-agency backed	2,144	95	186	2,053	3.0 %
ABS:					
CDOs	128	22	8	142	0.2 %
CRE CDOs	46	-	14	32	0.0 %
Credit card	831	33	4	860	1.3 %
Home equity	1,002	6	268	740	1.1 %
Manufactured housing	110	3	4	109	0.2 %
Auto loan	162	2	-	164	0.2 %
Other	211	21	1	231	0.3 %
Municipals:					
Taxable	3,219	27	94	3,152	4.6 %
Tax-exempt	3	-	-	3	0.0 %
Government and government agencies:					
United States	931	120	2	1,049	1.5 %
Foreign	1,438	94	7	1,525	2.2 %
Hybrid and redeemable preferred securities	1,476	56	135	1,397	2.0 %
Total fixed maturity AFS securities	65,745	4,270	1,401	68,614	100.0%
Equity AFS Securities	179	25	7	197	
Total AFS securities	65,924	4,295	1,408	68,811	
Trading Securities (1)	2,340	297	41	2,596	
Total AFS and trading securities	$ 68,264	$ 4,592	$ 1,449	$ 71,407	

(1)

Certain of our trading securities support our modified coinsurance arrangements ("Modco") and the investment results are passed directly to the reinsurers. Refer to the "Trading Securities" section for further details.

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AFS Securities

In accordance with the AFS accounting guidance, we reflect stockholders' equity as if unrealized gains and losses were actually recognized, and consider all related accounting adjustments that would occur upon such a hypothetical recognition of unrealized gains and losses. Such related balance sheet effects include adjustments to the balances of DAC, VOBA, DFEL, other contract holder funds and deferred income taxes. Adjustments to each of these balances are charged or credited to accumulated OCI. For instance, DAC is adjusted upon the recognition of unrealized gains or losses because the amortization of DAC is based upon an assumed emergence of gross profits on certain insurance business. Deferred income tax balances are also adjusted because unrealized gains or losses do not affect actual taxes currently paid.

The quality of our AFS fixed maturity securities portfolio, as measured at estimated fair value and by the percentage of fixed maturity securities invested in various ratings categories, relative to the entire fixed maturity AFS security portfolio (in millions) was as follows:

NAIC Designation (1)	Rating Agency Equivalent Designation (1)	As of December 31, 2011 Amortized Cost	Fair Value	% of Total	As of December 31, 2010 Amortized Cost	Fair Value	% of Total
Investment Grade Securities							
1	Aaa / Aa / A	$ 42,436	$ 47,490	62.4%	$ 40,573	$ 42,769	62.3%
2	Baa	23,323	25,237	33.1%	21,032	22,286	32.5%
Total investment grade securities		65,759	72,727	95.5%	61,605	65,055	94.8%
Below Investment Grade Securities							
3	Ba	2,466	2,350	3.1%	2,620	2,403	3.5%
4	B	960	750	1.0%	796	665	1.0%
5	Caa and lower	318	218	0.3%	476	325	0.5%
6	In or near default	158	88	0.1%	248	166	0.2%
Total below investment grade securities		3,902	3,406	4.5%	4,140	3,559	5.2%
Total fixed maturity AFS securities		$ 69,661	$ 76,133	100.0%	$ 65,745	$ 68,614	100.0%
Total securities below investment grade as a percentage of total fixed maturity AFS securities		5.6%	4.5%		6.3%	5.2%	

(1)

Based upon the rating designations determined and provided by the National Association of Insurance Commissioners ("NAIC") or the major credit rating agencies (Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

Comparisons between the NAIC ratings and rating agency designations are published by the NAIC. The NAIC assigns securities quality ratings and uniform valuations, which are used by insurers when preparing their annual statements. The NAIC ratings are similar to the rating agency designations of the Nationally Recognized Statistical Rating Organizations for marketable bonds. NAIC ratings 1 and 2 include bonds generally considered investment grade (rated Baa3 or higher by Moody's, or rated BBB- or higher by S&P and Fitch), by such ratings organizations. However, securities rated NAIC 1 and NAIC 2 could be deemed below investment grade by the rating agencies as a result of the current RBC rules for residential mortgage-backed securities ("RMBS") and CMBS for statutory reporting. NAIC ratings 3 through 6 include bonds generally considered below investment grade (rated Ba1 or lower by Moody's, or rated BB+ or lower by S&P and Fitch).

We have identified direct and indirect exposure to select countries in Europe that are currently experiencing stress in the credit markets, notably Greece, Ireland, Italy, Portugal, Spain, Hungary and Cyprus. These countries were identified due to high credit spreads and political and economic uncertainty in these countries. The exposure was determined by country of domicile, provided that a meaningful portion of revenues is generated from the country of domicile. As of December 31, 2011, we had direct sovereign exposure only to Italy with an amortized cost of $3 million and fair value of $2 million. We had no exposure to any issuers, sovereign or non-sovereign, located in Greece, Hungary or Cyprus. Our non-sovereign exposure in Ireland, Italy, Portugal and Spain was limited to two large banks in which we had investments with an amortized cost and fair value of $77 million as of December 31, 2011.

Our total non-banking and non-sovereign AFS securities exposure to Ireland, Italy, Portugal and Spain had an amortized cost of $770 million and a fair value of $798 million as of December 31, 2011, of which approximately 50% was related to large multinational companies domiciled in those countries. The detailed breakout by country was as follows (in millions):

	Amortized Cost	Fair Value
Spain	$ 367	$ 386
Ireland	215	227
Italy	148	154
Portugal	40	31
Total	$ 770	$ 798

We purchased a European subordinated investment grade financial index hedge in the amount of €35 million with a maturity of December 20, 2016, to provide some protection on possible defaults on our European investments.

We manage European and other investment risks through our internal investment department and outside asset managers. The risk management is focused on monitoring spreads, pricing and monitoring of global economic developments. We have incorporated these risks into our stress testing.

As of December 31, 2011 and 2010, 67.4% and 79.8%, respectively, of the total publicly traded and private securities in an unrealized loss status were rated as investment grade. See Note 5 for maturity date information for our fixed maturity investment portfolio. Our gross unrealized losses on AFS securities as of December 31, 2011, decreased $299 million. This change was attributable to a decline in overall market yields, which was driven by market uncertainty and weakening economic activity. As more fully described in Note 1, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of December 31, 2011, does not represent OTTI as we do not intend to sell these debt securities, it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities, or we have the ability and intent to hold the equity securities for a period of time sufficient for recovery. For further information on our unrealized losses on AFS securities see "Composition by Industry Categories of our Unrealized Losses on AFS Securities" below.

Selected information for certain AFS securities in a gross unrealized loss position (dollars in millions) was as follows:

	As of December 31, 2011					
		Gross Unrealized Losses	Estimated Years until Call	Estimated Average Years	Subordination Level	
	Fair Value	and OTTI	or Maturity	until Recovery	Current	Origination
CMBS	$ 324	$ 115	1 to 41	27	22.1 %	15.3 %
Hybrid and redeemable preferred securities	677	170	1 to 55	31	N/A	N/A

As provided in the table above, many of the securities in these categories are long-dated with some of the preferred securities being perpetual. This is purposeful as it matches the long-term nature of our liabilities associated with our life insurance and annuity products. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" where

we present information related to maturities of securities and the expected cash flows for rate sensitive liabilities and maturities of our holding company debt, which also demonstrates the long-term nature of the cash flows associated with these items. Because of this relationship, we do not believe it will be necessary to sell these securities before they recover or mature. For these securities, the estimated range and average period until recovery is the call or maturity period. It is difficult to predict or project when the securities will recover as it is dependent upon a number of factors including the overall economic climate. We do not believe it is necessary to impair these securities as long as the expected future cash flows are projected to be sufficient to recover the amortized cost of these securities.

The actual range and period until recovery could vary significantly depending on a variety of factors, many of which are out of our control. There are several items that could affect the length of the period until recovery, such as the pace of economic recovery, level of delinquencies, performance of the underlying collateral, changes in market interest rates, exposures to various industry or geographic conditions, market behavior and other market conditions.

We concluded that 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, that the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities and that we have the ability to hold the equity AFS securities for a period of time sufficient for recovery. This conclusion is consistent with our asset-liability management process. Management considers the following as part of the evaluation:

- The current economic environment and market conditions;
- Our business strategy and current business plans;
- The nature and type of security, including expected maturities and exposure to general credit, liquidity, market and interest rate risk;
- Our analysis of data from financial models and other internal and industry sources to evaluate the current effectiveness of our hedging and overall risk management strategies;
- The current and expected timing of contractual maturities of our assets and liabilities, expectations of prepayments on investments and expectations for surrenders and withdrawals of life insurance policies and annuity contracts;
- The capital risk limits approved by management; and
- Our current financial condition and liquidity demands.

To determine the recoverability of a debt security, we consider the facts and circumstances surrounding the underlying issuer including, but not limited to, the following:

- Historic and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Adverse conditions specifically related to the security or to specific conditions in an industry or geographic area;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

As reported on our Consolidated Balance Sheets, we had $97.6 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled $82.8 billion as of December 31, 2011. If it were necessary to liquidate securities prior to maturity or call to meet cash flow needs, we would first look to those securities that are in an unrealized gain position, which had a fair value of $69.1 billion, excluding consolidated VIEs in the amount of $700 million, as of December 31, 2011, rather than selling securities in an unrealized loss position. The amount of cash that we have on hand at any point of time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the on-going cash flows from new and existing business.

See “AFS Securities – Evaluation for Recovery of Amortized Cost” in Note 1 and Note 5 for additional discussion.

As of December 31, 2011 and 2010, the estimated fair value for all private securities was $9.3 billion and $8.4 billion, respectively, representing approximately 10% of total invested assets.

For information regarding our VIEs’ fixed maturity securities, see Note 1 and Note 4.

Trading Securities

Trading securities, which in certain cases support reinsurance funds withheld and our Modco reinsurance agreements, are carried at estimated fair value and changes in estimated fair value are recorded in net income as they occur. Investment results for these certain portfolios, including gains and losses from sales, are passed directly to the reinsurers through the contractual terms of the reinsurance arrangements. Offsetting these amounts in certain cases

are corresponding changes in fair value of the embedded derivative liability associated with the underlying reinsurance arrangement. See Notes 1 and 9 for more information regarding our accounting for Modco.

Mortgage-Backed Securities ("MBS") (Included in AFS and Trading Securities)

Our fixed maturity securities include MBS. These securities are subject to risks associated with variable prepayments. This may result in differences between the actual cash flow and maturity of these securities than that expected at the time of purchase. Securities that have an amortized cost greater than par and are backed by mortgages that prepay faster than expected will incur a reduction in yield or a loss. Those securities with an amortized cost lower than par that prepay faster than expected will generate an increase in yield or a gain. In addition, we may incur reinvestment risks if market yields are lower than the book yields earned on the securities. Prepayments occurring slower than expected have the opposite effect. We may incur reinvestment risks if market yields are higher than the book yields earned on the securities and we are forced to sell the securities. The degree to which a security is susceptible to either gains or losses is influenced by: the difference between its amortized cost and par; the relative

sensitivity of the underlying mortgages backing the assets to prepayment in a changing interest rate environment; and the repayment priority of the securities in the overall securitization structure.

We limit the extent of our risk on MBS by prudently limiting exposure to the asset class, by generally avoiding the purchase of securities with a cost that significantly exceeds par, by purchasing securities backed by stable collateral and by concentrating on securities with enhanced priority in their trust structure. Such securities with reduced risk typically have a lower yield (but higher liquidity) than higher-risk MBS. A significant amount of assets in our MBS portfolio are either guaranteed by U.S. government-sponsored enterprises or are supported in the securitization structure by junior securities enabling the assets to achieve high investment grade status.

Our exposure to subprime mortgage lending is limited to investments in banks and other financial institutions that may be affected by subprime lending and direct investments in CDOs, ABS and RMBS. Mortgage-related ABS are backed by home equity loans and RMBS are backed by residential mortgages. These securities are backed by loans that are characterized by borrowers of differing levels of creditworthiness: prime; Alt-A; and subprime. Prime lending is the origination of residential mortgage loans to customers with excellent credit profiles. Alt-A lending is the origination of residential mortgage loans to customers who have prime credit profiles but lack documentation to substantiate income. Subprime lending is the origination of loans to customers with weak or impaired credit profiles.

Delinquency and loss rates on residential mortgages and home equity loans have been showing positive trends, and as long as the unemployment rate remains stable to improving, we expect these trends to continue. We continue to expect to receive payments in accordance with contractual terms for a significant amount of our securities, largely due to the seniority of the claims on the collateral of the securities that we own. The tranches of the securities will experience losses according to their seniority level with the least senior (or most junior), typically the unrated residual tranche, taking the initial loss. The credit ratings of our securities reflect the seniority of the securities that we own. Our RMBS had a market value of $8.3 billion and an unrealized gain of $365 million, or 4%, as of December 31, 2011.

The market value of AFS securities and trading securities backed by subprime loans was $442 million and represented less than 1% of our total investment portfolio as of December 31, 2011. AFS securities represented $428 million, or 97%, and trading securities represented $14 million, or 3%, of the subprime exposure as of December 31, 2011. AFS securities and trading securities rated A or above represented 45% of the subprime investments and $223 million in market value of our subprime investments was backed by loans originating in 2005 and forward. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions):

	As of December 31, 2011									
	Prime Agency		Prime/ Non-Agency		Alt-A		Subprime		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type										
RMBS	$ 6,743	$ 6,207	$ 835	$ 911	$ 461	$ 567	$ -	$ 4	$ 8,039	$ 7,689
ABS home equity	4	4	-	-	205	280	428	621	637	905
Total by type (1)(2)	$ 6,747	$ 6,211	$ 835	$ 911	$ 666	$ 847	$ 428	$ 625	$ 8,676	$ 8,594
Rating										
AAA	$ 6,672	$ 6,142	$ 62	$ 60	$ 32	$ 31	$ 79	$ 82	$ 6,845	$ 6,315
AA	60	56	52	51	6	6	44	50	162	163
A	15	13	54	56	33	36	64	68	166	173
BBB	-	-	52	55	63	64	23	24	138	143
BB and below	-	-	615	689	532	710	218	401	1,365	1,800
Total by rating (1)(2)(3)	$ 6,747	$ 6,211	$ 835	$ 911	$ 666	$ 847	$ 428	$ 625	$ 8,676	$ 8,594
Origination Year										
2004 and prior	$ 1,562	$ 1,445	$ 215	$ 221	$ 228	$ 255	$ 209	$ 265	$ 2,214	$ 2,186
2005	842	754	119	141	245	300	158	230	1,364	1,425
2006	246	217	162	175	158	237	60	128	626	757
2007	1,097	963	339	374	35	55	-	-	1,471	1,392
2008	240	217	-	-	-	-	-	-	240	217
2009	1,197	1,121	-	-	-	-	1	2	1,198	1,123
2010	1,074	1,020	-	-	-	-	-	-	1,074	1,020
2011	489	474	-	-	-	-	-	-	489	474
Total by origination year (1)(2)	$ 6,747	$ 6,211	$ 835	$ 911	$ 666	$ 847	$ 428	$ 625	$ 8,676	$ 8,594
Total AFS RMBS as a percentage of total AFS securities									11.4%	12.3%
Total prime/non-agency, Alt-A and subprime as a percentage of total AFS securities									2.5%	3.4%

(1)

Does not include the fair value of trading securities totaling $265 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $265 million in trading securities consisted of $241 million prime, $10 million Alt-A and $14 million subprime.

(2) Does not include the amortized cost of trading securities totaling $255 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $255 million in trading securities consisted of $225 million prime, $13 million Alt-A and $17 million subprime.

(3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

None of these investments included any direct investments in subprime lenders or mortgages. We are not aware of material exposure to subprime loans in our alternative asset portfolio.

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions):

	As of December 31, 2011							
	Multiple Property		Single Property		CRE CDOs		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type								
CMBS	$ 1,553	$ 1,551	$ 47	$ 91	$ -	$ -	$ 1,600	$ 1,642
CRE CDOs	-	-	-	-	20	33	20	33
Total by type (1)(2)	$ 1,553	$ 1,551	$ 47	$ 91	$ 20	$ 33	$ 1,620	$ 1,675
Rating								
AAA	$ 1,028	$ 967	$ 14	$ 13	$ -	$ -	$ 1,042	$ 980
AA	215	213	10	10	-	-	225	223
A	134	138	5	6	1	1	140	145
BBB	108	114	5	6	7	8	120	128
BB and below	68	119	13	56	12	24	93	199
Total by rating (1)(2)(3)	$ 1,553	$ 1,551	$ 47	$ 91	$ 20	$ 33	$ 1,620	$ 1,675
Origination Year								
2004 and prior	$ 901	$ 893	$ 23	$ 23	$ 4	$ 5	$ 928	$ 921
2005	325	309	23	60	7	8	355	377
2006	136	149	1	8	9	20	146	177
2007	136	146	-	-	-	-	136	146
2010	55	54	-	-	-	-	55	54
Total by origination year (1)(2)	$ 1,553	$ 1,551	$ 47	$ 91	$ 20	$ 33	$ 1,620	$ 1,675
Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities							2.1%	2.4%

(1) Does not include the fair value of trading securities totaling $34 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $34 million in trading securities consisted of $31 million CMBS and $3 million CRE CDOs.
(2) Does not include the amortized cost of trading securities totaling $39 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $39 million in trading securities consisted of $35 million CMBS and $4 million CRE CDOs.
(3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

As of December 31, 2011, the amortized cost and fair value of our exposure to Monoline insurers was $593 million and $537 million, respectively.

Composition by Industry Categories of our Unrealized Losses on AFS Securities

When considering unrealized gain and loss information, it is important to recognize that the information relates to the status of securities at a particular point in time and may not be indicative of the status of our investment portfolios subsequent to the balance sheet date. Further, because the timing of the recognition of realized investment gains and losses through the selection of which securities are sold is largely at management's discretion, it is important to consider the information provided below within the context of the overall unrealized gain or loss position of our investment portfolios. These are important considerations that should be included in any evaluation of the potential effect of unrealized loss securities on our future earnings.

The composition by industry categories of all securities in unrealized loss status (in millions), was as follows:

	As of December 31, 2011					
	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Unrealized Loss and OTTI	% Unrealized Loss and OTTI
ABS	$ 680	10.5%	$ 972	12.7%	$ 292	26.3%
Banking	1,507	23.2%	1,769	23.2%	262	23.6%
CMOs	946	14.5%	1,142	15.0%	196	17.7%
CMBS	324	5.0%	439	5.8%	115	10.4%
Property and casualty insurers	108	1.7%	136	1.8%	28	2.5%
Media - non-cable	155	2.4%	182	2.4%	27	2.4%
Electric	217	3.3%	240	3.2%	23	2.1%
Retailers	67	1.0%	88	1.2%	21	1.9%
Paper	102	1.6%	122	1.6%	20	1.8%
Life	117	1.8%	129	1.7%	12	1.1%
Local authorities	40	0.6%	51	0.7%	11	1.0%
Wirelines	159	2.4%	170	2.2%	11	1.0%
Brokerage	87	1.3%	97	1.3%	10	0.9%
Industries with unrealized losses less than $10 million	1,994	30.7%	2,075	27.2%	81	7.3%
Total by industry	$ 6,503	100.0%	$ 7,612	100.0%	$ 1,109	100.0%
Total by industry as a percentage of total AFS securities	8.5%		10.9%		100.0%	

As of December 31, 2011, the amortized cost and fair value of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss status was $1,015 million and $701 million, respectively.

Mortgage Loans on Real Estate

The following tables summarize key information on mortgage loans on real estate (in millions):

	As of December 31, 2011		As of December 31, 2010	
	Carrying Value	%	Carrying Value	%
Credit Quality Indicator				
Current	$ 6,854	98.7 %	$ 6,699	99.2 %
Delinquent and in foreclosure (1)	88	1.3 %	53	0.8 %
Total mortgage loans on real estate	$ 6,942	100.0%	$ 6,752	100.0%

(1)

As of December 31, 2011 and 2010, there were 16 and 10 mortgage loans on real estate that were delinquent and in foreclosure, respectively.

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	As of December 31,	
	2011	2010
By Segment		
Annuities	$ 1,341	$ 1,172
Retirement Plan Services	1,080	920
Life Insurance	3,731	3,856
Group Protection	278	285
Other Operations	512	519
Total mortgage loans on real estate	$ 6,942	$ 6,752

	As of December 31, 2011
Allowance for Losses	
Balance as of beginning-of-year	$ 13
Additions	24
Charge-offs, net of recoveries	(6)
Balance as of end-of-year	$ 31

	As of December 31, 2011			As of December 31, 2011	
	Carrying Value	%		Carrying Value	%
Property Type			State Exposure		
Office building	$ 2,207	31.8 %	CA	$ 1,579	22.7 %
Industrial	1,775	25.6 %	TX	636	9.2 %
Retail	1,557	22.4 %	MD	420	6.1 %
Apartment	1,022	14.7 %	VA	350	5.0 %
Mixed use	152	2.2 %	NC	285	4.1 %
Hotel/Motel	132	1.9 %	TN	279	4.0 %
Other commercial	97	1.4 %	FL	272	3.9 %
Total	$ 6,942	100.0%	WA	264	3.8 %
			GA	233	3.4 %
Geographic Region			AZ	216	3.1 %
Pacific	$ 1,965	28.3 %	IN	208	3.0 %
South Atlantic	1,689	24.3 %	IL	189	2.7 %
East North Central	671	9.7 %	NV	184	2.7 %
West South Central	656	9.5 %	OH	177	2.5 %
Mountain	553	8.0 %	PA	174	2.5 %
East South Central	475	6.8 %	NY	150	2.2 %
Middle Atlantic	442	6.4 %	MN	149	2.1 %
West North Central	349	5.0 %	Other states under 2%	1,177	17.0 %
New England	142	2.0 %	Total	$ 6,942	100.0%
Total	$ 6,942	100.0%			

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	As of December 31, 2011			As of December 31, 2011	
	Principal Amount	%		Principal Amount	%
Origination Year			Future Principal Payments		
2004 and prior	$ 2,486	35.7 %	2012	$ 309	4.4 %
2005	783	11.3 %	2013	379	5.4 %
2006	647	9.3 %	2014	402	5.8 %
2007	911	13.1 %	2015	622	8.9 %
2008	796	11.4 %	2016	518	7.5 %
2009	148	2.1 %	2017 and thereafter	4,730	68.0 %
2010	280	4.0 %	Total	$ 6,960	100.0%
2011	909	13.1 %			
Total	$ 6,960	100.0%			

The global financial markets and credit market conditions experienced a period of extreme volatility and disruption that began in the second half of 2007 and continued and substantially increased throughout 2008 that led to a decrease in the overall liquidity and availability of capital in the mortgage loan market, and in particular a decrease in activity by securitization lenders. These conditions and the overall economic downturn put pressure on the fundamentals of mortgage loans through rising vacancies, falling rents and falling property values.

See Note 5 for information regarding our loan-to-value and debt-service coverage ratios.

There were 12 and 9 impaired mortgage loans on real estate, or 1% and less than 1% of the total dollar amount of mortgage loans on real estate as of December 31, 2011 and 2010, respectively. The carrying value on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2011, was $76 million, or 1% of total mortgage loans on real estate. The total principal and interest past due on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2011, was $41 million. The carrying value on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2010, was $48 million, or less than 1% of total mortgage loans on real estate. The total principal and interest past due on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2010, was $5 million. See Note 1 for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

Alternative Investments

Investment income (loss) on alternative investments by business segment (in millions) was as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Annuities	$ 10	$ 14	$ 3	-29 %	NM
Retirement Plan Services	6	10	2	-40 %	NM
Life Insurance	71	63	(66)	13 %	195 %
Group Protection	3	5	1	-40 %	NM
Other Operations	-	1	5	-100%	-80 %
Total (1)	$ 90	$ 93	$ (55)	-3 %	269 %

(1) Represents net investment income on the alternative investments supporting the required statutory surplus of our insurance businesses.

As of December 31, 2011 and 2010, alternative investments included investments in approximately 96 and 95 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

As discussed in "Critical Accounting Policies and Estimates – Investments – Valuation of Alternative Investments," we update the carrying value of our alternative investment portfolio whenever audited financial statements of the investees for the preceding year become available. Net investment income (loss) derived from our consolidated alternative investments by segment (in millions) related to the effect of preceding year audit adjustments recorded during the indicated year at the investee was as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Annuities	$ 4	$ 2	$ (3)	100 %	167 %
Retirement Plan Services	2	1	(3)	100 %	133 %
Life Insurance	30	14	(65)	114 %	122 %
Group Protection	2	1	(1)	100 %	200 %
Total	$ 38	$ 18	$ (72)	111 %	125 %

Non-Income Producing Investments

As of December 31, 2011 and 2010, the carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing was $14 million and $17 million, respectively.

Net Investment Income

Details underlying net investment income (in millions) and our investment yield were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Net Investment Income					
Fixed maturity AFS securities	$ 3,842	$ 3,694	$ 3,474	4 %	6 %
VIEs' fixed maturity AFS securities	14	14	-	0 %	NM
Equity AFS securities	5	6	8	-17 %	-25 %
Trading securities	154	157	159	-2 %	-1 %
Mortgage loans on real estate	408	424	462	-4 %	-8 %
Real estate	22	24	18	-8 %	33 %
Standby real estate equity commitments	1	1	1	0 %	0 %
Policy loans	165	169	172	-2 %	-2 %
Invested cash	4	7	15	-43 %	-53 %
Commercial mortgage loan prepayment and bond makewhole premiums (1)	82	67	24	22 %	179 %
Alternative investments (2)	90	93	(55)	-3 %	269 %
Consent fees	3	8	5	-63 %	60 %
Other investments	(27)	(3)	9	NM	NM
Investment income	4,763	4,661	4,292	2 %	9 %
Investment expense	(111)	(120)	(114)	8 %	-5 %
Net investment income	$ 4,652	$ 4,541	$ 4,178	2 %	9 %

(1) See "Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums" below for additional information.
(2) See "Alternative Investments" above for additional information.

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	For the Years Ended December 31,			Basis Point Change Over Prior Year	
	2011	2010	2009	2011	2010
Interest Rate Yield					
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.49%	5.63%	5.81 %	(14)	(18)
Commercial mortgage loan prepayment and bond makewhole premiums	0.10%	0.09%	0.03 %	1	6
Alternative investments	0.11%	0.12%	-0.08%	(1)	20
Consent fees	0.00%	0.01%	0.01 %	(1)	-
Net investment income yield on invested assets	5.70%	5.85%	5.77 %	(15)	8

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Average invested assets at amortized cost	$ 81,640	$ 77,558	$ 72,359	5 %	7 %

We earn investment income on our general account assets supporting fixed annuity, term life, whole life, UL, interest-sensitive whole life and fixed portion of retirement plan and VUL products. The profitability of our fixed annuity and life insurance products is affected by our ability to achieve target spreads, or margins, between the interest income earned on the general account assets and the interest credited to the contract holder on our average fixed account values, including the fixed portion of variable. Net investment income and the interest rate yield table each include commercial mortgage loan prepayments and bond makewhole premiums, alternative investments and contingent interest and standby real estate equity commitments. These items can vary significantly from period to period due to a number of factors and therefore can provide results that are not indicative of the underlying trends.

The increase in net investment income when comparing 2011 to 2010 was attributable to higher prepayment and bond makewhole premiums (see “Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information) and higher invested assets driven primarily by favorable net flows on fixed account values, including the fixed portion of variable, partially offset by new money rates averaging below our portfolio yields.

Standby Real Estate Equity Commitments

Historically, we have entered into standby commitments, which obligated us to purchase real estate at a specified cost if a third-party sale does not occur within approximately one year after construction is completed. These commitments were used by a developer to obtain a construction loan from an outside lender on favorable terms. In return for issuing the commitment, we received an annual fee and a percentage of the profit when the property is sold. During 2009, we suspended the practice of entering into new standby real estate commitments.

As of December 31, 2011, we did not have any standby real estate equity commitments. During 2011, we funded commitments of $19 million and recorded a gain of $6 million due to our funding being less than our estimated allowance for loss related to these commitments. As of December 31, 2010, we had standby real estate equity commitments totaling $53 million. During 2010, we funded commitments of $142 million and recorded a loss of $8

million. During 2009, we recorded a $69 million estimated allowance for loss related to the probable funding of our outstanding commitments. As a result of the 2011 and 2010 funding, the allowance for loss related to these commitments was $0 and $13 million as of December 31, 2011 and 2010, respectively.

Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums

Prepayment and makewhole premiums are collected when borrowers elect to call or prepay their debt prior to the stated maturity. A prepayment or makewhole premium allows investors to attain the same yield as if the borrower made all scheduled interest payments until maturity. These premiums are designed to make investors indifferent to prepayment.

The increase in prepayment and makewhole premiums when comparing 2011 to 2010 was attributable primarily to a decline in interest rates coupled with improvements in the capital markets and real estate financing environment, which resulted in more refinancing activity and more prepayment income.

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 Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Fixed maturity AFS securities:					
Gross gains	$ 86	$ 107	$ 161	-20 %	-34 %
Gross losses	(227)	(248)	(709)	8 %	65 %
Equity AFS securities:					
Gross gains	12	9	6	33 %	50 %
Gross losses	-	(3)	(27)	100 %	89 %
Gain (loss) on other investments	(9)	(53)	(130)	83 %	59 %
Associated amortization of DAC, VOBA, DSI, and DFEL and changes in other contract holder funds	(13)	8	161	NM	-95 %
Total realized gain (loss) related to certain investments, pre-tax	$ (151)	$ (180)	$ (538)	16 %	67 %

Amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds reflect an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, we recognize a true-up to our DAC, VOBA, DSI and DFEL amortization and changes in other contract holder funds within realized loss reflecting the incremental effect of actual versus expected credit-related investment losses. These actual to expected amortization adjustments could create volatility in net realized gains and losses. The write-down for impairments includes both credit-related and interest-rate related impairments.

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During 2011 and 2010, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with the AFS classification.

We consider economic factors and circumstances within countries and industries where recent write-downs have occurred in our assessment of the status of securities we own of similarly situated issuers. While it is possible for realized or unrealized losses on a particular investment to affect other investments, our risk management has been designed to identify correlation risks and other risks inherent in managing an investment portfolio. Once identified, strategies and procedures are developed to effectively monitor and manage these risks. The areas of risk correlation that we pay particular attention to are risks that may be correlated within specific financial and business markets, risks within specific industries and risks associated with related parties.

When the detailed analysis by our credit analysts and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Critical Accounting Policies and Estimates" for additional information on our portfolio management strategy.

Details underlying write-downs taken as a result of OTTI (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Fixed maturity securities:					
Corporate bonds	$ (14)	$ (90)	$ (214)	84 %	58 %
RMBS	(79)	(65)	(250)	-22 %	74 %
CMBS	(57)	(41)	-	-39 %	NM
CDOs	(1)	(1)	(39)	0 %	97 %
Hybrid and redeemable preferred securities	(2)	(5)	(67)	60 %	93 %
Total fixed maturity securities	(153)	(202)	(570)	24 %	65 %
Equity securities	-	(3)	(27)	100 %	89 %
Gross OTTI recognized in net income (loss)	(153)	(205)	(597)	25 %	66 %
Associated amortization of DAC, VOBA, DSI and DFEL	35	53	205	-34 %	-74 %
Net OTTI recognized in net income (loss), pre-tax	$ (118)	$ (152)	$ (392)	22 %	61 %
Portion of OTTI Recognized in OCI					
Gross OTTI recognized in OCI	$ 58	$ 98	$ 357	-41 %	-73 %
Change in DAC, VOBA, DSI and DFEL	(11)	(10)	(82)	-10 %	88 %
Net portion of OTTI recognized in OCI, pre-tax	$ 47	$ 88	$ 275	-47 %	-68 %

The decrease in write-downs for OTTI when comparing 2011 to 2010 was primarily due to a decline in write-downs for OTTI on our corporate bonds attributable to continued strengthening of the associated market, partially offset by an increase in write-downs for OTTI on our AFS MBS attributable primarily to continued weakness within the commercial and residential real estate market that affected select RMBS and CMBS holdings.

The $211 million of impairments taken during 2011 were split between $153 million of credit-related impairments and $58 million of noncredit-related impairments. The credit-related impairments were largely attributable to our RMBS and CMBS holdings primarily as a result of continued weakness within the commercial and residential real estate market that affected select RMBS and CMBS holdings. The noncredit-related impairments were incurred due to declines in values of securities for which we do not have an intent to sell or it is not more likely than not that we will be required to sell the securities before recovery.

REINSURANCE

Our insurance companies cede insurance to other companies. The portion of risks exceeding each of our insurance companies' retention limits is reinsured with other insurers. We seek reinsurance coverage within the businesses that sell life insurance to limit our exposure to mortality losses and enhance our capital management. We utilize inter-company reinsurance agreements to manage our statutory capital position as well as our hedge program for variable annuity guarantees. These inter-company agreements do not have an effect on our consolidated financial statements.

Portions of our deferred annuity business have been reinsured on a modified coinsurance basis with other companies to limit our exposure to interest rate risks. As of December 31, 2011, the reserves associated with these reinsurance arrangements totaled $878 million. To cover products other than life insurance, we acquire other insurance coverage

with retentions and limits that management believes are appropriate for the circumstances. The consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" reflect insurance premiums, insurance fees, benefits and DAC, net of insurance ceded. Our insurance companies remain liable if their reinsurers are unable to meet contractual obligations under applicable reinsurance agreements.

Our amounts recoverable from reinsurers represent receivables from and reserves ceded to reinsurers. The amounts recoverable from reinsurers were $6.5 billion as of December 31, 2011 and 2010. We obtain reinsurance from a diverse group of reinsurers, and we monitor concentration and financial strength ratings of our principal reinsurers. Swiss Re represents our largest exposure. In 2001, we sold our reinsurance business to Swiss Re primarily through indemnity reinsurance arrangements. Because we are not relieved of our liability to the ceding companies for this business, the liabilities and obligations associated with the reinsured policies remain on our Consolidated Balance Sheets with a corresponding reinsurance receivable from Swiss Re, which totaled $2.8 billion and $3.0 billion as of December 31, 2011 and 2010, respectively. Swiss Re has funded a trust with a balance of $2.2 billion

as of December 31, 2011, to support this business. In addition to various remedies that we would have in the event of a default by Swiss Re, we continue to hold assets in support of certain of the transferred reserves. These assets consist of those reported as trading securities and certain mortgage loans. Our liabilities for funds withheld and embedded derivatives included $1.0 billion and $142 million, respectively, as of December 31, 2011, related to the business sold to Swiss Re.

We sold a block of disability income business to Swiss Re as part of several indemnity reinsurance transactions executed in 2001, as discussed above. On January 24, 2009, an award of rescission was declared related to an ongoing dispute between us and Swiss Re for this treaty, which requires us to be fully responsible for all claims incurred and liabilities supporting this block as if the reinsurance treaty never existed. We completed a review of the adequacy of the reserves supporting the liabilities during the fourth quarter of 2009. See Note 13 for a discussion of the effects of the rescission.

See Note 9 for further information regarding reinsurance transactions.

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

REVIEW OF CONSOLIDATED FINANCIAL CONDITION

Liquidity and Capital Resources

Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided cash of $1.3 billion, $1.7 billion and $937 million in 2011, 2010 and 2009, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

The sources of liquidity of the holding company are principally comprised of dividends and interest payments from subsidiaries, augmented by holding company short-term investments, bank lines of credit and the ongoing availability of long-term public financing under an SEC-filed shelf registration statement. These sources of liquidity and cash flow support the general corporate needs of the holding company, including its common and preferred stock dividends, interest and debt service, funding of callable securities, securities repurchases, acquisitions and investment in core businesses. Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset declines (or increases), the collateral required to be posted by our counterparties would also decline (or increase). Likewise, when the value of a derivative liability declines (or increases), the collateral we are required to post for our counterparties' benefit would also decline (or increase). During 2011, our payables for collateral on derivative investments increased by $2.2 billion as declines in the equity and credit markets and interest rates increased the fair values of the associated derivative investments. For additional information, see “Credit Risk” in Note 6.

Details underlying the primary sources of our holding company cash flows (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
The Lincoln National Life Insurance Company ("LNL")	$ 836	$ 712	$ 405	17 %	76 %
Lincoln Financial Media (1)	-	-	2	NM	-100%
First Penn-Pacific	18	-	50	NM	-100%
Delaware Investments (2)	-	390	10	-100%	NM
Lincoln Barbados	-	-	300	NM	-100%
Newton County Loan & Savings, FSB (“NCLS”)	21	-	-	NM	NM
Loan Repayments and Interest from Subsidiaries					
Interest on inter-company notes	105	93	94	13 %	-1 %
	$ 980	$ 1,195	$ 861	-18 %	39 %
Other Cash Flow and Liquidity Items					
Net proceeds on common stock issuance	$ -	$ 368	$ 652	-100%	-44 %
Lincoln UK sale proceeds	-	18	307	-100%	-94 %
Increase (decrease) in commercial paper, net	(100)	1	(216)	NM	100 %
Net capital received from (paid for taxes on) stock option exercises and restricted stock	(1)	-	(1)	NM	100 %
	$ (101)	$ 387	$ 742	NM	-48 %

(1) During May of 2009, Lincoln Financial Media became a subsidiary of LNL.
(2) For 2010, amount includes proceeds on the sale of Delaware. For more information, see Note 3.

The table above focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic issuance and retirement of debt and cash flows related to our inter-company cash management program (discussed below). Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company. Also excluded from this analysis is the modest amount of investment income on short-term investments of the holding company. See “Part IV – Item 15(a)(2) Financial Statement Schedules – Schedule II – Condensed Financial Information of Registrant” for the parent company cash flow statement.

Dividends from Subsidiaries

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

surplus. As discussed in "Part I – Item 1. Business – Regulatory – Insurance Regulation" above, we may not consider the benefit from the statutory accounting principles relating to our insurance subsidiaries' deferred tax assets in calculating available dividends. Indiana law gives the Commissioner broad discretion to disapprove requests for dividends in excess of these limits. New York, the state of domicile of our other major insurance subsidiary, Lincoln Life & Annuity Company of New York, has similar restrictions, except that in New York it is the lesser of 10% of surplus to contract holders as of the immediately preceding calendar year or net gain from operations for the immediately preceding calendar year, not including realized capital gains.

We expect our domestic insurance subsidiaries could pay dividends of approximately $675 million in 2012 without prior approval from the respective state commissioners. The amount of surplus that our insurance subsidiaries could pay as dividends is

constrained by the amount of surplus we hold to maintain our ratings, to provide an additional layer of margin for risk protection and for future investment in our businesses.

We maintain an investment portfolio of various holdings, types and maturities. These investments are subject to general credit, liquidity, market and interest rate risks. An extended disruption in the credit and capital markets could adversely affect LNC and its subsidiaries' ability to access sources of liquidity, and there can be no assurance that additional financing will be available to us on favorable terms, or at all, in the current market environment. In addition, further OTTI could reduce our statutory surplus, leading to lower RBC ratios and potentially reducing future dividend capacity from our insurance subsidiaries.

Subsidiaries' Statutory Reserving and Surplus

The RBC ratio is an important factor in the determination of the credit and financial strength ratings of LNC and its subsidiaries, as a reduction in our insurance subsidiaries' surplus may affect their RBC ratios and dividend-paying capacity. For a discussion of RBC ratios, see "Part I – Item 1. Business – Regulatory – Insurance Regulation – Risk-Based Capital."

Statutory reserves established for variable annuity contracts and riders are sensitive to changes in the equity markets and are affected by the level of account values relative to the level of any guarantees, product design and reinsurance arrangements. As a result, the relationship between reserve changes and equity market performance is non-linear during any given reporting period. Market conditions greatly influence the ultimate capital required due to its effect on the valuation of reserves and derivative assets hedging these reserves. For example, if the level of the S&P 500 had been 10% lower as of December 31, 2011, we estimate that our RBC ratios would have declined by approximately 5% to 15% of RBC. Likewise, if the level of the S&P 500 had been 10% higher as of December 31, 2011, we estimate that our RBC ratios would have increased by approximately 1% to 10% of RBC. However, the magnitude of such sensitivities could vary significantly depending on a variety of factors, including, but not limited to, contract holder activity, hedge positions, changes in interest rates and the rate or volatility of market movements.

Changes in equity markets may also affect the capital position of our captive reinsurance subsidiaries based on their hedge position at the time. We may decide to reallocate available capital between our insurance subsidiaries and captives, which would result in different RBC ratios for our insurance subsidiaries. In addition, changes in the equity markets can affect the value of our variable annuity separate accounts. When the market value of our separate account assets increases, the statutory surplus within our insurance subsidiaries also increases. Contrarily, when the market value of our separate account assets decreases, the statutory surplus within our insurance subsidiaries may also decrease, which may affect RBC ratios, and in the case of our separate account assets becoming less than the related product liabilities, we must allocate additional capital to fund the difference.

We continue to analyze the use of existing captive reinsurance structures, as well as additional third-party reinsurance arrangements, and our current hedging strategies relative to managing the effects of equity markets and interest rates on the statutory reserves, statutory capital and the dividend capacity of our life insurance subsidiaries.

For discussion of our strategies to lessen the burden of increased AG38 and XXX statutory reserves associated with certain UL products and other products with secondary guarantees on our insurance subsidiaries, see "Results of Life Insurance – Income (Loss) from Operations – Strategies to Address Statutory Reserve Strain."

Financing Activities

Although our subsidiaries currently generate adequate cash flow to meet the needs of our normal operations, periodically we may issue debt or equity securities to maintain ratings and increase liquidity, as well as to fund

internal growth, acquisitions and the retirement of our debt and equity securities.

We currently have an effective shelf registration statement, which allows us to issue, in unlimited amounts, securities, including debt securities, preferred stock, common stock, warrants, stock purchase contracts, stock purchase units, depository shares and trust preferred securities of our affiliated trusts.

Details underlying debt and financing activities (in millions) were as follows:

	For the Year Ended December 31, 2011					
	Beginning Balance	Issuance	Maturities and Repayments	Change in Fair Value Hedges	Other Changes (1)	Ending Balance
Short-Term Debt						
Commercial paper (2)	$ 100	$ -	$ -	$ -	$ (100)	$ -
Current maturities of long-term debt (3)	250	-	(250)	-	300	300
Other short-term debt (4)	1	-	(1)	-	-	-
Total short-term debt	$ 351	$ -	$ (251)	$ -	$ 200	$ 300
Long-Term Debt						
Senior notes	$ 3,464	$ 300	$ -	$ 264	$ (298)	$ 3,730
Bank borrowing	200	-	-	-	-	200
Federal Home Loan Bank of Indianapolis ("FHLBI") advance	250	-	-	-	-	250
Capital securities	1,485	-	(275)	-	1	1,211
Total long-term debt	$ 5,399	$ 300	$ (275)	$ 264	$ (297)	$ 5,391

(1) Includes the net increase (decrease) in commercial paper, non-cash reclassification of long-term debt to current maturities of long-term debt, accretion of discounts and (amortization) of premiums, as applicable.
(2) During 2011, we had an average of $35 million outstanding, a maximum amount outstanding of $103 million at any time and a weighted average interest rate of 0.20%.
(3) Consisted of a $300 million 5.65% fixed rate senior note that matures in less than one year. As of December 31, 2010, we reported $250 million in short-term debt that consisted of a fixed rate senior note that matured on December 15, 2011.
(4) Consisted of advances from the FHLBI with a maturity of less than one year when made.

For more information about our debt issuances, maturities and redemptions, see Note 12.

Within the next two years, we have a $300 million 5.65% fixed rate senior note maturing on August 27, 2012, and a $200 million floating rate senior note maturing on July 18, 2013. The specific resources or combination of resources that we will use to meet these maturities will depend upon, among other things, the financial market conditions present at the time of maturity. As of December 31, 2011, the holding company had $622 million in cash and cash equivalents and $25 million invested in fixed maturity corporate bonds; however, as discussed below, it had a $58 million payable under the inter-company cash management program.

We have not accounted for repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets as sales and do have any other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets. For information about our collateralized financing transactions on our investments, see “Payables for Collateral on Investments” in Note 5.

For information about our credit facilities and LOCs, see Note 12.

If current credit ratings and claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event should the long-term senior debt ratings of LNC drop below BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa2 (S&P/Moody's) as of December 31, 2011. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See "Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" for more information. See "Part I – Item 1. Business – Financial Strength Ratings" for additional information on our current financial strength ratings.

Our indicative credit ratings published by the primary rating agencies are set forth below. Securities are rated at the time of issuance so actual ratings may differ from the indicative ratings. There may be other rating agencies that also provide credit ratings, which we do not disclose in our reports.

The long-term credit rating scales of A.M. Best, Fitch, Moody's and S&P are characterized as follows:

- A.M. Best – aaa to d
- Fitch – AAA to D
- Moody's – Aaa to C
- S&P – AAA to D

As of February 21, 2012, our indicative long-term credit ratings, as published by the principal rating agencies that rate our long-term credit, were as follows:

A.M. Best	Fitch	Moody's	S&P
a- (7th of 22)	BBB+ (8th of 21)	Baa2 (9th of 21)	A- (7th of 22)

The short-term credit rating scales of A.M. Best, Fitch, Moody's and S&P are characterized as follows:

- A.M. Best – AMB-1+ to d
- Fitch – F1+ to D
- Moody's – P-1 to NP
- S&P – A-1 to D

As of February 21, 2012, our indicative short-term credit ratings, as published by the principal rating agencies that rate our short-term credit, were as follows:

A.M. Best	Fitch	Moody's	S&P
AMB-1 (2nd of 6)	F2 (3rd of 8)	P-2 (2nd of 4)	A-2 (2nd of 9)

A downgrade of our debt ratings could affect our ability to raise additional debt with terms and conditions similar to our current debt, and accordingly, likely increase our cost of capital. In addition, a downgrade of these ratings could make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described in "Part I – Item 1. Business – Financial Strength Ratings."

All ratings are on outlook stable, except Moody's ratings, which are on outlook positive. All of our ratings are subject to revision or withdrawal at any time by the rating agencies, and therefore, no assurance can be given that we can maintain these ratings. Each rating should be evaluated independently of any other rating.

Management monitors the covenants associated with LNC's capital securities. If we fail to meet capital adequacy or net income and stockholders' equity levels (also referred to as "trigger events"), terms in the agreements may be triggered, which would require us to make interest payments in accordance with an alternative coupon satisfaction mechanism ("ACSM"). This would require us to use commercially reasonable efforts to pay interest in full on the capital securities with the net proceeds from sales of our common stock and warrants to purchase our common stock with an exercise price greater than the market price. We would have to utilize the ACSM until the trigger events above no longer existed. If we were required to utilize the ACSM and were successful in selling sufficient shares of

common stock or warrants to satisfy the interest payment, we would dilute the current holders of our common stock. Furthermore, while a trigger event is occurring and if we do not pay accrued interest in full, we may not, among other things, pay dividends on or repurchase our capital stock. We have not triggered either the net income test or the overall stockholders' equity test looking forward to the quarters ending March 31, 2012, and June 30, 2012. For more information, see "Part I – Item 1A. Risk Factors – Covenants and Ratings – We will be required to pay interest on our capital securities with proceeds from the issuance of qualifying securities if we fail to achieve capital adequacy or net income and stockholders' equity levels."

Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans, which are permitted under applicable insurance laws, among LNC and its affiliates that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. For our Indiana-domiciled insurance subsidiaries, the borrowing and lending limit is currently the lesser of 3%

of the insurance company's admitted assets and 25% of its surplus, in both cases, as of its most recent year end. The holding company did not borrow from the cash management program during 2011; however, it had an outstanding payable of $58 million to certain subsidiaries resulting from amounts placed by the subsidiaries in the inter-company cash management account in excess of funds borrowed by those subsidiaries as of December 31, 2011. Any increase (decrease) in either of these holding company cash management program payable balances results in an immediate and equal increase (decrease) to holding company cash and cash equivalents.

Our insurance subsidiaries, by virtue of their general account fixed income investment holdings, can access liquidity through securities lending programs and repurchase agreements. As of December 31, 2011, our insurance subsidiaries had securities with a carrying value of $200 million out on loan under the securities lending program and $280 million carrying value subject to reverse-repurchase agreements. The cash received in our securities lending program is typically invested in cash equivalents, short-term investments or fixed maturity securities.

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

Divestitures

For a discussion of our divestitures, see Note 3.

Uses of Capital

Our principal uses of cash are to pay policy claims and benefits, operating expenses, commissions and taxes, to purchase new investments, to purchase reinsurance, to fund policy surrenders and withdrawals, to pay dividends to our stockholders and to repurchase our stock and debt securities.

Return of Capital to Common Stockholders

One of the Company's primary goals is to provide a return to our common stockholders through share price accretion, dividends and stock repurchases. In determining dividends, the Board takes into consideration items such as current and expected earnings, capital needs, rating agency considerations and requirements for financial flexibility. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital.

Details underlying this activity (in millions, except per share data), were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Common dividends to stockholders	$ 62	$ 12	$ 62	NM	-81 %
Repurchase and cancellation of common stock warrants	-	48	-	-100%	NM
Repurchase of common stock	576	25	-	NM	NM
Total cash returned to stockholders	$ 638	$ 85	$ 62	NM	37 %
Number of shares issued	-	14.138	46.000	-100%	-70 %
Average price per share	$ -	$ 26.09	$ 14.34	-100%	86 %
Number of shares repurchased	24.661	1.048	-	NM	NM
Average price per share	$ 23.33	$ 23.87	$ -	-4 %	NM

On November 10, 2011, our Board of Directors approved an increase of the dividend on our common stock from $0.05 to $0.08 per share. Additionally, we expect to repurchase additional shares of common stock during 2012 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see “Part II – Item 5(c)” above.

Other Uses of Capital

In addition to the amounts in the table above in “Return of Capital to Common Stockholders,” other uses of holding company cash flow (in millions) were as follows:

	For the Years Ended December 31,			Change Over Prior Year	
	2011	2010	2009	2011	2010
Debt service (interest paid)	$ 303	$ 280	$ 238	8 %	18 %
Capital contribution to subsidiaries	17	125	1,260	-86 %	-90 %
Total	$ 320	$ 405	$ 1,498	-21 %	-73 %

The above table focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic retirement of debt and cash flows related to our inter-company cash management account. Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company.

Contractual Obligations

Details underlying our future estimated cash payments for our contractual obligations (in millions) as of December 31, 2011, were as follows:

Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years	Total
$ 14,598	$ 26,257	$ 22,501	$ 68,543	$ 131,899

Future contract benefits and other contract holder obligations (1)					
Short-term debt (2)	300	-	-	-	300
Long-term debt (2)	-	700	250	4,138	5,088
Payables for collateral on investments (3)	517	37	-	-	554
Operating leases	40	67	48	56	211
Football stadium naming rights (4)	7	14	14	46	81
Outsourcing arrangements (5)	13	21	17	-	51
Retirement and other plans (6)	94	184	185	466	929
Totals	$ 15,569	$ 27,280	$ 23,015	$ 73,249	$ 139,113

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(1) We have made significant assumptions to determine the estimated undiscounted cash flows of these policies and contracts, which include mortality, morbidity, future lapse rates and interest crediting rates and assumed an 8% rate to arrive at discounted cash flows. Due to the significance of the assumptions used, the amounts presented could materially differ from actual results. See Note 1 for details of what these liabilities include and represent.
(2) Represents principal amounts of debt only. See Note 12 for additional information.
(3) Excludes collateral payable held for derivative investments. See Note 5 for additional information.
(4) Includes a maximum annual increase related to the Consumer Price Index. See Note 13 for additional information.
(5) Includes an information technology agreement and certain other outsourcing arrangements. See Note 13 for additional information.
(6) Includes anticipated funding for benefit payments for our retirement and postretirement plans through 2021 and known payments under deferred compensation arrangements. See Note 17 for additional information.

In addition to the contractual commitments outlined in the table above, we periodically fund the employees' defined benefit plans, discussed in "Defined Benefit Contributions" below.

Due to the uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits as of December 31, 2011, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority. Therefore, $409 million of unrecognized tax benefits and its associated interest have been excluded from the contractual obligations table above. See Note 7 for additional information.

Contingencies and Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity or capital resources. Details underlying our contingent commitments and off-balance sheet arrangements (in millions) as of December 31, 2011, were as follows:

	Amount of Commitment Expiring per Period				Total
	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years	Amount Committed
Bank lines of credit	$ -	$ -	$ 2,000	$ 1,821	$ 3,821
Investment commitments	345	124	72	-	541
Media commitments (1)	20	12	1	-	33
Total	$ 365	$ 136	$ 2,073	$ 1,821	$ 4,395

(1) Consists primarily of employment contracts, sports rights fees and rating service contracts.

Defined Benefit Contributions

We contributed $36 million, $31 million and $11 million in 2011, 2010 and 2009, respectively, to U.S. pension plans; $1 million, less than $1 million and $44 million in 2011, 2010 and 2009, respectively, to our U.K. pension plan; and $15 million, $15 million and $16 million in 2011, 2010 and 2009, respectively, to our postretirement plan that provides medical, dental and life insurance benefits. Our U.S. defined benefit pension plans were frozen as of December 31, 2007, or earlier; and our non-U.S. defined benefit pension plan was frozen as of September 30, 2009. For our frozen plans, there are no new participants and no future accruals of benefits from the date of the freeze.

Based on our calculations, we expect to be required to make a $1 million contribution related to administrative expenses to our qualified pension plans in 2012 under applicable pension law. In addition, we analyze and review opportunities to make contributions in excess of those required under applicable pension law. Such excess contributions will be made from time to time if, based on our analysis, we believe that the excess contributions serve the best interests of both the Company and of plan participants.

We expect to fund approximately $10 million to our nonqualified U.S. defined benefit plan and $10 million to our postretirement benefit plans during 2012. These amounts include anticipated benefit payments for nonqualified plans.

The majority of contributions and benefit payments are made by our insurance subsidiaries with little holding company cash flow affects. See Note 17 for additional information.

Significant Trends in Sources and Uses of Cash Flow

As stated above, LNC's cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries' RBC and statutory earnings performance. We currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience another period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries' statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries' dividends to the holding company, which may lead us to take steps to preserve or raise additional capital. For factors that could affect our expectations for liquidity and capital, see "Part I – Item 1A. Risk Factors."

OTHER MATTERS

Other Factors Affecting Our Business

In general, our businesses are subject to a changing social, economic, legal, legislative and regulatory environment. Some of the changes include initiatives to require more reserves to be carried by our insurance subsidiaries. Although the eventual effect on us of the changing environment in which we operate remains uncertain, these factors and others could have a material effect on our results of operations, liquidity and capital resources. For factors that could cause actual results to differ materially from those set forth in this section, see "Part I – Item 1A. Risk Factors" and "Forward-Looking Statements – Cautionary Language" above.

Recent Accounting Pronouncements

See Note 2 for a discussion of recent accounting pronouncements that have been implemented during the periods presented or that have been issued and are to be implemented in the future.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that takes diversification into account. By aggregating the potential effect of market and other risks on the entire enterprise, we estimate, review and in some cases manage the risk to our earnings and shareholder value. We have exposures to several market risks including interest rate risk, equity market risk, default risk, basis risk, credit risk and, to a lesser extent, foreign currency exchange risk. The exposures of financial instruments to market risks, and the related risk management processes, are most important to our business where most of the invested assets support accumulation and investment-oriented insurance products. As an important element of our integrated asset-liability management processes, we use derivatives to minimize the effects of changes in interest levels, the shape of the yield curve, currency movements and volatility. In this context, derivatives are designated as a hedge and serve to minimize interest rate risk by mitigating the effect of significant increases in interest rates on our earnings. Additional market exposures exist in our other general account insurance products and in our debt structure and derivatives positions. Our primary sources of market risk are: substantial, relatively rapid and sustained increases or decreases in interest rates or a sharp drop in equity market values. These market risks are discussed in detail in the following pages and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part II – Item 8. Financial Statements and Supplementary Data," as well as "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")."

Interest Rate Risk

With respect to accumulation and investment-oriented products, we seek to earn a stable and profitable spread, or margin, between investment income we earn on our invested assets and interest credited to account values of our contract holders. If we have adverse experience on investments that cannot be passed on to customers, our spreads are reduced. The combination of a probable range of interest rate changes over the next 12 months, asset-liability management strategies, flexibility in adjusting policy crediting rate levels and protection afforded by policy surrender all work together to mitigate this risk. The interest rate scenarios of concern are those in which there is a substantial, relatively prolonged decrease in interest rates that is sustained over a long period or a rapid increase in interest rates.

Significant Interest Rate Exposures

The following provides a general measure of our significant interest rate risk; amounts are shown by year of maturity and include amortization of premiums and discounts; interest rate cap agreements notional amounts are shown by amount outstanding (dollars in millions) as of December 31, 2011:

	2012	2013	2014	2015	2016	Thereafter	Total	Estimated Fair Value
Rate Sensitive Assets								
Fixed interest rate securities	$ 2,501	$ 3,206	$ 3,319	$ 2,820	$ 3,296	$ 52,903	$ 68,045	$ 75,027
Average interest rate	5.9 %	5.8 %	6.2 %	5.4 %	5.4 %	5.6 %	5.6 %	
Variable interest rate securities	$ 45	$ 44	$ 267	$ 89	$ 241	$ 3,973	$ 4,659	$ 3,778
Average interest rate	7.8 %	5.6 %	2.7 %	7.3 %	10.2 %	4.6 %	4.8 %	
Mortgage loans on real estate	$ 309	$ 379	$ 402	$ 622	$ 518	$ 4,730	$ 6,960	$ 7,608
Average interest rate	7.2 %	6.2 %	6.1 %	6.0 %	6.1 %	6.0 %	6.1 %	
Rate Sensitive Liabilities								
Investment type insurance contracts (1)	$ 1,410	$ 1,863	$ 2,276	$ 1,863	$ 2,141	$ 22,624	$ 32,177	$ 34,542
Average interest rate (1)	5.9 %	5.9 %	5.9 %	5.4 %	5.1 %	5.4 %	5.5 %	
Debt	$ 300	$ 200	$ 500	$ 250	$ -	$ 4,138	$ 5,388	$ 5,334
Average interest rate	5.7 %	2.0 %	4.8 %	4.3 %	0.0 %	6.3 %	5.9 %	
Rate Sensitive Derivative Financial Instruments								
Interest rate and foreign currency swaps:								
Pay variable/receive fixed	$ 300	$ 20	$ 500	$ 85	$ -	$ 9,824	$ 10,729	$ 1,362
Average pay rate	4.4 %	0.7 %	2.7 %	1.2 %	0.0 %	0.7 %	0.9 %	
Average receive rate	5.7 %	4.3 %	4.8 %	2.9 %	0.0 %	3.4 %	3.6 %	
Pay fixed/receive variable	$ 583	$ 473	$ 503	$ 214	$ 418	$ 2,253	$ 4,444	$ (713)
Average pay rate	3.4 %	2.8 %	3.4 %	4.4 %	2.9 %	4.8 %	4.1 %	
Average receive rate	0.4 %	0.5 %	0.4 %	0.5 %	0.4 %	0.8 %	0.6 %	
Interest rate cap agreements:								
Contractual notional	$ -	$ -	$ -	$ -	$ 8,050	$ 8,625	$ 16,675	$ 31
Average strike rate (2)	0.0 %	0.0 %	0.0 %	0.0 %	7.8 %	7.0 %	7.4 %	
Forward CMT curve (3)	0.0 %	0.0 %	0.0 %	0.0 %	3.0 %	3.1 %	3.1 %	
Interest rate futures:								
2-year treasury notes contractual notional	$ 310	$ -	$ -	$ -	$ -	$ -	$ 310	$ -
5-year treasury notes contractual notional	369	-	-	-	-	-	369	-
10-year treasury notes contractual notional	216	-	-	-	-	-	216	-
Treasury bonds contractual notional	76	-	-	-	-	-	76	-

(1)

The information shown is for our fixed maturity securities and mortgage loans on real estate that support these insurance contracts.

(2) The indexes are the 7-year and 10-year constant maturity swap.

(3) The constant maturity treasury ("CMT") curve is the 7-year and 10-year CMT forward curve.

The following provides the principal amounts and estimated fair values of assets, liabilities and derivatives (in millions) having significant interest rate risks as of December 31, 2010:

	Principal Amount	Estimated Fair Value
Fixed interest rate securities	$ 63,991	$ 67,021
Variable interest rate securities	5,114	4,187
Mortgage loans on real estate	6,745	7,183
Investment type insurance contracts (1)	28,087	29,166
Debt	5,715	5,876
Interest rate and foreign currency swaps	10,706	(468)
Interest rate cap agreements	8,200	51
Interest rate futures	2,252	-

(1) The information shown is for our fixed maturity securities and mortgage loans on real estate that support these insurance contracts.

Interest Rate Risk on Fixed Insurance Businesses – Falling Rates

In periods of declining interest rates, we have to reinvest the cash we receive as interest or return of principal on our investments in lower yielding instruments. Moreover, borrowers may prepay fixed income securities, commercial mortgages and mortgage-backed securities in our general accounts in order to borrow at lower market rates, which exacerbate this risk. Because we are entitled to reset the interest rates on our fixed rate annuities only at limited, pre-established intervals, and because many of our contracts have guaranteed minimum interest or crediting rates, our spreads could decrease and potentially become negative.

Prolonged historically low rates are not healthy for our business fundamentals. However, we have recognized this threat and have been proactive in our investment strategies, product designs, crediting rate strategies and overall asset-liability practices to mitigate the risk of unfavorable consequences in this type of environment. For some time now, new products have been sold with low minimum crediting floors, and we apply disciplined asset-liability management standards, such as locking in spreads on these products at the time of issue.

The following summarizes a hypothetical stress scenario related to the effect of continued low new money rates relative to our portfolio yields. The scenario assumes modest improvements in our new money rates from the current average of approximately 125 to 150 basis points below our portfolio yields, which would result in spreads in our businesses declining from 2011 levels.

- Life Insurance – The stress on earnings has been mitigated by proactive strategies to lock in long-dated and high-yielding assets to manage this risk. We executed on strategies which allowed us to effectively pre-buy assets in anticipation of future flows and maturing securities. We have also taken actions on crediting rates. We estimate that this scenario would have an approximate unfavorable earnings effect in a range of $15 million to $20 million during 2012, $40 million to $45 million during 2013 and $65 million to $70 million during 2014. Our deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), and deferred front-end loads ("DFEL") methodology assumes that new money rates grade from current levels to a long-term yield assumption over time.
- Retirement Plan Services and Annuities – The earnings drag from spread compression is modest and largely concentrated in our Retirement Plan Services segment, which is a function of this segment having higher guaranteed crediting rates and recurring premiums. We estimate that this scenario would have an approximate unfavorable earnings effect in a range of $10 million to $15 million during 2012, $20 million to $25 million during

2013 and $30 million to $35 million during 2014. Since we currently have the ability to manage spread compression through crediting rate actions, our Annuities segment is not currently sensitive to spread compression so there is very little effect estimated. The risk for our Annuities segment is sensitivity to sharp rising rates, and we manage this risk by selling market value adjusted products and purchasing derivative protection. The costs of our derivative instruments that we use to hedge our variable annuity products may increase as a result of the low interest rate environment.

- Group Protection – We reviewed the discount rate assumptions associated with our long-term disability claim reserves and life waiver claim incurrals during the fourth quarter of 2011, which resulted in no change to the discount rate. Spread compression would unfavorably affect annualized earnings by up to $5 million during 2012, $7 million during 2013 and $10 million during 2014.
- Other Operations – We may also be affected by sensitivity to our exposures in our institutional pension and disability run-off blocks of business that are sensitive to interest rates and could contribute to an effect.

We believe that applying this same hypothetical scenario to statutory earnings would produce similar percentage changes to earnings effects to those disclosed above.

In isolation, we believe the effects to our balance sheet from sustained low interest rates under this scenario would be modest assuming no changes to our long-term yield assumption and also excluding the effects of the new DAC methodology discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – New DAC Methodology." With regard to our goodwill balance, low interest rates generally support a lower discount rate and therefore a higher goodwill implied fair value.

The estimates above are based upon a hypothetical stressed scenario and are only representative of the effects of new money rates remaining in place through 2013 keeping all else equal and does not give consideration to the aggregate effect of other factors, including but not limited to: contract holder activity; hedge positions; changing equity markets; shifts in implied volatilities; and changes in other capital market sectors. In addition, the scenario only illustrated the effect to spreads and certain unlocking and reserve changes. Minimum guaranteed rates on annuity and universal life ("UL") policies generally range from 0.0% to 4.1%. Other potential effects of the scenario were not considered in the analysis. See "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" for additional information on interest rates.

The following provides detail on the percentage differences between the December 31, 2011, interest rates being credited to contract holders based on fourth quarter of 2011 declared rates and the respective minimum guaranteed policy rate (in millions), broken out by contract holder account values reported within our segments:

	Account Values				
	Annuities	Retirement Plan Services	Life Insurance (1)	Total	% Account Values
Excess of Crediting Rates over Contract Minimums					
Discretionary rate setting products (2)(3)					
No difference	$ 6,465	$ 9,223	$ 24,047	$ 39,735	65.0%
Up to 0.10%	64	207	12	283	0.5%
0.11% to 0.20%	75	-	-	75	0.1%
0.21% to 0.30%	113	75	455	643	1.1%
0.31% to 0.40%	80	1	-	81	0.1%
0.41% to 0.50%	95	52	629	776	1.3%
0.51% to 0.60%	109	-	25	134	0.2%
0.61% to 0.70%	115	10	258	383	0.6%
0.71% to 0.80%	101	-	140	241	0.4%
0.81% to 0.90%	78	-	127	205	0.3%
0.91% to 1.00%	46	156	245	447	0.7%
1.01% to 1.50%	223	25	52	300	0.5%
1.51% to 2.00%	23	158	-	181	0.3%
2.01% to 2.50%	1	61	-	62	0.1%
2.51% to 3.00%	10	-	113	123	0.2%
3.01% and above	-	1	-	1	0.0%
	7,598	9,969	26,103	43,670	71.4%

Total discretionary rate setting products					
Other contracts (4)	13,828	3,661	-	17,489	28.6%
Total account values	$ 21,426	$ 13,630	$ 26,103	$ 61,159	100.0%
Percentage of discretionary rate setting product account values at minimum guaranteed rates	85.1%	92.5%	92.1%	91.0%	

(1) Excludes policy loans.

(2) Contracts currently within new money rate bands are grouped according to the corresponding portfolio rate band in which they will fall upon their first anniversary.

(3) The average crediting rates for discretionary rate setting products were 10 basis points, 7 basis points and 6 basis points in

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excess of average minimum guaranteed rates for our Annuities, Retirement Plan Services and Life Insurance segments, respectively.

(4) For Annuities, this amount relates primarily to multi-year guarantee and indexed renewal business. The average crediting rates were 193 basis points in excess of average minimum guaranteed rates for multi-year guarantee products; 23%, 8% and 69% of our total multi-year guarantee account values are scheduled to reset in 2012, 2013 and 2014 and beyond, respectively. Our indexed renewal business resets either annually or bi-annually. Upon reset, we are able to adjust product features to reflect changes in option prices. For Retirement Plan Services, this amount relates to indexed-based rate setting products in which the average crediting rates were 7 basis points in excess of average minimum guaranteed rates and 78% of account values were already at their minimum guaranteed rates.

The maturity structure and call provisions of the related portfolios are structured to afford protection against erosion of investment portfolio yields during periods of declining interest rates. We devote extensive effort to evaluating the risks associated with falling interest rates by simulating asset and liability cash flows for a wide range of interest rate scenarios. We seek to manage these exposures by maintaining a suitable maturity structure and by limiting our exposure to call risk in each respective investment portfolio.

Interest Rate Risk on Fixed Insurance Businesses – Rising Rates

For both annuities and UL, a rapid rise in interest rates poses risks of deteriorating spreads and high surrenders. The portfolios supporting these products have fixed-rate assets laddered over maturities generally ranging from 1 to 10 years or more. Accordingly, the earned rate on each portfolio lags behind changes in market yields. As rates rise, the lag may be increased by slowing mortgage-backed securities prepayments. The greater and faster the rise in interest rates, the more the earned rate will tend to lag behind market rates. If we set renewal crediting rates to earn the desired spread, the gap between our renewal crediting rates and competitors' new money rates may be wide enough to cause increased surrenders that could cause us to liquidate a portion of our portfolio to fund these surrenders. If we credit more competitive renewal rates to limit surrenders, our spreads will narrow. We devote extensive effort to evaluating these risks by simulating asset and liability cash flows for a wide range of interest rate scenarios. Such analysis has led to adjustments in the target maturity structure and to hedging the risk of rising rates by buying out-of-the-money interest rate cap agreements and swaptions. With these instruments in place, the potential adverse effect of a rapid and sustained rise in rates is kept within our risk tolerances.

Debt

We manage the timing of maturities and the mixture of fixed-rate and floating-rate debt as part of the process of integrated management of interest rate risk for the entire enterprise. See Note 13 for additional information on our debt.

Derivatives

See Note 6 for information on our derivatives used to hedge our exposure to changes in interest rates.

Foreign Currency Exchange Risk

Foreign Currency Denominated Investments

We invest in foreign currency securities for incremental return and risk diversification relative to United States Dollar-Denominated securities. We use foreign currency swaps and foreign currency forwards to hedge some of the foreign exchange risk related to our investment in securities denominated in foreign currencies. The currency risk is

hedged using foreign currency derivatives of the same currency as the bonds. See Note 6 for additional information on our foreign currency swaps and foreign currency forwards used to hedge our exposure to foreign currency exchange risk.

The following provides our principal or notional amount in U.S. dollar equivalents (in millions) as of December 31, 2011, by expected maturity for our foreign currency denominated investments and foreign currency swaps:

	2012	2013	2014	2015	2016	Thereafter	Total	Estimated Fair Value
Currencies								
British pound	$ -	$ -	$ -	$ -	$ -	$ 66	$ 66	$ 81
Interest rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	4.2 %	4.2 %	
Canadian dollar	$ -	$ -	$ 32	$ -	$ 10	$ -	$ 42	$ 43
Interest rate	0.0 %	0.0 %	6.1 %	0.0 %	5.6 %	0.0 %	6.0 %	
New Zealand dollar	$ -	$ -	$ -	$ 34	$ -	$ -	$ 34	$ 37
Interest rate	0.0 %	0.0 %	0.0 %	3.5 %	0.0 %	0.0 %	3.5 %	
Euro	$ -	$ -	$ 67	$ -	$ 22	$ 67	$ 156	$ 162
Interest rate	0.0 %	0.0 %	4.8 %	0.0 %	4.8 %	5.1 %	4.9 %	
Australian dollar	$ -	$ -	$ -	$ -	$ -	$ 38	$ 38	$ 36
Interest rate	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	7.4 %	7.4 %	
Derivatives								
Foreign currency swaps	$ -	$ -	$ 94	$ 30	$ 30	$ 186	$ 340	$ 38

The following provides our principal or notional amount in U.S. dollar equivalents as of December 31, 2010, of our foreign currency denominated investments and foreign currency swaps (in millions):

	Principal/ Notional Amount	Estimated Fair Value
Currencies		
British pound	$ 66	$ 70
Canadian dollar	43	45
New Zealand dollar	34	35
Euro	162	163
Australian dollar	38	34
Total currencies	$ 343	$ 347
Derivatives		
Foreign currency swaps	$ 340	$ 30

Equity Market Risk

Our revenues, assets, liabilities and derivatives are exposed to equity market risk. Due to the use of our reversion to the mean (“RTM”) process and our hedging strategies, we expect that, in general, short-term fluctuations in the equity markets should not have a significant effect on our quarterly earnings from unlocking of assumptions for DAC, VOBA, deferred sales inducements (“DSI”) and DFEL. However, earnings are affected by equity market movements on account values and assets under management and the related fees we earn on those assets. Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” for further discussion on the effects of equity markets on our RTM.

Fee Revenues

The fees earned from variable annuities and variable life insurance products are exposed to the risk of a decline in equity market values. These fees are generally a fixed percentage of the market value of assets under management. In a severe equity market decline, fee income could be reduced by not only reduced market valuations but also by customer withdrawals and redemptions. Such withdrawals and redemptions from equity funds and accounts might be partially offset by transfers to our fixed-income accounts and the transfer of funds to us from our competitors' customers.

Assets

While we invest in equity assets with the expectation of achieving higher returns than would be available in our core fixed-income investments, the returns on and values of these equity investments are subject to somewhat greater market risk than our fixed-

income investments. These investments, however, add diversification benefits to our fixed-income investments. The following provides the sensitivity of price changes (in millions) to our equity assets owned and equity derivatives:

	As of December 31, 2011				As of December 31, 2010	
	Carrying Value	Estimated Fair Value	10% Fair Value Increase	10% Fair Value Decrease	Carrying Value	Estimated Fair Value
Equity Assets						
Domestic equities	$ 94	$ 94	$ 9	$ (9)	$ 154	$ 154
Foreign equities	47	47	5	(5)	45	45
Subtotal	141	141	14	(14)	199	199
Real estate	137	155	16	(16)	202	215
Other equity interests	978	988	99	(99)	935	945
Total	$ 1,256	$ 1,284	$ 129	$ (129)	$ 1,336	$ 1,359

	As of December 31, 2011				As of December 31, 2010	
	Notional Value	Estimated Fair Value	10% Fair Value Increase	10% Fair Value Decrease	Notional Value	Estimated Fair Value
Equity Derivatives (1)						
Equity futures	$ 1,713	$ -	$ (170)	$ 170	$ 907	$ -
Total return swaps	100	-	11	(11)	100	-
Put options	6,502	1,770	1,594	2,007	5,602	1,151
Call options (based on S&P 500)	4,881	183	266	83	4,083	301
Total	$ 13,196	$ 1,953	$ 1,701	$ 2,249	$ 10,692	$ 1,452

(1) Assumes a plus or minus 10% change in underlying indexes. Estimated fair value does not reflect daily settlement of futures or monthly settlement of total return swaps.

Liabilities

We have exposure to changes in our stock price through stock appreciation rights ("SARs") issued in 2007 through 2011. See Notes 6 and 19 for additional information on our SARs and the related call options used to hedge the expected increase in liabilities from SARs granted on our stock.

Derivatives Hedging Equity Market Risk

We have entered into derivative transactions to hedge our exposure to equity market fluctuations. Such derivatives include over-the-counter equity call options, equity collars, variance swaps, total return swaps, put options, equity futures and call options. See Note 6 for additional information on our derivatives used to hedge our exposure to equity market fluctuations.

Effect of Equity Market Sensitivity

The following presents our estimate of the effect on income (loss) from operations (in millions), from the change in asset-based fees and related expenses, if the level of the Standard & Poor's ("S&P") 500 Index® ("S&P 500"), which ended at 1258 as of December 31, 2011, were to decrease to 1005 over six months after December 31, 2011, and remain at that level through the next six months or increase to 1510 over six months after December 31, 2011, and remain at that level through the next six months, excluding any effect related to sales, prospective unlocking, persistency, hedge program performance or customer behavior caused by the equity market change:

	S&P 500 at 1005 (1)	S&P 500 at 1510 (1)
Segment		
Annuities	$ (80)	$ 29
Retirement Plan Services	(14)	15

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(1) The baseline for these effects assumes a 4% annual equity market growth rate, depending on the block of business, beginning on January 1, 2012. The baseline is then compared to scenarios of S&P 500 at the 1005 and 1510 levels, which assume the index moves to those levels over six months, remains at those levels through the next six months and grows at 4% annually, depending on the block of business, thereafter. The difference between the baseline and S&P 500 at the 1005 and 1510 level scenarios is presented in the table.

Refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Reversion to the Mean" for discussion on the effects of equity markets on our RTM.

The effect on earnings summarized above is a hypothetical scenario for the next 12 months. The effect of quarterly equity market changes upon fee revenues and asset-based expenses is generally not fully recognized in the first quarter of the change because fee revenues are earned and related expenses are incurred based upon daily variable account values. The difference between the current period average daily variable account values compared to the end of period variable account values affects fee revenues in subsequent periods. Additionally, the effect on earnings may not necessarily be symmetrical with comparable increases in the equity markets. This discussion concerning the estimated effects of ongoing equity market volatility on the fees we earn from account values and assets under management is intended to be illustrative. Actual effects may vary depending on a variety of factors, many of which are outside of our control, such as changing customer behaviors that might result in changes in the mix of our business between variable and fixed annuity contracts, switching among investment alternatives available within variable products, changes in sales production levels or changes in policy persistency. For purposes of this guidance, the change in account values is assumed to correlate with the change in the relevant index.

Default Risk

Our portfolio of invested assets was $93.1 billion and $83.3 billion as of December 31, 2011 and 2010, respectively. Of this total, $61.1 billion and $53.5 billion consisted of corporate bonds and $6.9 billion and $6.8 billion consisted of mortgage loans on real estate as of December 31, 2011 and 2010, respectively. We manage the risk of adverse default experience on these investments by applying disciplined credit evaluation and underwriting standards, prudently limiting allocations to lower-quality, higher-yielding investments and diversifying exposures by issuer, industry, region and property type. For each counterparty or borrowing entity and its affiliates, our exposures from all transactions are aggregated and managed in relation to formal limits set by rating quality. Additional diversification limits, such as limits per industry, are also applied. We remain exposed to occasional adverse cyclical economic downturns during which default rates may be significantly higher than the long-term historical average used in pricing.

We depend on the ability of derivative product dealers and their guarantors to honor their obligations to pay the contract amounts under various derivatives agreements. In order to minimize the risk of default losses, we diversify our exposures among several dealers and limit the amount of exposure to each in accordance with the credit rating of each dealer or its guarantor. We generally limit our selection of counterparties that are obligated under these derivative contracts to those with an A credit rating or above.

Credit-Related Derivatives

We use credit-related derivatives to minimize our exposure to credit-related events and we also sell credit default swaps to offer credit protection to our contract holders and investors. See Note 6 for additional information.

Credit Risk

See Note 6 for information on our credit risk.

In addition to the information provided about our counterparty exposure in Note 6, the fair value of our exposure by rating (in millions) was as follows:

	As of December 31,	
	2011	2010
Rating		
AAA	$ -	$ 7
AA	23	26
A	56	146
BBB	2	5
Total	$ 81	$ 184

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Item 8. Financial Statements and Supplementary Data

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Lincoln National Corporation to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States of America generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of internal control over financial reporting effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Management assessed our internal control over financial reporting as of December 31, 2011, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management’s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Based on the assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with United States of America generally accepted accounting principles.

The effectiveness of our internal control over financial reporting as of December 31, 2011, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included immediately below.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Lincoln National Corporation

We have audited Lincoln National Corporation's (the "Corporation") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Lincoln National Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lincoln National Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 23, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
February 23, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of
Lincoln National Corporation

We have audited the accompanying consolidated balance sheets of Lincoln National Corporation (the "Corporation") as of December 31, 2011 and 2010, and the related consolidated statements of income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln National Corporation at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with United States of America generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, in 2010 the Corporation changed its method of accounting for the consolidation of variable interest entities. Also, as discussed in Note 2 to the consolidated financial statements, in 2009 the Corporation changed its method of accounting for the recognition and presentation of other-than-temporary impairments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lincoln National Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Philadelphia, Pennsylvania
February 23, 2012

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

	As of December 31,	
	2011	2010
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2011 - $68,988; 2010 - $65,175)	$ 75,433	$ 68,030
Variable interest entities' fixed maturity securities (amortized cost: 2011 - $673; 2010 - $570)	700	584
Equity securities (cost: 2011 - $135; 2010 - $179)	139	197
Trading securities	2,675	2,596
Mortgage loans on real estate	6,942	6,752
Real estate	137	202
Policy loans	2,884	2,865
Derivative investments	3,151	1,076
Other investments	1,069	1,038
Total investments	93,130	83,340
Cash and invested cash	4,510	2,741
Deferred acquisition costs and value of business acquired	8,191	8,930
Premiums and fees receivable	408	335
Accrued investment income	981	933
Reinsurance recoverables	6,526	6,527
Funds withheld reinsurance assets	874	911
Goodwill	2,273	3,019
Other assets	2,536	2,458
Separate account assets	83,477	84,630
Total assets	$ 202,906	$ 193,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 19,813	$ 17,527
Other contract holder funds	69,466	66,407
Short-term debt	300	351
Long-term debt	5,391	5,399
Reinsurance related embedded derivatives	168	102
Funds withheld reinsurance liabilities	1,045	1,149
Deferred gain on business sold through reinsurance	394	468
Payables for collateral on investments	3,733	1,659
Variable interest entities' liabilities	193	132
Other liabilities	4,762	3,194
Separate account liabilities	83,477	84,630
Total liabilities	188,742	181,018
Contingencies and Commitments (See Note 13)		

Stockholders' Equity		
Preferred stock - 10,000,000 shares authorized; Series A - 10,072 and 10,914 shares issued and outstanding as of December 31, 2011, and December 31, 2010, respectively	-	-
Common stock - 800,000,000 shares authorized; 291,319,222 and 315,718,554 shares issued and outstanding as of December 31, 2011, and December 31, 2010, respectively	7,590	8,124
Retained earnings	4,126	3,934
Accumulated other comprehensive income (loss)	2,448	748
Total stockholders' equity	14,164	12,806
Total liabilities and stockholders' equity	$ 202,906	$ 193,824

See accompanying Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,		
	2011	2010	2009
Revenues			
Insurance premiums	$ 2,294	$ 2,176	$ 2,064
Insurance fees	3,437	3,234	2,922
Net investment income	4,652	4,541	4,178
Realized gain (loss):			
Total other-than-temporary impairment losses on securities	(165)	(240)	(667)
Portion of loss recognized in other comprehensive income	47	88	275
Net other-than-temporary impairment losses on securities recognized in earnings	(118)	(152)	(392)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(181)	75	(754)
Total realized gain (loss)	(299)	(77)	(1,146)
Amortization of deferred gain on business sold through reinsurance	75	75	76
Other revenues and fees	477	458	405
Total revenues	10,636	10,407	8,499
Benefits and Expenses			
Interest credited	2,488	2,488	2,465
Benefits	3,345	3,327	2,834
Underwriting, acquisition, insurance and other expenses	3,163	3,067	2,794
Interest and debt expense	294	291	197
Impairment of intangibles	747	-	730
Total benefits and expenses	10,037	9,173	9,020
Income (loss) from continuing operations before taxes	599	1,234	(521)
Federal income tax expense (benefit)	297	283	(106)
Income (loss) from continuing operations	302	951	(415)
Income (loss) from discontinued operations, net of federal income taxes	(8)	29	(70)
Net income (loss)	294	980	(485)
Preferred stock dividends and accretion of discount	-	(167)	(35)
Net income (loss) available to common stockholders	$ 294	$ 813	$ (520)
Earnings (Loss) Per Common Share - Basic			
Income (loss) from continuing operations	$ 0.99	$ 2.53	$ (1.60)
Income (loss) from discontinued operations	(0.03)	0.09	(0.25)
Net income (loss)	$ 0.96	$ 2.62	$ (1.85)
Earnings (Loss) Per Common Share - Diluted			
Income (loss) from continuing operations	$ 0.95	$ 2.45	$ (1.60)
Income (loss) from discontinued operations	(0.03)	0.09	(0.25)

Net income (loss)	$ 0.92	$ 2.54	$ (1.85)

See accompanying Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,		
	2011	2010	2009
Preferred Stock			
Balance as of beginning-of-year	$ -	$ 806	$ -
Issuance (redemption) of Series B preferred stock	-	(950)	794
Accretion of discount on Series B preferred stock	-	144	12
Balance as of end-of-year	-	-	806
Common Stock			
Balance as of beginning-of-year	8,124	7,840	7,035
Issuance of common stock	-	368	652
Issuance (repurchase and cancellation) of common stock warrants	-	(48)	156
Stock compensation/issued for benefit plans	17	18	(8)
Deferred compensation payable in stock	-	-	5
Effect of amendment to deferred compensation plans	(6)	(29)	-
Retirement of common stock/cancellation of shares	(545)	(25)	-
Balance as of end-of-year	7,590	8,124	7,840
Retained Earnings			
Balance as of beginning-of-year	3,934	3,316	3,745
Cumulative effect from adoption of new accounting standards	-	(169)	102
Comprehensive income (loss)	1,994	1,809	2,158
Less other comprehensive income (loss), net of tax	1,700	829	2,643
Net income (loss)	294	980	(485)
Retirement of common stock	(31)	-	-
Dividends declared: Common (2011 - $0.230; 2010 - $0.080; 2009 - $0.040)	(71)	(26)	(11)
Dividends on preferred stock	-	(23)	(23)
Accretion of discount on Series B preferred stock	-	(144)	(12)
Balance as of end-of-year	4,126	3,934	3,316
Accumulated Other Comprehensive Income (Loss)			
Balance as of beginning-of-year	748	(262)	(2,803)
Cumulative effect from adoption of new accounting standards	-	181	(102)
Other comprehensive income (loss), net of tax	1,700	829	2,643
Balance as of end-of-year	2,448	748	(262)
Total stockholders' equity as of end-of-year	$ 14,164	$ 12,806	$ 11,700

See accompanying Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,		
	2011	2010	2009
Cash Flows from Operating Activities			
Net income (loss)	$ 294	$ 980	$ (485)
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	(252)	(246)	(316)
Trading securities purchases, sales and maturities, net	88	47	(3)
Change in premiums and fees receivable	(73)	(14)	128
Change in accrued investment income	(48)	(44)	(75)
Change in future contract benefits and other contract holder funds	125	643	(463)
Change in reinsurance related assets and liabilities	(66)	22	77
Change in federal income tax accruals	338	414	9
Realized (gain) loss	299	77	1,146
(Income) loss attributable to equity method investments	(90)	(93)	55
(Gain) loss on early extinguishment of debt	8	5	(64)
Amortization of deferred gain on business sold through reinsurance	(75)	(75)	(76)
Impairment of intangibles	747	-	730
(Gain) loss on disposal of discontinued operations	3	(66)	219
Other	(21)	70	55
Net cash provided by (used in) operating activities	1,277	1,720	937
Cash Flows from Investing Activities			
Purchases of available-for-sale securities	(10,702)	(13,057)	(13,532)
Sales of available-for-sale securities	1,497	3,118	3,818
Maturities of available-for-sale securities	5,324	4,652	3,330
Purchases of other investments	(3,282)	(3,581)	(4,261)
Sales or maturities of other investments	3,094	3,239	4,340
Increase (decrease) in payables for collateral on investments	2,074	(248)	(1,799)
Proceeds from sale of subsidiaries/businesses, net of cash disposed	-	321	327
Other	(130)	(74)	(75)
Net cash provided by (used in) investing activities	(2,125)	(5,630)	(7,852)
Cash Flows from Financing Activities			
Payment of long-term debt, including current maturities	(525)	(405)	(522)
Issuance of long-term debt, net of issuance costs	298	749	788
Increase (decrease) in commercial paper, net	(100)	1	(216)
Deposits of fixed account values, including the fixed portion of variable	10,953	11,080	11,378
Withdrawals of fixed account values, including the fixed portion of variable	(5,050)	(5,305)	(5,530)

Transfers to and from separate accounts, net	(2,325)	(2,957)	(2,248)
Common stock issued for benefit plans and excess tax benefits	3	1	-
Issuance (redemption) of Series B preferred stock and issuance (repurchase and cancellation) of associated common stock warrants	-	(998)	950
Issuance of common stock	-	368	652
Repurchase of common stock	(576)	(25)	-
Dividends paid to common and preferred stockholders	(61)	(42)	(79)
Net cash provided by (used in) financing activities	2,617	2,467	5,173
Net increase (decrease) in cash and invested cash, including discontinued operations	1,769	(1,443)	(1,742)
Cash and invested cash, including discontinued operations, as of beginning-of-year	2,741	4,184	5,926
Cash and invested cash, including discontinued operations, as of end-of-year	$ 4,510	$ 2,741	$ 4,184

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations, Basis of Presentation and Summary of Significant Accounting Policies

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 22 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 consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP"). Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized below.

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.

Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of LNC and all other entities in which we have a controlling financial interest and any variable interest entities ("VIEs") in which we are the primary beneficiary. Entities in which we do not have a controlling financial interest and do not exercise significant management influence over the operating and financing decisions are reported using the equity method. The carrying value of our investments that we account for using the equity method on our Consolidated Balance Sheets and equity in earnings on our Consolidated Statements of Income (Loss) is not material. All material inter-company accounts and transactions have been eliminated in consolidation.

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

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, asset valuation allowances, deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI"), goodwill, future contract benefits, other contract holder funds which includes deferred front-end loads ("DFEL"), pension plans, income taxes and the potential effects of resolving litigated matters.

Business Combinations

We use the acquisition method of accounting for all business combination transactions, and accordingly, recognize the fair values of assets acquired, liabilities assumed and any noncontrolling interests in our consolidated financial statements. The allocation of fair values may be subject to adjustment after the initial allocation for up to a one-year period as more information relative to the fair values as of the acquisition date becomes available. The consolidated financial statements include the results of operations of any acquired company since the acquisition date.

Fair Value Measurement

Our measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which would include our own credit risk. Our estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability ("entry price"). Pursuant to the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards CodificationTM ("ASC"), we categorize our financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date, except for large holdings subject to "blockage discounts" that are excluded;
- Level 2 – inputs to the valuation methodology are other than quoted prices in active markets, that are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and
- Level 3 – inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability, and we make estimates and assumptions related to the pricing of the asset or liability, including assumptions regarding risk.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

Available-For-Sale Securities – Fair Valuation Methodologies and Associated Inputs

Securities classified as available-for-sale ("AFS") consist of fixed maturity and equity securities and are stated at fair value with unrealized gains and losses included within accumulated other comprehensive income (loss) ("AOCI"), net of associated DAC, VOBA, DSI, other contract holder funds and deferred income taxes.

We measure the fair value of our securities classified as AFS based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and we consistently apply the valuation methodology to measure the security's fair value. Our fair value measurement is based on a market approach that utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach primarily include third-party pricing services, independent broker quotations or pricing matrices. We do not adjust prices received from third parties; however, we do analyze the third-party pricing services' valuation methodologies and related inputs and perform additional evaluation to determine the appropriate level within the fair value hierarchy.

The observable and unobservable inputs to our valuation methodologies are based on a set of standard inputs that we generally use to evaluate all of our AFS securities. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored, and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For private placement securities, we use pricing matrices that utilize observable pricing inputs of similar public securities and Treasury yields as inputs to the fair value measurement. Depending on the type of security or the daily market activity, standard inputs may be prioritized differently or may not be available for all AFS securities on any given day. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. For securities trading in less liquid or illiquid markets with limited or no pricing information, we use unobservable inputs to measure fair value.

The following summarizes our fair valuation methodologies and associated inputs, which are particular to the specified security type and are in addition to the defined standard inputs to our valuation methodologies for all of our AFS securities discussed above:

- Corporate bonds and U.S. Government bonds – We also use Trade Reporting and Compliance EngineTM reported tables for our corporate bonds and vendor trading platform data for our U.S. Government bonds.
- Mortgage- and asset-backed securities – We also utilize additional inputs which include new issues data, monthly payment information and monthly collateral performance, including prepayments, severity, delinquencies, step-down features and over collateralization features for each of our mortgage-backed securities ("MBS"), which include collateralized mortgage obligations and mortgage pass through securities backed by residential mortgages ("RMBS"), commercial mortgage-backed securities ("CMBS") and collateralized debt obligations ("CDOs").
- State and municipal bonds – We also use additional inputs that include information from the Municipal Securities Rule Making Board, as well as material event notices, new issue data, issuer financial statements and Municipal Market Data benchmark yields for our state and municipal bonds.
- Hybrid and redeemable preferred and equity securities – We also utilize additional inputs of exchange prices (underlying and common stock of the same issuer) for our hybrid and redeemable preferred and equity securities, including banking, insurance, other financial services and other securities.

In order to validate the pricing information and broker-dealer quotes, we employ, where possible, procedures that include comparisons with similar observable positions, comparisons with subsequent sales and observations of general market movements for those security classes. We have policies and procedures in place to review the process that is utilized by our third-party pricing service and the output that is provided to us by the pricing service. On a periodic basis, we test the pricing for a sample of securities to evaluate the inputs and assumptions used by the pricing service, and we perform a comparison of the pricing service output to an alternative pricing source. We also evaluate prices provided by our primary pricing service to ensure that they are not stale or unreasonable by reviewing the prices for unusual changes from period to period based on certain parameters or for lack of change from one period to the next.

AFS Securities – Evaluation for Recovery of Amortized Cost

We regularly review our AFS securities for declines in fair value that we determine to be other-than-temporary. For an equity security, if we do not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, we conclude that an other-than-temporary impairment ("OTTI") has occurred and the amortized cost of the equity security is written down to the current fair value, with a corresponding charge to realized gain (loss) on our Consolidated Statements of Income (Loss). When assessing our ability and intent to hold the equity security to recovery, we consider, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, a fundamental analysis of the liquidity, and business prospects and overall financial condition of the issuer.

For our fixed maturity AFS securities, we generally consider the following to determine whether our unrealized losses are OTTI:

- The estimated range and average period until recovery;
- The estimated range and average holding period to maturity;
- Remaining payment terms of the security;
- Current delinquencies and nonperforming assets of underlying collateral;
- Expected future default rates;
- Collateral value by vintage, geographic region, industry concentration or property type;
- Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and

- Contractual and regulatory cash obligations.

For a debt security, if we intend to sell a security or it is more likely than not we will be required to sell a debt security before recovery of its amortized cost basis and the fair value of the debt security is below amortized cost, we conclude that an OTTI has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized gain (loss) on our Consolidated Statements of Income (Loss). If we do not intend to sell a debt security or it is not more likely than not we will be required to sell a debt security before recovery of its amortized cost basis but the present value of the cash flows expected to be collected is less than the amortized cost of the debt security (referred to as the credit loss), we conclude that an OTTI has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to realized gain (loss) on our Consolidated Statements of Income (Loss), as this amount is deemed the credit portion of the OTTI. The remainder of the decline to fair value is recorded in OCI to unrealized OTTI on AFS securities on our Consolidated Statements of Stockholders' Equity, as this amount is considered a noncredit (i.e., recoverable) impairment.

When assessing our intent to sell a debt security or if it is more likely than not we will be required to sell a debt security before recovery of its cost basis, we evaluate facts and circumstances such as, but not limited to, decisions to reposition our security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing. In order to determine the amount of the credit loss for a debt security, we calculate the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover. The discount rate is the effective interest rate implicit in the underlying debt security. The effective interest rate is the original yield or the coupon if the debt security was previously impaired. See the discussion below for additional information on the methodology and significant inputs, by security type, which we use to determine the amount of a credit loss.

Our conclusion that 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 are equal to or greater than the amortized cost basis of the debt securities, or we have the ability to hold the equity AFS securities for a period of time sufficient for recovery is based upon our asset-liability management process. Management considers the following as part of the evaluation:

- The current economic environment and market conditions;
- Our business strategy and current business plans;
- The nature and type of security, including expected maturities and exposure to general credit, liquidity, market and interest rate risk;
- Our analysis of data from financial models and other internal and industry sources to evaluate the current effectiveness of our hedging and overall risk management strategies;
- The current and expected timing of contractual maturities of our assets and liabilities, expectations of prepayments on investments and expectations for surrenders and withdrawals of life insurance policies and annuity contracts;
- The capital risk limits approved by management; and
- Our current financial condition and liquidity demands.

To determine the recovery period of a debt security, we consider the facts and circumstances surrounding the underlying issuer including, but not limited to, the following:

- Historic and implied volatility of the security;
- Length of time and extent to which the fair value has been less than amortized cost;
- Adverse conditions specifically related to the security or to specific conditions in an industry or geographic area;
- Failure, if any, of the issuer of the security to make scheduled payments; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

In periods subsequent to the recognition of an OTTI, the AFS security is accounted for as if it had been purchased on the measurement date of the OTTI. Therefore, for the fixed maturity AFS security, the original discount or reduced premium is reflected in net investment income over the contractual term of the investment in a manner that produces a constant effective yield.

To determine recovery value of a corporate bond or CDO, we perform additional analysis related to the underlying issuer including, but not limited to, the following:

- Fundamentals of the issuer to determine what we would recover if they were to file bankruptcy versus the price at which the market is trading;
- Fundamentals of the industry in which the issuer operates;
-

Earnings multiples for the given industry or sector of an industry that the underlying issuer operates within, divided by the outstanding debt to determine an expected recovery value of the security in the case of a liquidation;

- Expected cash flows of the issuer (e.g., whether the issuer has cash flows in excess of what is required to fund its operations);
- Expectations regarding defaults and recovery rates;
- Changes to the rating of the security by a rating agency; and
- Additional market information (e.g., if there has been a replacement of the corporate debt security).

Each quarter we review the cash flows for the MBS to determine whether or not they are sufficient to provide for the recovery of our amortized cost. We revise our cash flow projections only for those securities that are at most risk for impairment based on current credit enhancement and trends in the underlying collateral performance. To determine recovery value of a MBS, we perform additional analysis related to the underlying issuer including, but not limited to, the following:

- Discounted cash flow analysis based on the current cash flows and future cash flows we expect to recover;
- Level of creditworthiness of the home equity loans or residential mortgages that back an RMBS or commercial mortgages that back a CMBS;
- Susceptibility to fair value fluctuations for changes in the interest rate environment;
- Susceptibility to reinvestment risks, in cases where market yields are lower than the securities' book yield earned;
- Susceptibility to reinvestment risks, in cases where market yields are higher than the book yields earned on a security;
- Expectations of sale of such a security where market yields are higher than the book yields earned on a security; and
- Susceptibility to variability of prepayments.

When evaluating MBS and mortgage-related asset-backed securities ("ABS"), we consider a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other-than-temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance in the prior periods. We use this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alt-A or subprime), geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, we then make assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation or depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on our tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for OTTI by comparing the expected cash flows to amortized cost. To the extent that the security has already been impaired or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no impairment is required.

Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, and the security was not purchased at a discount greater than the expected principal loss, then impairment is recognized.

We further monitor the cash flows of all of our AFS securities backed by pools on an ongoing basis. We also perform detailed analysis on all of our subprime, Alt-A, non-agency residential MBS and on a significant percentage of our AFS securities backed by pools of commercial mortgages. The detailed analysis includes revising projected cash flows by updating the cash flows for actual cash received and applying assumptions with respect to expected defaults, foreclosures and recoveries in the future. These revised projected cash flows are then compared to the amount of credit enhancement (subordination) in the structure to determine whether the amortized cost of the security is recoverable. If it is not recoverable, we record an impairment of the security.

Trading Securities

Trading securities consist of fixed maturity and equity securities in designated portfolios, some of which support modified coinsurance (“Modco”) and coinsurance with funds withheld (“CFW”) reinsurance arrangements. Investment results for the portfolios that support Modco and CFW reinsurance arrangements, including gains and losses from sales, are passed directly to the reinsurers pursuant to contractual terms of the reinsurance arrangements. Trading securities are carried at fair value and changes in fair value and changes in the fair value of embedded derivative liabilities associated with the underlying reinsurance arrangements, are recorded in realized gain (loss) on our Consolidated Statements of Income (Loss) as they occur.

Alternative Investments

Alternative investments, which consist primarily of investments in Limited Partnerships (“LPs”), are included in other investments on our Consolidated Balance Sheets. We account for our investments in LPs using the equity method to determine the carrying value. Recognition of alternative investment income is delayed due to the availability of the related financial statements, which are generally obtained from the partnerships’ general partners. As a result, our venture capital, real estate and oil and gas portfolios are generally on a three-month delay and our hedge funds are on a one-month delay. In addition, the impact of audit adjustments related to completion of calendar-year financial statement audits of the investees are typically received during the second quarter of each calendar year. Accordingly, our investment income from alternative investments for any calendar-year period may not include the complete impact of the change in the underlying net assets for the partnership for that calendar-year period.

Payables for Collateral on Investments

When we enter into collateralized financing transactions on our investments, a liability is recorded equal to the cash collateral received. This liability is included within payables for collateral on investments on our Consolidated Balance Sheets. Income and expenses associated with these transactions are recorded as investment income and investment expenses within net investment income on our Consolidated Statements of Income (Loss). Changes in payables for collateral on investments are reflected within cash flows from investing activities on our Consolidated Statements of Cash Flows.

Mortgage Loans on Real Estate

Mortgage loans on real estate are carried at unpaid principal balances adjusted for amortization of premiums and accretion of discounts and are net of valuation allowances. Interest income is accrued on the principal balance of the loan based on the loan's contractual interest rate. Premiums and discounts are amortized using the effective yield method over the life of the loan. Interest income and amortization of premiums and discounts are reported in net investment income on our Consolidated Statements of Income (Loss) along with mortgage loan fees, which are recorded as they are incurred.

Our commercial loan portfolio is comprised of long-term loans secured by existing commercial real estate. As such, it does not exhibit risk characteristics unique to mezzanine, construction, residential, agricultural, land or other types of real estate loans. We believe all of the loans in our portfolio share three primary risks: borrower creditworthiness; sustainability of the cash flow of the property; and market risk; therefore, our methods for monitoring and assessing credit risk are consistent for our entire portfolio. Loans are considered impaired when it is probable that, based upon current information and events, we will be unable to collect all amounts due under the contractual terms of the loan agreement. When we determine that a loan is impaired, a valuation allowance is established for the excess carrying value of the loan over its estimated value. The loan's estimated value is based on: the present value of expected future cash flows discounted at the loan's effective interest rate; the loan's observable market price; or the fair value of the loan's collateral. Valuation allowances are maintained at a level we believe is adequate to absorb estimated probable credit losses of each specific loan. Our periodic evaluation of the adequacy of the allowance for losses is based on our past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. Trends in market vacancy and rental rates are incorporated into the analysis that we perform for monitored loans and may contribute to the establishment of (or an increase or decrease in) an allowance for credit losses. In addition, we review each loan individually in our commercial mortgage loan portfolio on an annual basis to identify emerging risks. We focus on properties that experienced a reduction in debt-service coverage or that have significant exposure to tenants with deteriorating credit profiles. Where warranted, we establish or increase loss reserves for a specific loan based upon this analysis. Our process for determining past due or delinquency status begins when a payment date is missed, at which time the borrower is contacted. After the grace period expiration that may last up to 10 days, we send a default notice. The default notice generally provides a short time period to cure the default. Our policy is to report loans that are 60 or more days past due, which equates to two or more payments missed, as delinquent. We do not accrue interest on loans 90 days past due, and any interest received on these loans is either applied to the principal or recorded in net investment income on our Consolidated Statements of Income (Loss) when received, depending on the assessment of the collectibility of the loan. We resume accruing interest once a loan complies with all of its original terms or restructured terms. Mortgage loans deemed uncollectible are charged against the allowance for losses, and subsequent recoveries, if any, are credited to the allowance for losses. All mortgage loans that are impaired have an established allowance for credit losses. Changes in valuation allowances are reported in realized gain (loss) on our Consolidated Statements of Income (Loss).

We measure and assess the credit quality of our mortgage loans by using loan-to-value and debt-service coverage ratios. The loan-to-value ratio compares the principal amount of the loan to the fair value at origination of the underlying property collateralizing the loan and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% indicate that the principal amount is greater than the collateral value. Therefore, all else being equal, a lower loan-to-value ratio generally indicates a higher quality loan. The debt-service coverage ratio compares a property's net operating income to its debt-service payments. Debt-service coverage ratios of less than 1.0 indicate that property operations do not generate enough income to cover its current debt payments. Therefore, all else being equal, a higher debt-service coverage ratio generally indicates a higher quality loan.

Policy Loans

Policy loans represent loans we issue to contract holders that use the cash surrender value of their life insurance policy as collateral. Policy loans are carried at unpaid principal balances.

Real Estate

Real estate includes both real estate held for the production of income and real estate held-for-sale. Real estate held for the production of income is carried at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the

estimated useful life of the asset. We periodically review properties held for the production of income for impairment. Properties whose carrying values are greater than their projected undiscounted cash flows are written down to estimated fair value, with impairment losses reported in realized gain (loss) on our Consolidated Statements of Income (Loss). The estimated fair value of real estate is generally computed using the present value of expected future cash flows from the real estate discounted at a rate commensurate with the underlying risks. Real estate classified as held-for-sale is stated at the lower of depreciated cost or fair value less expected disposition costs at the time classified as held-for-sale. Real estate is not depreciated while it is classified as held-for-sale. Also, valuation allowances for losses are established, as appropriate, for real estate held-for-sale and any changes to the valuation allowances are reported in realized gain (loss) on our Consolidated Statements of Income (Loss). Real estate acquired through foreclosure proceedings is recorded at fair value at the settlement date.

Derivative Instruments

We hedge certain portions of our exposure to interest rate risk, foreign currency exchange risk, equity market risk and credit risk by entering into derivative transactions. All of our derivative instruments are recognized as either assets or liabilities on our Consolidated Balance Sheets at estimated fair value. We categorized derivatives into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique as discussed above in "Fair Value Measurement." The accounting for changes in the estimated fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument based upon the exposure being hedged: as a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign subsidiary.

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated OCI and reclassified into net income in the same period or periods during which the hedged transaction affects net income. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of designated future cash flows of the hedged item (hedge ineffectiveness), if any, is recognized in net income during the period of change. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in net income during the period of change in estimated fair values. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign subsidiary, the gain or loss on the derivative instrument is reported as a component of accumulated OCI and reclassified into net income at the time of the sale of the foreign subsidiary. For derivative instruments not designated as hedging instruments but that are economic hedges, the gain or loss is recognized in net income.

We purchase and issue financial instruments and products that contain embedded derivative instruments. When it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host for measurement purposes. The embedded derivative, which is reported with the host instrument in the Consolidated Balance Sheets, is carried at fair value with changes in fair value recognized in net income during the period of change.

We employ several different methods for determining the fair value of our derivative instruments. The fair value of our derivative contracts are measured based on current settlement values, which are based on quoted market prices, industry standard models that are commercially available and broker quotes. These techniques project cash flows of the derivatives using current and implied future market conditions. We calculate the present value of the cash flows to measure the current fair market value of the derivative.

Cash and Cash Equivalents

Cash and invested cash is carried at cost and includes all highly liquid debt instruments purchased with an original maturity of three months or less.

DAC, VOBA, DSI and DFEL

Commissions and other costs of acquiring UL insurance, VUL insurance, traditional life insurance, annuities and other investment contracts, which vary with and are related primarily to the production of new business, have been deferred (i.e., DAC) to the extent recoverable. VOBA is an intangible asset that reflects the estimated fair value of in-force contracts in a life insurance company acquisition and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the business in force at the acquisition date. Bonus credits and excess interest for dollar cost averaging contracts are considered DSI. Contract sales charges that are collected in the early years of an insurance contract are deferred (i.e., DFEL), and the unamortized balance is reported in other contract holder funds on our Consolidated Balance Sheets.

Both DAC and VOBA amortization, excluding amounts reported in realized gain (loss), is reported within underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss). DSI amortization, excluding amounts reported in realized gain (loss), is reported in interest credited on our Consolidated Statements of Income (Loss). The amortization of DFEL, excluding amounts reported in realized gain (loss), is reported within insurance fees on our Consolidated Statements of Income (Loss). The methodology for determining the amortization of DAC, VOBA, DSI and DFEL varies by product type. For all insurance contracts, amortization is based on assumptions consistent with those used in the development of the underlying contract adjusted for emerging experience and expected trends.

Acquisition costs for UL and VUL insurance and investment-type products, which include fixed and variable deferred annuities, are generally amortized over the lives of the policies in relation to the incidence of estimated gross profits (“EGPs”) from surrender charges, investment, mortality net of reinsurance ceded and expense margins and actual realized gain (loss) on investments. Contract lives for UL and VUL policies are estimated to be 40 years and 30 years, respectively, based on the expected lives of the contracts. Contract lives for fixed and variable deferred annuities are generally between 12 and 30 years, while some of our fixed multi-year guarantee products have amortization periods equal to the guarantee period. The front-end load annuity product has an assumed life of 25 years. Longer lives are assigned to those blocks that have demonstrated favorable lapse experience.

Acquisition costs for all traditional contracts, including traditional life insurance, which include individual whole life, group business and term life insurance contracts, are amortized over periods of 7 to 30 years on either a straight-line basis or as a level percent of premium of the related policies depending on the block of business. There is currently no DAC, VOBA, DSI or DFEL balance or related amortization for fixed and variable payout annuities.

We account for modifications of insurance contracts that result in a substantially unchanged contract as a continuation of the replaced contract. We account for modifications of insurance contracts that result in a substantially changed contract as an extinguishment of the replaced contract.

The carrying amounts of DAC, VOBA, DSI and DFEL are adjusted for the effects of realized and unrealized gains and losses on securities classified as AFS and certain derivatives and embedded derivatives. Amortization expense of DAC, VOBA, DSI and DFEL reflects an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, we recognize a true-up to our DAC, VOBA, DSI and DFEL amortization within realized gain (loss) on our Consolidated Statements of Income (Loss) reflecting the incremental effect of actual versus expected credit-related investment losses. These actual to expected amortization adjustments can create volatility from period to period in realized gain (loss).

On a quarterly basis, we may record an adjustment to the amounts included within our Consolidated Balance Sheets for DAC, VOBA, DSI and DFEL with an offsetting benefit or charge to revenue or expense for the effect of the difference between future EGPs used in the prior quarter and the emergence of actual and updated future EGPs in the current quarter (“retrospective unlocking”). In addition, in the third quarter of each year, we conduct our annual comprehensive review of the assumptions and the projection models used for our estimates of future gross profits underlying the amortization of DAC, VOBA, DSI and DFEL and the calculations of the embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees. These assumptions include investment margins, mortality, retention, rider utilization and maintenance expenses (costs associated with maintaining records relating to insurance and individual and group annuity contracts and with the processing of premium collections, deposits, withdrawals and commissions). Based on our review, the cumulative balances of DAC, VOBA, DSI and DFEL, included on our Consolidated Balance Sheets, are adjusted with an offsetting benefit or charge to revenue or amortization expense to reflect such change (“prospective unlocking – assumption changes”). We may have prospective unlocking in other quarters as we become aware of information that warrants updating

prospective assumptions outside of our annual comprehensive review. We may also identify and implement actuarial modeling refinements ("prospective unlocking – model refinements") 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 EGPs each period, while prospective unlocking is driven by changes in assumptions or projection models related to our expectations of future EGPs.

DAC, VOBA, DSI and DFEL are reviewed periodically to ensure that the unamortized portion does not exceed the expected recoverable amounts.

Reinsurance

Our insurance companies enter into reinsurance agreements with other companies in the normal course of business. Assets and liabilities and premiums and benefits from certain reinsurance contracts that grant statutory surplus relief to other insurance companies are netted on our Consolidated Balance Sheets and Consolidated Statements of Income (Loss), respectively, because there is a right of offset. All other reinsurance agreements are reported on a gross basis on our Consolidated Balance Sheets as an

asset for amounts recoverable from reinsurers or as a component of other liabilities for amounts, such as premiums, owed to the reinsurers, with the exception of Modco agreements for which the right of offset also exists. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and DAC are reported net of insurance ceded.

Goodwill

We recognize the excess of the purchase price, plus the fair value of any noncontrolling interest in the acquiree, over the fair value of identifiable net assets acquired as goodwill. Goodwill is not amortized, but is reviewed at least annually for indications of value impairment, with consideration given to financial performance and other relevant factors. In addition, certain events, including a significant adverse change in legal factors or the business climate, an adverse action or assessment by a regulator or unanticipated competition, would cause us to review the carrying amounts of goodwill for impairment. We are required to perform a two-step test in our evaluation of the carrying value of goodwill for impairment. In Step 1 of the evaluation, the fair value of each reporting unit is determined and compared to the carrying value of the reporting unit. If the fair value is greater than the carrying value, then the carrying value is deemed to be sufficient and Step 2 is not required. If the fair value estimate is less than the carrying value, it is an indicator that impairment may exist and Step 2 is required to be performed. In Step 2, the implied fair value of the reporting unit’s goodwill is determined by assigning the reporting unit’s fair value as determined in Step 1 to all of its net assets (recognized and unrecognized) as if the reporting unit had been acquired in a business combination at the date of the impairment test. If the implied fair value of the reporting unit’s goodwill is lower than its carrying amount, goodwill is impaired and written down to its fair value, and a charge is reported in impairment of intangibles on our Consolidated Statements of Income (Loss).

Other Assets and Other Liabilities

Other assets consist primarily of DSI, specifically identifiable intangible assets, property and equipment owned by the company, balances associated with corporate-owned and bank-owned life insurance, certain reinsurance assets, receivables resulting from sales of securities that had not yet settled as of the balance sheet date, debt issue costs and other prepaid expenses. Other liabilities consist primarily of current and deferred taxes, pension and other employee benefit liabilities, certain reinsurance payables, payables resulting from purchases of securities that had not yet settled as of the balance sheet date, interest on borrowed funds and other accrued expenses.

The carrying values of specifically identifiable intangible assets are reviewed at least annually for indicators of impairment in value that are other-than-temporary, including unexpected or adverse changes in the following: the economic or competitive environments in which the company operates; profitability analyses; cash flow analyses; and the fair value of the relevant business operation. If there was an indication of impairment, then the discounted cash flow method would be used to measure the impairment, and the carrying value would be adjusted as necessary and reported in impairment of intangibles on our Consolidated Statements of Income (Loss). Sales force intangibles are attributable to the value of the new business distribution system acquired through business combinations. These assets are amortized on a straight-line basis over their useful life of 25 years. Federal Communications Commission (“FCC”) licenses also acquired through business combinations are not amortized.

Property and equipment owned for company use is carried at cost less allowances for depreciation. Provisions for depreciation of investment real estate and property and equipment owned for company use are computed principally on the straight-line method over the estimated useful lives of the assets, which include buildings, computer hardware and software and other property and equipment. We periodically review the carrying value of our long-lived assets, including property and equipment, for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. For long-lived assets to be held and used, impairments are recognized

when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Long-lived assets to be disposed of by abandonment or in an exchange for a similar productive long-lived asset are classified as held-for-use until they are disposed. Long-lived assets to be sold are classified as held-for-sale and are no longer depreciated. Certain criteria have to be met in order for the long-lived asset to be classified as held-for-sale, including that a sale is probable and expected to occur within one year. Long-lived assets classified as held-for-sale are recorded at the lower of their carrying amount or fair value less cost to sell.

Separate Account Assets and Liabilities

We maintain separate account assets, which are reported at fair value. The related liabilities are reported at an amount equivalent to the separate account assets. Investment risks associated with market value changes are borne by the contract holders, except to the extent of minimum guarantees made by the Company with respect to certain accounts.

We issue variable annuity contracts through our separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). We also issue variable annuity and life contracts through separate accounts that include various types of guaranteed death benefit ("GDB"), guaranteed withdrawal benefit ("GWB") and guaranteed income benefit ("GIB") features. The GDB features include those where we contractually guarantee to the contract holder either: return of no less than total deposits made to the contract less any partial withdrawals ("return of net deposits"); total deposits made to the contract less any partial withdrawals plus a minimum return ("minimum return"); or the highest contract value on any contract anniversary date through age 80 minus any payments or withdrawals following the contract anniversary ("anniversary contract value").

As discussed in Note 6, certain features of these guarantees are accounted for as embedded derivative reserves, whereas other guarantees are accounted for as benefit reserves. Other guarantees contain characteristics of both and are accounted for under an approach that calculates the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each guaranteed living benefit ("GLB") feature. We use derivative instruments to hedge our exposure to the risks and earnings volatility that result from the embedded derivatives for living benefits in certain of our variable annuity products. The change in fair value of these instruments tends to move in the opposite direction of the change in the value of the associated reserves. The net impact of these changes is reported as a component of realized gain (loss) on our Consolidated Statements of Income (Loss).

The "market consistent scenarios" used in the determination of the fair value of the GWB liability are similar to those used by an investment bank to value derivatives for which the pricing is not transparent and the aftermarket is nonexistent or illiquid. In our calculation, risk-neutral Monte-Carlo simulations resulting in over 35 million scenarios are utilized to value the entire block of guarantees. The market consistent scenario assumptions, as of each valuation date, are those we view to be appropriate for a hypothetical market participant. The market consistent inputs include assumptions for the capital markets (e.g., implied volatilities, correlation among indices, risk-free swap curve, etc.), policyholder behavior (e.g., policy lapse, benefit utilization, mortality, etc.), risk margins, administrative expenses and a margin for profit. We believe these assumptions are consistent with those that would be used by a market participant; however, as the related markets develop we will continue to reassess our assumptions. It is possible that different valuation techniques and assumptions could produce a materially different estimate of fair value.

Future Contract Benefits and Other Contract Holder Funds

Future contract benefits represent liability reserves that we have established and carry based on estimates of how much we will need to pay for future benefits and claims. Other contract holder funds represent liabilities for fixed account values, including the fixed portion of variable, dividends payable, premium deposit funds, undistributed earnings on participating business and other contract holder funds as well the carrying value of DFEL discussed above.

The liabilities for future contract benefits and claim reserves for UL and VUL insurance policies consist of contract account balances that accrue to the benefit of the contract holders, excluding surrender charges. The liabilities for future insurance contract benefits and claim reserves for traditional life policies are computed using assumptions for investment yields, mortality and withdrawals based principally on generally accepted actuarial methods and assumptions at the time of contract issue. Investment yield assumptions for traditional direct individual life reserves for all contracts range from 2.25% to 7.75% depending on the time of contract issue. The investment yield assumptions for immediate and deferred paid-up annuities range from 1.00% to 13.50%. These investment yield assumptions are intended to represent an estimation of the interest rate experience for the period that these contract benefits are payable.

The liabilities for future claim reserves for variable annuity products containing GDB features are calculated by estimating the present value of total expected benefit payments over the life of the contract divided by the present value of total expected assessments over the life of the contract ("benefit ratio") multiplied by the cumulative assessments recorded from the contract inception through the balance sheet date less the cumulative GDB payments plus interest on the reserves. The change in the reserve for a period is the benefit ratio multiplied by the assessments recorded for the period less GDB claims paid in the period plus interest. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes in a manner similar to the unlocking of DAC, VOBA, DFEL and DSI.

With respect to our future contract benefits and other contract holder funds, we continually review: overall reserve position, reserving techniques and reinsurance arrangements. As experience develops and new information becomes known, liabilities are adjusted as deemed necessary. The effects of changes in estimates are included in the operating results for the period in which such changes occur.

The business written or assumed by us includes participating life insurance contracts, under which the contract holder is entitled to share in the earnings of such contracts via receipt of dividends. The dividend scale for participating policies is reviewed annually and may be adjusted to reflect recent experience and future expectations. As of December 31, 2011 and 2010, participating policies

comprised approximately 1% of the face amount of insurance in force, and dividend expenses were $79 million, $82 million and $89 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Liabilities for the secondary guarantees on UL-type products are calculated by multiplying the benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date less the cumulative secondary guarantee benefit payments plus interest. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes in a manner similar to the unlocking of DAC, VOBA, DFEL and DSI. The accounting for secondary guarantee benefits impacts, and is impacted by, EGPs used to calculate amortization of DAC, VOBA, DFEL and DSI.

Future contract benefits on our Consolidated Balance Sheets include GLB features and remaining guaranteed interest and similar contracts that are carried at fair value, which represents approximate surrender value including an estimate for our nonperformance risk. Certain of these features have elements of both insurance benefits and embedded derivatives. We weight these features and their associated reserves accordingly based on their hybrid nature. We classify these items in Level 3 within the hierarchy levels described above in "Fair Value Measurement."

The fair value of our indexed annuity contracts is based on their approximate surrender values.

Borrowed Funds

LNC's short-term borrowings are defined as borrowings with contractual or expected maturities of one year or less. Long-term borrowings have contractual or expected maturities greater than one year.

Deferred Gain on Business Sold Through Reinsurance

Our reinsurance operations were acquired by Swiss Re Life & Health America, Inc. ("Swiss Re") in December 2001 through a series of indemnity reinsurance transactions. We are recognizing the gain related to these transactions at the rate that earnings on the reinsured business are expected to emerge, over a period of 15 years from the date of sale.

Commitments and Contingencies

Contingencies arising from environmental remediation costs, regulatory judgments, claims, assessments, guarantees, litigation, recourse reserves, fines, penalties and other sources are recorded when deemed probable and reasonably estimable.

Insurance Fees

Insurance fees for investment and interest-sensitive life insurance contracts consist of asset-based fees, cost of insurance charges, percent of premium charges, contract administration charges and surrender charges that are assessed against contract holder account balances. Investment products consist primarily of individual and group variable and fixed deferred annuities. Interest-sensitive life insurance products include UL insurance, VUL insurance and other interest-sensitive life insurance policies. These products include life insurance sold to individuals, corporate-owned life insurance and bank-owned life insurance.

In bifurcating the embedded derivative of our GLB features on our variable annuity products, we attribute to the embedded derivative the portion of total fees collected from the contract holder that relate to the GLB riders (the "attributed fees"), which are not reported within insurance fees on our Consolidated Statements of Income (Loss). These attributed fees represent the present value of future claims expected to be paid for the GLB at the inception of the contract plus a margin that a theoretical market participant would include for risk/profit and are

reported within realized gain (loss) on our Consolidated Statements of Income (Loss).

The timing of revenue recognition as it relates to fees assessed on investment contracts is determined based on the nature of such fees. Asset-based fees, cost of insurance and contract administration charges are assessed on a daily or monthly basis and recognized as revenue when assessed and earned. Percent of premium charges are assessed at the time of premium payment and recognized as revenue when assessed and earned. Certain amounts assessed that represent compensation for services to be provided in future periods are reported as unearned revenue and recognized in income over the periods benefited. Surrender charges are recognized upon surrender of a contract by the contract holder in accordance with contractual terms.

For investment and interest-sensitive life insurance contracts, the amounts collected from contract holders are considered deposits and are not included in revenue.

Insurance Premiums

Our insurance premiums for traditional life insurance and group insurance products are recognized as revenue when due from the contract holder. Our traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of whole life insurance, limited-payment life insurance, term life insurance and certain annuities with life contingencies. Our group non-medical insurance products consist primarily of term life, disability and dental.

Net Investment Income

Dividends and interest income, recorded in net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in debt securities are reflected in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield.

For CDOs and MBS, included in the trading and AFS fixed maturity securities portfolios, we recognize income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from originally anticipated prepayments, the retrospective effective yield is recalculated to reflect actual payments to date and a catch up adjustment is recorded in the current period. In addition, the new effective yield, which reflects anticipated future payments, is used prospectively. Any adjustments resulting from changes in effective yield are reflected in net investment income on our Consolidated Statements of Income (Loss).

Realized Gain (Loss)

Realized gain (loss) on our Consolidated Statements of Income (Loss) includes realized gains and losses from the sale of investments, write-downs for other-than-temporary impairments of investments, certain derivative and embedded derivative gains and losses, gains and losses on the sale of subsidiaries and businesses and net gains and losses on reinsurance embedded derivative and trading securities. Realized gains and losses on the sale of investments are determined using the specific identification method. Realized gain (loss) is recognized in net income, net of associated amortization of DAC, VOBA, DSI and DFEL. Realized gain (loss) is also net of allocations of investment gains and losses to certain contract holders and certain funds withheld on reinsurance arrangements for which we have a contractual obligation.

Other Revenues and Fees

Other revenues and fees consists primarily of fees attributable to broker-dealer services recorded as earned at the time of sale, changes in the market value of our seed capital investments and communications sales recognized as earned, net of agency and representative commissions.

Interest Credited

Interest credited includes interest credited to contract holder account balances. Interest crediting rates associated with funds invested in the general account of LNC’s insurance subsidiaries during 2009 through 2011 ranged from 3.00% to 9.00%.

Benefits

Benefits for UL and other interest-sensitive life insurance products include benefit claims incurred during the period in excess of contract account balances. Benefits also include the change in reserves for life insurance products with secondary guarantee benefits and annuity products with guaranteed death benefits. For traditional life, group health and disability income products, benefits are recognized when incurred in a manner consistent with the related premium recognition policies.

Pension and Other Postretirement Benefit Plans

Pursuant to the accounting rules for our obligations to employees and agents under our various pension and other postretirement benefit plans, we are required to make a number of assumptions to estimate related liabilities and

expenses. We use assumptions for the weighted-average discount rate and expected return on plan assets to estimate pension expense. The discount rate assumptions are determined using an analysis of current market information and the projected benefit flows associated with these plans. The expected long-term rate of return on plan assets is based on historical and projected future rates of return on the funds invested in the plan. The calculation of our accumulated postretirement benefit obligation also uses an assumption of weighted-average annual rate of increase in the per capita cost of covered benefits, which reflects a health care cost trend rate.

Stock-Based Compensation

In general, we expense the fair value of stock awards included in our incentive compensation plans. As of the date our stock awards are approved, the fair value of stock options is determined using a Black-Scholes options valuation methodology, and the fair value of other stock awards is based upon the market value of the stock. The fair value of the awards is expensed over the performance or service period, which generally corresponds to the vesting period, and is recognized as an increase to common stock in stockholders' equity. We classify certain stock awards as liabilities. For these awards, the settlement value is classified as a liability on our consolidated balance sheet and the liability is marked-to-market through net income at the end of each reporting period. Stock-based compensation expense is reflected in underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss).

Interest and Debt Expenses

Interest expense on our short-term and long-term debt is recognized as due and any associated premiums, discounts, and costs are amortized (accreted) over the term of the related borrowing utilizing the effective interest method. In addition, gains or losses related to certain derivative instruments associated with debt are recognized in interest expense during the period of the change.

Income Taxes

We file a U.S. consolidated income tax return that includes all of our eligible subsidiaries. Ineligible subsidiaries file separate individual corporate tax returns. Subsidiaries operating outside of the U.S. are taxed, and income tax expense is recorded based on applicable foreign statutes. Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to the extent required. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance, we consider many factors, including: the nature and character of the deferred tax assets and liabilities; taxable income in prior carryback years; future reversals of temporary differences; the length of time carryovers can be utilized; and any tax planning strategies we would employ to avoid a tax benefit from expiring unused.

Discontinued Operations

The results of operations of a component of the Company that either has been disposed of or is classified as held-for-sale are reported in income (loss) from discontinued operations, net of federal income taxes, for all periods presented if the operations and cash flows of the component have been or will be eliminated from our ongoing operations as a result of the disposal transaction and we will not have any significant continuing involvement in the operations.

Foreign Currency Translation

The balance sheet accounts and income statement items of foreign subsidiaries, reported in functional currencies other than the U.S. dollar are translated at the current and average exchange rates for the year, respectively. Resulting translation adjustments and other translation adjustments for foreign currency transactions that affect cash flows are reported in accumulated OCI, a component of stockholders’ equity.

Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing earnings available to common shareholders by the average common shares outstanding. Diluted EPS is computed assuming the conversion or exercise of dilutive convertible preferred securities, nonvested stock, stock options, performance share units, warrants and non-employee directors’ deferred compensation shares outstanding during the year.

Our deferred compensation plans allow participants the option to diversify from LNC stock to other investment alternatives. When calculating our weighted-average dilutive shares, we presume the investment option will be settled in cash and exclude these shares from our calculation, unless the effect of settlement in shares would be more dilutive to our diluted EPS calculation.

For any period where a loss from continuing operations is experienced, shares used in the diluted EPS calculation represent basic shares because using diluted shares would be anti-dilutive to the calculation.

2. New Accounting Standards

Adoption of New Accounting Standards

Consolidations Topic

In June 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-17, “Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities” (“ASU 2009-17”), which amended the consolidation guidance for VIEs. The Consolidations Topic of the FASB ASC was amended to require a qualitative approach for identifying the variable interest required to consolidate the VIE based on the entity that has the power to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive returns that could potentially be significant to the VIE. In February 2010, the FASB issued ASU No. 2010-10, “Amendments for Certain Investment Funds” (“ASU 2010-10”), which deferred application of the guidance in ASU 2009-17 for reporting entities with interests in an entity that applies the specialized accounting guidance for investment companies.

Effective January 1, 2010, we adopted the amendments in ASU 2009-17 and ASU 2010-10, and accordingly reconsidered our involvement with all our VIEs and the primary beneficiary of the VIEs. We concluded we are the primary beneficiary of the VIEs associated with our investments in credit-linked notes ("CLNs"), and as such, consolidated all of the assets and liabilities of these VIEs and recorded a cumulative effect adjustment of $169 million, after-tax, to the beginning balance of retained earnings as of January 1, 2010. In addition, we considered our investments in LPs and other alternative investments, and concluded these investments are within the scope of the deferral in ASU 2010-10, and as such they are not currently subject to the amended consolidation guidance in ASU 2009-17. As a result, we will continue to account for our alternative investments consistent with the accounting policy in Note 1. See Note 4 for more detail regarding the consolidation of our VIEs.

Fair Value Measurements and Disclosures Topic

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which required additional disclosure related to the three-level fair value hierarchy. We adopted the disclosure requirements related to significant transfers in and out of Levels 1 and 2 of the fair value hierarchy, and fair value disclosures related to pension and postretirement benefit plan assets effective January 1, 2010. Effective January 1, 2011, we adopted the remaining disclosure amendments in ASU 2010-06 requiring us to separately present information related to purchases, sales, issuances and settlements in the reconciliation of fair value measurements classified as Level 3, and have included the disclosure in Note 21 for the year ended December 31, 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. ASU 2010-15 concludes that an insurance entity would not be required to consider interests held in separate accounts when determining whether or not to consolidate an investment fund, unless the separate account interest is held for the benefit of a related party. If an investment fund is consolidated, the portion of the assets representing interests held in separate accounts would be recorded as a separate account asset with a corresponding separate account liability. The remaining investment fund assets would be consolidated in the insurance entity's general accounts. We adopted the accounting guidance in ASU 2010-15 effective January 1, 2011, and applied the accounting guidance retrospectively to our separate accounts. 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"). Generally, reporting units with zero or negative carrying amounts will pass Step 1 of the goodwill impairment test as the fair value will exceed carrying value; therefore, goodwill impairment would not be assessed under Step 2. ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts, and requires these reporting units perform Step 2 of the impairment test to determine if it is more likely than not that goodwill impairment exists. We adopted ASU 2010-28 effective January 1, 2011, and the adoption did not have a material effect on our consolidated financial condition and results of operations.

Investments – Debt and Equity Securities Topic

In April 2009, the FASB replaced the guidance in the Investments – Debt and Equity Securities Topic of the FASB ASC related to OTTI. Our accounting policy for OTTI, included in Note 1, reflects these changes adopted by the FASB. As a result of adopting this accounting guidance, effective January 1, 2009, we recorded an increase of $102 million to the opening balance of retained earnings with a corresponding decrease to accumulated OCI on our Consolidated Statements of Stockholders' Equity to reclassify the noncredit portion of previously other-than-temporarily impaired debt securities held as of January 1, 2009. The cumulative effect adjustment was calculated for all debt securities held as of January 1, 2009, for which an OTTI was previously recognized, and for which we did not intend to sell the security and it was not more likely than not that we would be required to sell the security before recovery of its amortized cost, by comparing the present value of cash flows expected to be received as of January 1, 2009, to the amortized cost basis of the debt securities. In addition, because the carrying amounts of DAC, VOBA, DSI and DFEL are adjusted for the effects of realized and unrealized gains and losses on fixed maturity AFS securities, we recognized a true-up to our DAC, VOBA, DSI and DFEL balances for this cumulative effect adjustment. The impact of this adoption to both basic and diluted per share amounts for the year ended December 31, 2009, was an increase of $0.98 per share.

Information regarding our calculation of OTTI is included in Note 5, and the amount of OTTI recognized in accumulated OCI is provided in Note 14.

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”) to provide more information regarding the nature of the risk associated with financing receivables and how the assessment of the risk is used to estimate the allowance for credit losses. ASU 2010-20 was adopted over two reporting periods, and comparative disclosures were not required for earlier reporting periods ending prior to the initial adoption date. The remaining disclosure requirement related to the activity in our allowance for mortgage loans on real estate losses was effective January 1, 2011, and is provided in Note 5.

Future Adoption of New Accounting Standards

Balance Sheet Topic

In December 2011, the FASB issued ASU No. 2011-11, “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”), to address certain comparability issues between financial statements prepared in accordance with GAAP and those prepared in accordance with International Financial Reporting Standards. ASU 2011-11 will require an entity to provide enhanced disclosures about financial instruments and derivative instruments to enable users to understand the effects of offsetting in the financial statements as well as the effects of master netting arrangements on an entity’s financial position. The disclosures required by ASU 2011-11 are effective for annual and interim reporting periods beginning on or after January 1, 2013, with respective disclosures required for all comparative periods presented. We will adopt the disclosure requirements in ASU 2011-11 beginning with our first quarter 2013 financial statements, and are currently evaluating the appropriate location for these disclosures in the notes to our financial statements.

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, ASU 2011-05 requires entities to present reclassification adjustments for each component of AOCI in both net income and OCI on the face of the financial statements; however, in December 2011, the FASB deferred this presentation requirement by issuing ASU No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” (“ASU 2011-12”). The FASB is considering operational concerns about the presentation requirements and the needs of financial statement users for additional information about reclassification adjustments. As noted in ASU 2011-12, the deferral does not affect the requirements in ASU 2011-5 to present the items of net income, OCI and total comprehensive income in a single continuous or two consecutive statements. In addition, entities will still be required to present amounts reclassified out of AOCI on the face of the financial statements or in the notes to the financial statements. ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Early adoption is permitted, and the accounting guidance in ASU 2011-05 not subject to the deferral in ASU 2011-12 must be applied retrospectively. We will adopt the provisions of ASU 2011-05 and ASU 2011-12 with our first quarter 2012 financial statements and are currently evaluating our options for the presentation of comprehensive income.

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 do not expect the adoption will have a material effect 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. Only those costs incurred which result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized. Incremental costs related to unsuccessful attempts to acquire insurance contracts must be expensed as incurred. Under ASU 2010-26, the capitalization criteria in the direct-response advertising

guidance of the Other Assets and Deferred Costs Topic of the FASB ASC must be met in order to capitalize advertising costs. The amendments are effective for fiscal years and interim periods beginning after December 15, 2011. Early adoption is permitted and an entity may elect to apply the guidance prospectively or retrospectively. We will adopt the provisions of ASU 2010-26 effective January 1, 2012, and currently estimate that retrospective adoption will result in the restatement of all years presented with a cumulative effect adjustment to the opening balance of retained earnings for the earliest period presented of approximately $950 million to $1.15 billion. In addition, the adoption of this accounting guidance will result in a lower DAC adjustment associated with unrealized gains and losses on AFS securities and certain derivatives; therefore, we will also adjust these DAC balances through a cumulative effect adjustment to the opening balance of AOCI. This adjustment is dependent on our unrealized position as of the date of adoption.

Intangibles – Goodwill and Other Topic

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08"), which provides an option to first assess qualitative factors to determine if it is necessary to complete the two-step goodwill impairment test. If an assessment of the relevant events and circumstances leads to a conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying value, then performing the two-step impairment test is unnecessary. However, if a conclusion is reached otherwise, the two-step impairment test, that is currently required under the FASB ASC, must be completed. An entity has an unconditional option to bypass the qualitative assessment for any reporting unit and proceed directly to the two-step goodwill impairment test, and resume qualitative assessment for the same reporting unit in a subsequent reporting period. The amendments in ASU 2011-08 will be effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We will adopt the provisions of ASU 2011-08 effective January 1, 2012, and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

Transfers and Servicing Topic

In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements" ("ASU 2011-03"), which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. ASU 2011-03 removes the following 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

Newton County Loan & Savings, FSB ("NCLS")

On January 8, 2009, the Office of Thrift Supervision approved our application to become a savings and loan holding company and our acquisition of NCLS, a federally regulated savings bank located in Indiana. On November 30, 2011, we completed the liquidation of NCLS, which did not have a material effect on our consolidated financial condition or

results of operations.

Discontinued Investment Management Operations

On January 4, 2010, we closed on the stock sale of our subsidiary Delaware Management Holdings, Inc. (“Delaware”), which provided investment products and services to individuals and institutions, to Macquarie Bank Limited.

In addition, certain of our subsidiaries, including The Lincoln National Life Insurance Company (“LNL”), our primary insurance subsidiary, entered into investment advisory agreements with Delaware, pursuant to which Delaware will continue to manage the majority of the general account insurance assets of the subsidiaries. The investment advisory agreements have 10-year terms, and we may terminate them without cause, subject to a purchase price adjustment of up to $67 million, the amount of which is dependent on the timing of any termination and which agreements are terminated. The amount of the potential adjustment will decline on a pro rata basis over the 10-year term of the advisory agreements.

We 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 Years Ended December 31,		
	2011	2010	2009
Revenues			
Investment advisory fees - external	$ -	$ -	$ 207
Investment advisory fees - internal	-	-	84
Other revenues and fees	-	-	91
Gain (loss) on sale of business	-	4	9
Total revenues	$ -	$ 4	$ 391
Discontinued Operations Before Disposal			
Income (loss) from discontinued operations before disposal, before federal income taxes	$ -	$ (13)	$ 37
Federal income tax expense (benefit)	-	(2)	18
Income (loss) from discontinued operations before disposal	-	(11)	19
Disposal			
Gain (loss) on disposal, before federal income taxes	(3)	37	-
Federal income tax expense (benefit)	5	(13)	-
Gain (loss) on disposal	(8)	24	-
Income (loss) from discontinued operations	$ (8)	$ 13	$ 19

The loss from discontinued operations for the year ended December 31, 2011, related to an unfavorable tax return true-up from the prior year. The income from discontinued operations for the year ended December 31, 2010, included final cash received toward the purchase price for certain institutional taxable fixed income business sold during the fourth quarter 2007, and also reflected stock compensation expense attributable to the acceleration of vesting of equity awards for certain Delaware employees upon the sale of Delaware.

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 Years Ended December 31,	
	2010	2009
Revenues		
Insurance premiums	$ -	$ 41
Insurance fees	-	99
Net investment income	-	43
Realized gain (loss)	-	(1)
Total revenues	$ -	$ 182
Discontinued Operations Before Disposal		
Income (loss) from discontinued operations before disposal, before federal income taxes	$ -	$ 38
Federal income tax expense (benefit)	-	13
Income (loss) from discontinued operations before disposal	-	25
Disposal		
Gain (loss) on disposal, before federal income taxes	29	(219)
Federal income tax expense (benefit)	13	(105)
Gain (loss) on disposal	16	(114)
Income (loss) from discontinued operations	$ 16	$ (89)

The income from discontinued operations for the year ended December 31, 2010, related to an unfavorable tax return true-up from the prior year, partially offset by the estimated transaction cost being lower than anticipated. In addition, the income from discontinued operations for the year ended December 31, 2010, included additional consideration received attributable to a post-closing adjustment of the purchase price based upon a final actuarial appraisal of the value of the business as set forth in the share purchase agreement, partially offset by the items mentioned above.

4. Variable Interest Entities

Consolidated VIEs

CLNs

We have invested in the Class 1 notes of two 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. In addition, we receive returns from the CLN structures and may absorb losses that could potentially be significant to the CLN structures. As such, we concluded that we are the primary beneficiary of the VIEs associated with the CLNs. We reflected the assets and liabilities on our Consolidated Balance Sheets and recognized the results of operations of these VIEs on our Consolidated Statements of Income since adopting new accounting guidance in the first quarter of 2010. See “Consolidations Topic” in Note 2 for more detail regarding the effect of the adoption.

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

The following summarizes information regarding the CLN structures (dollars in millions) as of December 31, 2011:

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

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

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of December 31, 2011:

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Telecommunications	-%	-%	5.5%	4.8%	0.4%	0.5%	-%	11.2%
Financial intermediaries	0.3%	3.3%	6.4%	0.5%	-%	-%	-%	10.5%
Oil and gas	-%	0.7%	1.0%	4.6%	-%	-%	-%	6.3%
Utilities	-%	-%	3.1%	1.4%	-%	-%	-%	4.5%
Chemicals and plastics	-%	-%	2.3%	1.2%	0.4%	-%	-%	3.9%
Drugs	0.3%	2.2%	1.2%	-%	-%	-%	-%	3.7%
Retailers (except food and drug)	-%	-%	2.1%	0.9%	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	-%	3.0%	14.9%	17.3%	3.5%	1.5%	0.3%	40.5%
Total	0.6%	12.8%	43.4%	34.7%	6.2%	2.0%	0.3%	100.0%

Statutory Trust Note

In August 2011, we purchased a $100 million note issued by a statutory trust ("Issuer") in a private placement offering. The proceeds were used by the Issuer to purchase U.S. Treasury securities to be held as collateral assets supporting an excess mortality swap. Our maximum exposure to loss is limited to our original investment in the

notes. We have concluded that the Issuer of the note is a VIE as the entity does not have sufficient equity to support its activities without additional financial support, and as a note holder, our interest represents a variable interest. In our evaluation of the primary beneficiary, we concluded that our economic interest was greater than our stated power. As a result, we concluded that we are the primary beneficiary of the VIE and consolidated all of the assets and liabilities of the Issuer on our Consolidated Balance Sheets as of August 1, 2011.

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

	As of December 31, 2011			As of December 31, 2010		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loan	N/A	$ -	$ 592	N/A	$ -	$ 584
U.S. Government bonds	N/A	-	108	N/A	-	-
Excess mortality swap	1	100	-	-	-	-
Total assets (1)	1	$ 100	$ 700	-	$ -	$ 584
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 295	2	$ 600	$ 215
Contingent forwards	2	-	(4)	2	-	(6)
Total non-qualifying hedges	4	600	291	4	600	209
Federal income tax	N/A	-	(98)	N/A	-	(77)
Total liabilities (2)	4	$ 600	$ 193	4	$ 600	$ 132

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

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

As described more fully in Note 1, we regularly review our investment holdings for OTTI. Based upon this review, we believe that the fixed maturity securities were not other-than-temporarily impaired as of December 31, 2011.

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

	For the Years Ended December 31,	
	2011	2010
Non-Qualifying Hedges		
Credit default swaps	$ (80)	$ 25
Contingent forwards	(2)	(9)
Total non-qualifying hedges (1)	$ (82)	$ 16

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

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

	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
RMBS	8,673	430	119	146	8,838
CMBS	2,144	95	180	6	2,053
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	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 December 31, 2011	
	Amortized Cost	Fair Value
Due in one year or less	$ 2,342	$ 2,378
Due after one year through five years	12,418	13,288
Due after five years through ten years	22,456	24,593
Due after ten years	22,992	26,133
Subtotal	60,208	66,392
MBS	9,332	9,639
CDOs	121	102
Total fixed maturity AFS securities	$ 69,661	$ 76,133

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 December 31, 2011					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI	Fair Value	Gross Unrealized Losses and OTTI
Fixed maturity securities:						
Corporate bonds	$ 2,848	$ 162	$ 1,452	$ 423	$ 4,300	$ 585
RMBS	565	125	429	74	994	199
CMBS	178	15	146	100	324	115
CDOs	9	1	80	18	89	19
State and municipal bonds	31	-	30	9	61	9
Hybrid and redeemable preferred securities	324	23	353	147	677	170
Total fixed maturity securities	3,955	326	2,490	771	6,445	1,097
Equity securities	38	12	-	-	38	12
Total AFS securities	$ 3,993	$ 338	$ 2,490	$ 771	$ 6,483	$ 1,109
Total number of AFS securities in an unrealized loss position						897

	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
RMBS	655	126	750	139	1,405	265
CMBS	75	8	304	178	379	186
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	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. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

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

	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 years ended December 31, 2011 and 2010, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $135 million and $163 million, pre-tax, respectively, and before associated amortization expense for DAC, VOBA, DSI and DFEL, of which $(15) million and $19 million, respectively, was recognized in OCI and $150 million and $144 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 December 31, 2011

Fair	Number of

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

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

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses on AFS securities as of December 31, 2011, decreased $299 million in comparison to December 31, 2010. This change was attributable primarily to a decline in overall market yields, which was driven by market uncertainty and weakening economic activity. As discussed further below, we believe the unrealized loss position as of December 31, 2011, does 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 December 31, 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 December 31, 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 December 31, 2011, the unrealized losses associated with our MBS and CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model as discussed above. The key assumptions included default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each security.

As of December 31, 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 Years Ended December 31,		
	2011	2010	2009
Balance as of beginning-of-year	$ 319	$ 268	$ -
Cumulative effect from adoption of new accounting standard	-	-	31
Increases attributable to:			
Credit losses on securities for which an OTTI was not previously recognized	55	14	267
Credit losses on securities for which an OTTI was previously recognized	71	65	-
Decreases attributable to:			
Securities sold	(55)	(28)	(30)
Balance as of end-of-year	$ 390	$ 319	$ 268

During the years ended December 31, 2011, 2010 and 2009, 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 December 31, 2011				
	Amortized Cost	Gains	Gross Unrealized Losses and OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 169	$ 1	$ 67	$ 103	$ 51
RMBS	690	1	128	563	301
CMBS	17	-	10	7	38
Total	$ 876	$ 2	$ 205	$ 673	$ 390

Trading Securities

Trading securities at fair value (in millions) consisted of the following:

	As of December 31,	
	2011	2010
Fixed maturity securities:		
Corporate bonds	$ 1,908	$ 1,801
U.S. Government bonds	376	362
Foreign government bonds	39	29
RMBS	244	255
CMBS	31	67
CDOs	4	5
State and municipal bonds	26	24
Hybrid and redeemable preferred securities	45	51
Total fixed maturity securities	2,673	2,594
Equity securities	2	2
Total trading securities	$ 2,675	$ 2,596

The portion of the market adjustment for losses that relate to trading securities still held as of December 31, 2011, 2010 and 2009, was $118 million, $93 million and $137 million, respectively.

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 32% and 30% of mortgage loans on real estate as of December 31, 2011 and 2010, respectively.

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

	As of December 31,	
	2011	2010
Current	$ 6,858	$ 6,697
60 to 90 days past due	26	8
Greater than 90 days past due	76	40
Valuation allowance associated with impaired mortgage loans on real estate	(31)	(13)
Unamortized premium (discount)	13	20
Total carrying value	$ 6,942	$ 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 December 31,	
	2011	2010
Number of impaired mortgage loans on real estate	12	9

Principal balance of impaired mortgage loans on real estate	$ 100	$ 75
Valuation allowance associated with impaired mortgage loans on real estate	(31)	(13)
Carrying value of impaired mortgage loans on real estate	$ 69	$ 62

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The average carrying value on the impaired mortgage loans on real estate (in millions) was as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Average carrying value for impaired mortgage loans on real estate	$ 57	$ 54	$ 33
Interest income recognized on impaired mortgage loans on real estate	2	3	1
Interest income collected on impaired mortgage loans on real estate	2	3	1

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

	As of December 31, 2011			As of December 31, 2010		
Loan-to-Value	Principal Amount	% of Total	Debt-Service Coverage Ratio	Principal Amount	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 5,338	76.7 %	1.61	4,863	72.1 %	1.62
65% to 74%	1,198	17.2 %	1.37	1,484	22.0 %	1.40
75% to 100%	308	4.4 %	0.92	179	2.7 %	0.85
Greater than 100%	116	1.7 %	0.36	219	3.2 %	1.06
Total mortgage loans on real estate	$ 6,960	100.0%		6,745	100.0%	

Alternative Investments

As of December 31, 2011 and 2010, alternative investments included investments in approximately 96 and 95 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

Net Investment Income

The major categories of net investment income (in millions) on our Consolidated Statements of Income (Loss) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Fixed maturity AFS securities	$ 3,842	$ 3,694	$ 3,474
VIEs' fixed maturity AFS securities	14	14	-
Equity AFS securities	5	6	8
Trading securities	154	157	159
Mortgage loans on real estate	408	424	462
Real estate	22	24	18
Standby real estate equity commitments	1	1	1
Policy loans	165	169	172
Invested cash	4	7	15

Commercial mortgage loan prepayment and bond makewhole premiums	82	67	24
Alternative investments	90	93	(55)
Consent fees	3	8	5
Other investments	(27)	(3)	9
Investment income	4,763	4,661	4,292
Investment expense	(111)	(120)	(114)
Net investment income	$ 4,652	$ 4,541	$ 4,178

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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 Years Ended December 31,		
	2011	2010	2009
Fixed maturity AFS securities:			
Gross gains	$ 86	$ 107	$ 161
Gross losses	(227)	(248)	(709)
Equity AFS securities:			
Gross gains	12	9	6
Gross losses	-	(3)	(27)
Gain (loss) on other investments	(9)	(53)	(130)
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(13)	8	161
Total realized gain (loss) related to certain investments	$ (151)	$ (180)	$ (538)

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 Years Ended December 31,		
	2011	2010	2009
OTTI Recognized in Net Income (Loss)			
Fixed maturity securities:			
Corporate bonds	$ (14)	$ (90)	$ (214)
RMBS	(79)	(65)	(250)
CMBS	(57)	(41)	-
CDOs	(1)	(1)	(39)
Hybrid and redeemable preferred securities	(2)	(5)	(67)
Total fixed maturity securities	(153)	(202)	(570)
Equity securities	-	(3)	(27)
Gross OTTI recognized in net income (loss)	(153)	(205)	(597)
Associated amortization of DAC, VOBA, DSI and DFEL	35	53	205
Net OTTI recognized in net income (loss), pre-tax	$ (118)	$ (152)	$ (392)
Portion of OTTI Recognized in OCI			
Gross OTTI recognized in OCI	$ 58	$ 98	$ 357
Change in DAC, VOBA, DSI and DFEL	(11)	(10)	(82)
Net portion of OTTI recognized in OCI, pre-tax	$ 47	$ 88	$ 275

Determination of Credit Losses on Corporate Bonds and CDOs

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

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of December 31, 2011 and 2010, 96% and 95%, respectively, of the fair value of our corporate bond portfolio was rated investment grade. As of December 31, 2011 and 2010, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $2.6 billion and a fair value of $2.4 billion. As of December 31, 2011 and 2010, 97% and 91%, respectively, of the fair value of our CDO portfolio was rated investment grade. As of December 31, 2011 and 2010, the portion of our CDO portfolio rated below investment grade had an

amortized cost of $3 million and $24 million and fair value of $3 million and $16 million, respectively. Based upon the analysis discussed above, we believed as of December 31, 2011 and 2010, that we would recover the amortized cost of each investment grade corporate bond and CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the years ended December 31, 2011 and 2010, the recovery as a percentage of amortized cost was 98% and 80% for corporate bonds, respectively, and 0% for CDOs.

Determination of Credit Losses on MBS

As of December 31, 2011 and 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 December 31, 2011		As of December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$ 2,980	$ 2,980	$ 800	$ 800
Securities pledged under securities lending agreements (2)	200	193	199	192
Securities pledged under reverse repurchase agreements (3)	280	294	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	173	199	280	318
Securities pledged for Federal Home Loan Bank of Indianapolis Securities ("FHLBI") (5)	100	142	100	110
Total payables for collateral on investments	$ 3,733	$ 3,808	$ 1,659	$ 1,714

(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 securities for FHLBI are included in fixed maturity AFS securities 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 Years Ended December 31,		
	2011	2010	2009
Collateral payable held for derivative investments	$ 2,180	$ 183	$ (2,192)
Securities pledged under securities lending agreements	1	(302)	74
Securities pledged under reverse repurchase agreements	-	(64)	(126)
Securities pledged for TALF	(107)	(65)	345
Securities pledged for FHLBI	-	-	100
Total increase (decrease) in payables for collateral on investments	$ 2,074	$ (248)	$ (1,799)

Investment Commitments

As of December 31, 2011, our investment commitments were $541 million, which included $233 million of LPs, $191 million of private placements and $117 million of mortgage loans on real estate.

Concentrations of Financial Instruments

As of December 31, 2011 and 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 5% and 6% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of $2.6 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 December 31, 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 $7.7 billion and $6.7 billion, or 8% of our invested assets portfolio, respectively, and our investment securities in the CMO industry with a fair value of $5.6 billion and $6.5 billion, or 6% and 8% of our invested assets portfolio, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

6. Derivative Instruments

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 our exposures that may adversely affect expected future cash flows and by evaluating hedging opportunities.

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.

See Note 1 for a detailed discussion of the accounting treatment for derivative instruments. See Note 21 for additional disclosures related to the fair value of our financial instruments and see Note 4 for derivative instruments related to our consolidated VIEs.

Interest Rate Contracts

We use derivative instruments as part of our interest rate risk management strategy. These instruments are economic hedges unless otherwise noted and include:

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.

Forward-Starting Interest Rate Swaps

We use forward-starting interest rate swaps designated and qualifying as cash flow hedges to hedge our exposure to interest rate fluctuations related to the forecasted purchase of certain assets and liabilities.

Interest Rate Cap Agreements

We use interest rate cap agreements to provide a level of protection from the effect of rising interest rates to economically hedge our annuity business. 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.

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. 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.

Interest Rate Futures

We use interest rate 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.

We also use interest rate swap agreements designated and qualifying as cash flow hedges. These instruments either hedge the interest rate risk of floating rate bond coupon payments by replicating a fixed rate bond, or hedge our exposure to fixed rate bond coupon payments and the change in the underlying asset values as interest rates fluctuate.

Finally, we use interest rate swap agreements designated and qualifying as fair value hedges to hedge against changes in the value of anticipated transactions and commitments as interest rate fluctuate.

Treasury and Reverse Treasury Locks

We use treasury locks designated and qualifying as cash flow hedges to hedge the interest rate exposure related to our issuance of fixed rate securities or the anticipated future cash flows of floating rate fixed maturity securities due to changes in interest rates. In addition, we use reverse treasury locks designated and qualifying as cash flow hedges 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.

Foreign Currency Contracts

We use derivative instruments as part of our foreign currency risk management strategy. These instruments are economic hedges unless otherwise noted and include:

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.

Foreign Currency Forwards

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

Foreign Currency Swaps

We use foreign currency swaps designated and qualifying as cash flow hedges, 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.

Equity Market Contracts

We use derivative instruments as part of our equity market risk management strategy that are economic hedges and include:

Call Options Based on the S&P 500 Index® ("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.

Equity Futures

We use 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.

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.

Total Return Swaps

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

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

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.

Credit Contracts

We use derivative instruments as part of our credit risk management strategy that are economic hedges and include:

Credit Default Swaps - Buying Protection

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.

Credit Default Swaps - Selling Protection

We sell 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.

Embedded Derivatives

We use embedded derivatives that are economic hedges that include:

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.

GLB Reserves Embedded Derivatives

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 GLBs offered in our variable annuity products, including products 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 GLB reserves caused by those same factors. 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.

Certain features of these guarantees have elements of both insurance benefits accounted for under the Financial Services – Insurance – Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC ("benefit reserves") and embedded derivatives accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("embedded derivative reserves"). We calculate the value of the embedded derivative reserve and the benefit reserve based on the specific characteristics of each GLB feature.

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. 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.

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.

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

	As of December 31, 2011			As of December 31, 2010		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts (1)	$ 2,512	$ 130	$ -	$ 2,076	$ (40)	$ -
Foreign currency contracts (1)	340	38	-	340	30	-
Total cash flow hedges	2,852	168	-	2,416	(10)	-
Fair value hedges:						
Interest rate contracts (2)	1,675	319	319	1,675	55	55
Non-Qualifying Hedges						
Interest rate contracts (1)	30,232	568	-	18,406	(426)	-
Foreign currency contracts (1)	4	-	-	219	-	-
Equity market contracts (1)	16,401	2,096	-	11,577	1,442	-
Credit contracts (1)	48	-	-	-	-	-
Credit contracts (3)	148	-	16	145	-	16
Embedded derivatives:						
Deferred compensation plans (3)	-	-	354	-	-	363
Indexed annuity contracts (4)	-	-	399	-	-	497
GLB reserves (4)	-	-	2,217	-	-	408
Reinsurance related (5)	-	-	168	-	-	102
AFS securities (1)	-	-	-	-	15	-
Total derivative instruments	$ 51,360	$ 3,151	$ 3,473	$ 34,438	$ 1,076	$ 1,441

(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 December 31, 2011					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Interest rate contracts (1)	$ 2,154	$ 11,353	$ 11,349	$ 9,556	$ 7	$ 34,419
Foreign currency contracts (2)	4	154	105	81	-	344
Equity market contracts	8,638	3,155	4,589	17	2	16,401
Credit contracts	40	116	40	-	-	196
Total derivative instruments with notional amounts	$ 10,836	$ 14,778	$ 16,083	$ 9,654	$ 9	$ 51,360

(1) As of December 31, 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.

(2) As of December 31, 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.

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

	For the Years Ended December 31,		
	2011	2010	2009
Unrealized Gain (Loss) on Derivative Instruments			
Balance as of beginning-of-year	$ (15)	$ 11	$ 127
Other comprehensive income (loss):			
Unrealized holding gains (losses) arising during the year:			
Cash flow hedges:			
Interest rate contracts	178	(47)	30
Foreign currency contracts	3	14	(52)
Fair value hedges:			
Interest rate contracts	4	4	4
Equity market contracts	-	-	(28)
Net investment in a foreign subsidiary	-	-	(74)
AFS securities embedded derivatives	-	2	-
Change in foreign currency exchange rate adjustment	7	4	-
Change in DAC, VOBA, DSI and DFEL	(1)	(4)	22
Income tax benefit (expense)	(66)	9	(13)
Less:			
Reclassification adjustment for gains (losses) included in net income (loss):			
Cash flow hedges:			
Interest rate contracts (1)	(15)	4	4
Interest rate contracts (2)	(1)	4	-
Foreign currency contracts (1)	2	2	-
Fair value hedges:			
Interest rate contracts (2)	4	4	4
Associated amortization of DAC, VOBA, DSI and DFEL	-	(1)	-
Income tax benefit (expense)	4	(5)	(3)
Balance as of end-of-year	$ 116	$ (15)	$ 11

(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 Years Ended December 31,		
	2011	2010	2009
Qualifying Hedges			
Cash flow hedges:			
Interest rate contracts (1)	$ (15)	$ 3	$ 3
Foreign currency contracts (1)	2	2	1
Total cash flow hedges	(13)	5	4
Fair value hedges:			
Interest rate contracts (2)	50	42	17
Equity market contracts (3)	-	15	1
Total fair value hedges	50	57	18
Non-Qualifying Hedges			
Interest rate contracts (1)	(44)	5	-
Interest rate contracts (3)	1,144	175	(1,553)
Foreign currency contracts (1)	-	43	(98)
Foreign currency contracts (3)	(12)	(13)	(7)
Equity market contracts (3)	316	(386)	(1,379)
Equity market contracts (4)	21	(118)	35
Credit contracts (1)	-	1	1
Credit contracts (3)	(7)	7	(37)
Embedded derivatives:			
Deferred compensation plans (4)	(11)	(34)	(63)
Indexed annuity contracts (3)	5	(81)	(75)
GLB reserves (3)	(1,809)	268	2,228
Reinsurance related (3)	(66)	(71)	(62)
AFS securities (1)	-	2	-
Total derivative instruments	$ (426)	$ (140)	$ (988)

(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).

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

	For the Years Ended December 31,		
	2011	2010	2009
Ineffective portion recognized in realized gain (loss)	$ -	$ -	$ (1)
Gain (loss) recognized as a component of OCI with the offset to net investment income	(13)	6	4

As of December 31, 2011, $20 million of the deferred net losses on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to the interest rate variances related to the interest rate swap agreements.

For the years ended December 31, 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.

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

	For the Years Ended December 31,		
	2011	2010	2009
Ineffective portion recognized in realized gain (loss)	$ -	$ 1	$ 1
Gain (loss) recognized as a component of OCI with the offset to interest expense	4	4	4

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

As of December 31, 2011

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation (1)	Number of Instruments	Fair Value (2)	Maximum Potential Payout
12/20/2012 (3)	(5)	(6)	BBB+	4	$ -	$ 40
12/20/2016 (4)	(5)	(6)	BBB+	3	(12)	68
03/20/2017 (4)	(5)	(6)	BBB	2	(4)	40
				9	$ (16)	$ 148

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, prior to 2007, where we determined there was a spread versus premium mismatch.
(4) These credit default swaps were sold to a counter-party of the consolidated VIEs discussed in Note 4.
(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 December 31,

	2011	2010
Maximum potential payout	$ 148	$ 145
Less:		
Counterparty thresholds	-	10
Maximum collateral potentially required to post	$ 148	$ 135

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post approximately $16 million as of December 31, 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.

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 December 31, 2011, the nonperformance risk adjustment was $16 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. 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 December 31, 2011, the exposure was $81 million.

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

	As of December 31, 2011		As of December 31, 2010	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AAA	$ -	$ -	$ 1	$ -
AA	35	-	99	-
AA-	219	-	65	-
A+	848	-	548	(76)
A	1,681	(120)	436	(223)
A-	387	-	-	-
	$ 3,170	$ (120)	$ 1,149	$ (299)

7. Federal Income Taxes

The federal income tax expense (benefit) on continuing operations (in millions) was as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Current	$ 16	$ (138)	$ (751)
Deferred	281	421	645
Federal income tax expense (benefit)	$ 297	$ 283	$ (106)

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

	For the Years Ended December 31,		
	2011	2010	2009
Tax rate times pre-tax income	$ 210	$ 432	$ (182)
Effect of:			
Tax-preferred investment income	(122)	(105)	(92)
Tax credits	(42)	(42)	(46)
Goodwill	261	-	238
Prior year tax return adjustment	(28)	(12)	(60)
Other items	18	10	36
Federal income tax expense (benefit)	$ 297	$ 283	$ (106)
Effective tax rate	50 %	23 %	20 %

Included in tax-preferred investment income was a separate account dividends-received deduction benefit of $112 million, $94 million and $77 million for the years ended December 31, 2011, 2010 and 2009, respectively, exclusive of any prior years' tax return adjustment.

The federal income tax asset (liability) (in millions) was as follows:

	As of December 31,	
	2011	2010
Current	$ (241)	$ (182)
Deferred	(2,432)	(1,221)
Total federal income tax asset (liability)	$ (2,673)	$ (1,403)

Significant components of our deferred tax assets and liabilities (in millions) were as follows:

	As of December 31,	
	2011	2010
Deferred Tax Assets		
Future contract benefits and other contract holder funds	$ 909	$ 1,400
Deferred gain on business sold through reinsurance	122	160
Reinsurance related embedded derivative asset	59	22
Investments	489	401
Compensation and benefit plans	304	272
Net operating loss	23	-
Net capital loss	59	97
Tax credits	208	105
VIE	98	77
Other	202	108
Total deferred tax assets	2,473	2,642
Deferred Tax Liabilities		
DAC	1,823	1,977
VOBA	370	483
Net unrealized gain on AFS securities	2,259	1,014

Net unrealized gain on trading securities	131	90
Intangibles	160	165
Other	162	134
Total deferred tax liabilities	4,905	3,863
Net deferred tax asset (liability)	$ (2,432)	$ (1,221)

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Although realization is not assured, management believes as of December 31, 2011 and 2010, it is more likely than not that the deferred tax assets, including our capital loss deferred tax asset, will be realized.

As of December 31, 2011, LNC had net capital loss carryforwards of $93 million and $77 million which will expire in 2014 and 2015, respectively. LNC believes that it is more likely than not that the capital losses will be fully utilized within the allowable carryforward period.

As of December 31, 2011, LNC had net operating loss carryforwards of $66 million which will expire in 2031. LNC believes that it is more likely than not that the operating losses will be fully utilized within the allowable carryforward period.

As of December 31, 2011 and 2010, $234 million and $223 million of our unrecognized tax benefits presented below, if recognized, would have affected our income tax expense and our effective tax rate. We anticipate a change to our unrecognized tax benefits during 2012 in the range of zero to $131 million. A reconciliation of the unrecognized tax benefits (in millions) was as follows:

	For the Years Ended December 31,	
	2011	2010
Balance as of beginning-of-year	$ 318	$ 336
Increases for prior year tax positions	2	2
Decreases for prior year tax positions	(10)	(7)
Increases for current year tax positions	12	9
Decreases for current year tax positions	(6)	(8)
Decreases for settlements with taxing authorities	-	(10)
Decreases for lapse of statute of limitations	-	(4)
Balance as of end-of-year	$ 316	$ 318

We recognize interest and penalties accrued, if any, related to unrecognized tax benefits as a component of tax expense. For the years ended December 31, 2011, 2010 and 2009, we recognized interest and penalty expense related to uncertain tax positions of $10 million, $7 million and $12 million, respectively. We had accrued interest and penalty expense related to the unrecognized tax benefits of $103 million and $93 million as of December 31, 2011 and 2010, respectively.

In the normal course of business, we are subject to examination by taxing authorities throughout the U.S. and the U.K. At any given time, we may be under examination by state, local or non-U.S. income tax authorities. During the second quarter of 2010, the IRS completed its examination for tax years 2005 and 2006 resulting in a proposed assessment. Also, during the second quarter of 2010, the IRS completed its examination of tax year 2006 for the former Jefferson-Pilot Corporation ("JP") and its subsidiaries. We believe a portion of the assessments is inconsistent with the existing law and are protesting it through the established IRS appeals process. We do not anticipate that any adjustments that might result from such audits would be material to our consolidated results of operations or financial condition. We are currently under audit by the IRS for years 2007 and 2008. The JP subsidiaries acquired in the April 2006 merger are subject to a separate IRS examination cycle. For the former JP subsidiaries, JP Life Insurance Company and JP Financial Insurance Company, the IRS is examining the tax years ended April 1, 2007, and July 1, 2007, respectively.

8. DAC, VOBA, DSI and DFEL

Changes in DAC (in millions) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Balance as of beginning-of-year	$ 7,552	$ 7,424	$ 7,640
Business acquired (sold) through reinsurance	-	-	(37)
Deferrals	1,681	1,641	1,621
Amortization, net of interest:			
Prospective unlocking - assumption changes	(274)	(31)	(15)
Prospective unlocking - model refinements	114	145	-
Retrospective unlocking	96	41	19
Other amortization	(959)	(930)	(746)
Adjustment related to realized (gains) losses	(23)	(50)	148
Adjustment related to unrealized (gains) losses	(1,051)	(688)	(1,206)
Balance as of end-of-year	$ 7,136	$ 7,552	$ 7,424

Changes in VOBA (in millions) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Balance as of beginning-of-year	$ 1,378	$ 2,086	$ 3,762
Business acquired (sold) through reinsurance	12	-	(255)
Deferrals	20	26	30
Amortization:			
Prospective unlocking - assumption changes	72	(41)	(20)
Prospective unlocking - model refinements	102	(7)	-
Retrospective unlocking	21	11	(44)
Other amortization	(300)	(361)	(349)
Accretion of interest (1)	78	89	102
Adjustment related to realized (gains) losses	(6)	(8)	43
Adjustment related to unrealized (gains) losses	(322)	(417)	(1,183)
Balance as of end-of-year	$ 1,055	$ 1,378	$ 2,086

(1) The interest accrual rates utilized to calculate the accretion of interest ranged from 3.40% to 7.25%.

Estimated future amortization of VOBA, net of interest (in millions), as of December 31, 2011, was as follows:

2012	$ 117
2013	101
2014	76

2015	68
2016	64

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Changes in DSI (in millions) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Balance as of beginning-of-year	$ 286	$ 323	$ 263
Deferrals	39	66	76
Amortization, net of interest:			
Prospective unlocking - assumption changes	(2)	(3)	-
Retrospective unlocking	17	7	5
Other amortization	(55)	(58)	(33)
Adjustment related to realized (gains) losses	(1)	(8)	13
Adjustment related to unrealized (gains) losses	(13)	(41)	(1)
Balance as of end-of-year	$ 271	$ 286	$ 323

Changes in DFEL (in millions) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Balance as of beginning-of-year	$ 1,502	$ 1,338	$ 1,019
Business acquired (sold) through reinsurance	-	-	(11)
Deferrals	544	546	497
Amortization, net of interest:			
Prospective unlocking - assumption changes	5	(57)	(22)
Prospective unlocking - model refinements	26	56	-
Retrospective unlocking	15	(23)	(16)
Other amortization	(180)	(173)	(129)
Adjustment related to realized (gains) losses	(9)	(8)	(1)
Adjustment related to unrealized (gains) losses	(534)	(177)	1
Balance as of end-of-year	$ 1,369	$ 1,502	$ 1,338

9. Reinsurance

The following summarizes reinsurance amounts (in millions) recorded on our Consolidated Statements of Income (Loss), excluding amounts attributable to the indemnity reinsurance transaction with Swiss Re:

	For the Years Ended December 31,		
	2011	2010	2009
Direct insurance premiums and fees	$ 6,997	$ 6,599	$ 6,124
Reinsurance assumed	10	13	10
Reinsurance ceded	(1,276)	(1,202)	(1,148)
Total insurance premiums and fees	$ 5,731	$ 5,410	$ 4,986

Direct insurance benefits	$ 4,897	$ 4,547	$ 3,891
Reinsurance recoveries netted against benefits	(1,552)	(1,220)	(1,057)
Total benefits	$ 3,345	$ 3,327	$ 2,834

Our insurance companies cede insurance to other companies. The portion of risks exceeding each company's retention limit is reinsured with other insurers. We seek reinsurance coverage within the businesses that sell life insurance and annuities in order to limit our exposure to mortality losses and enhance our capital management.

Under our reinsurance program, we reinsure approximately 25% to 30% of the mortality risk on newly issued non-term life insurance contracts and approximately 30% to 35% of total mortality risk including term insurance contracts. Our policy for this program is to retain no more than $11 million on a single insured life issued on fixed, VUL and term life insurance contracts. The

retention per single insured life for corporate-owned life insurance is less than $1 million. Portions of our deferred annuity business have been reinsured on a Modco basis with other companies to limit our exposure to interest rate risks. As of December 31, 2011, the reserves associated with these reinsurance arrangements totaled $878 million. To cover products other than life insurance, we acquire other reinsurance coverages with retentions and limits.

We obtain reinsurance from a diverse group of reinsurers, and we monitor concentration as well as financial strength ratings of our principal reinsurers. Our reinsurance operations were acquired by Swiss Re in December 2001, through a series of indemnity reinsurance transactions. Swiss Re represents our largest reinsurance exposure. Under the indemnity reinsurance agreements, Swiss Re reinsured certain of our liabilities and obligations. As we are not relieved of our legal liability to the ceding companies, the liabilities and obligations associated with the reinsured contracts remain on our Consolidated Balance Sheets with a corresponding reinsurance receivable from Swiss Re, which totaled $2.8 billion and $3.0 billion as of December 31, 2011 and 2010, respectively. Swiss Re has funded a trust, with a balance of $2.2 billion as of December 31, 2011, to support this business. In addition to various remedies that we would have in the event of a default by Swiss Re, we continue to hold assets in support of certain of the transferred reserves. These assets are reported within trading securities or mortgage loans on real estate on our Consolidated Balance Sheets. Our liabilities for funds withheld and embedded derivatives as of December 31, 2011, included $1.0 billion and $142 million, respectively, related to the business reinsured by Swiss Re.

We recorded the gain related to the indemnity reinsurance transactions on the business sold to Swiss Re as a deferred gain on business sold through reinsurance on our Consolidated Balance Sheets. The deferred gain is being amortized into income at the rate that earnings on the reinsured business are expected to emerge, over a period of 15 years from the date of sale. During 2011, 2010 and 2009, we amortized $49 million, $49 million and $50 million, after-tax, respectively, of deferred gain on business sold through reinsurance.

See Note 13 for discussion of the rescission of indemnity reinsurance for disability income business that occurred during the year ended December 31, 2009.

10. Goodwill and Specifically Identifiable Intangible Assets

The changes in the carrying amount of goodwill (in millions) by reportable segment were as follows:

	For the Year Ended December 31, 2011					
	Acquisition Balance as of Beginning-of-Year	Cumulative Impairment as of Beginning-of-Year	Acquisition Accounting Adjustments	Impairment	Other	Balance as of End-of-Year
Annuities	$ 1,040	$ (600)	$ -	$ -	$ -	$ 440
Retirement Plan Services	20	-	-	-	-	20
Life Insurance	2,188	-	-	(650)	1	1,539
Group Protection	274	-	-	-	-	274
Other Operations - Media	341	(244)	-	(97)	-	-
Total goodwill	$ 3,863	$ (844)	$ -	$ (747)	$ 1	$ 2,273

	For the Year Ended December 31, 2010	
	Acquisition Balance	Cumulative Impairment

	as of Beginning-of-Year	as of Beginning-of-Year	Acquisition Accounting Adjustments	Impairment	Other	Balance as of End-of-Year
Annuities	$ 1,040	$ (600)	$ -	$ -	$ -	$ 440
Retirement Plan Services	20	-	-	-	-	20
Life Insurance	2,188	-	-	-	-	2,188
Group Protection	274	-	-	-	-	274
Other Operations - Media	335	(244)	6	-	-	97
Total goodwill	$ 3,857	$ (844)	$ 6	$ -	$ -	$ 3,019

Included in the other above were adjustments related to income tax deductions recognized when stock options attributable to mergers were exercised or the release of unrecognized tax benefits acquired through mergers.

We perform a Step 1 goodwill impairment analysis on all of our reporting units at least annually on October 1. To determine the implied fair value for our reporting units, we utilize primarily a discounted cash flow valuation technique ("income approach"), although limited available market data is also considered. In determining the estimated fair value, we consider discounted cash flow calculations, the level of our own share price and assumptions that market participants would make in valuing the reporting unit. This analysis requires us to make judgments about revenues, earnings projections, capital market assumptions and discount rates.

As of October 1, 2011, our Annuities, Retirement Plan Services and Group Protection reporting units passed the Step 1 analysis, and although the carrying value of the net assets for Group Protection was within the estimated fair value range, we deemed it prudent to validate the carrying value of goodwill through a Step 2 analysis. Given the Step 1 results, we also performed a Step 2 analysis for our Life Insurance and Media reporting units. Based upon our Step 2 analysis for Life Insurance, we recorded a goodwill impairment that was attributable primarily to marketplace dynamics and lower expectations associated with product changes that we have implemented or will implement shortly that we believe will have an unfavorable effect on our sales levels for a period of time. Based upon our Step 2 analysis for Group Protection, we determined that there was no impairment due to the implied fair value of goodwill being in excess of the carrying value of goodwill. Based upon our Step 2 analysis for Media, we recorded a goodwill impairment that was primarily a result of the deterioration in operating environment and outlook for the business.

As of October 1, 2010, all of our reporting units passed the Step 1 analysis, and although the carrying value of the net assets was within the estimated fair value range for our Life Insurance reporting unit, we deemed it prudent to validate the carrying value of goodwill through a Step 2 analysis. In our Step 2 analysis of the Life Insurance reporting unit, we determined there was no impairment due to the implied fair value of goodwill being in excess of the carrying value of goodwill.

As of October 1, 2009, all of our reporting units passed the Step 1 analysis, except for our Media reporting unit, which required a Step 2 analysis to be completed. As a result of this Step 2 analysis for our Media reporting unit, we recorded an $80 million impairment of goodwill attributable primarily to declines in current and forecasted advertising revenue for the entire radio market. We also recorded a $50 million impairment of our FCC license.

As of March 31, 2009, we performed a Step 1 goodwill impairment analysis on all of our reporting units as a result of our performing an interim test due to volatile capital markets that provided indicators that a potential impairment could be present. All of our reporting units passed the Step 1 analysis, except for our Annuities reporting unit, which required a Step 2 analysis to be completed. Based upon our Step 2 analysis, we recorded goodwill impairment for the Annuities reporting unit in the first quarter of 2009 for $600 million, which was attributable primarily to higher discount rates driven by higher debt costs and equity market volatility, deterioration in sales and declines in equity markets.

For our acquisition of NCLS, during 2009, we impaired the estimated goodwill that arose from the acquisition after considering the expected financial performance and other relevant factors of this business.

The gross carrying amounts and accumulated amortization (in millions) for each major specifically identifiable intangible asset class by reportable segment were as follows:

	As of December 31,	
	2011	2010

	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Life Insurance:				
Sales force	$ 100	$ 23	$ 100	$ 19
Retirement Plan Services:				
Mutual fund contract rights (1)	2	-	2	-
Other Operations:				
FCC licenses (1)	118	-	118	-
Other	4	3	4	3
Total	$ 224	$ 26	$ 224	$ 22

(1) No amortization recorded as the intangible asset has indefinite life.

Future estimated amortization of specifically identifiable intangible assets (in millions) as of December 31, 2011, was as follows:

2012	$ 4
2013	4
2014	4
2015	4
2016	4

11. Guaranteed Benefit Features

Information on the 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 December 31,	
	2011	2010
Return of Net Deposits		
Total account value	$ 54,004	$ 52,211
Net amount at risk (1)	1,379	816
Average attained age of contract holders	59 years	58 years
Minimum Return		
Total account value	$ 155	$ 187
Net amount at risk (1)	48	46
Average attained age of contract holders	72 years	70 years
Guaranteed minimum return	5%	5 %
Anniversary Contract Value		
Total account value	$ 21,648	$ 23,483
Net amount at risk (1)	2,939	2,183
Average attained age of contract holders	67 years	66 years

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

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 Years Ended December 31,		
	2011	2010	2009
Balance as of beginning-of-year	$ 44	$ 71	$ 277
Changes in reserves	93	57	(33)

Benefits paid	(53)	(84)	(173)
Balance as of end-of-year	$ 84	$ 44	$ 71

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

	As of December 31,	
	2011	2010
Asset Type		
Domestic equity	$ 34,286	$ 35,659
International equity	13,095	14,172
Bonds	17,735	15,913
Money market	5,892	5,725
Total	$ 71,008	$ 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 Life Insurance segment. These UL and VUL products with secondary guarantees represented approximately 38% of permanent life insurance in force as of December 31, 2011, and approximately 43% of total sales for these products for the year ended December 31, 2011.

12. Short-Term and Long-Term Debt

Details underlying short-term and long-term debt (in millions) were as follows:

	As of December 31,	
	2011	2010
Short-Term Debt		
Commercial paper (1)	$ -	$ 100
Current maturities of long-term debt	300	250
Other short-term debt	-	1
Total short-term debt	$ 300	$ 351
Long-Term Debt, Excluding Current Portion		
Senior notes:		
5.65% notes, due 2012	$ -	$ 300
LIBOR + 175 bps loan, due 2013	200	200
4.75% notes, due 2014	300	300
4.75% notes, due 2014	200	200
4.30% notes, due 2015 (2)	250	250
LIBOR + 3 bps notes, due 2017	250	250
7.00% notes, due 2018	200	200
8.75% notes, due 2019 (2)	500	500
6.25% notes, due 2020 (2)	300	300
4.85% notes, due 2021 (2)	300	-
6.15% notes, due 2036	500	500
6.30% notes, due 2037	375	375
7.00% notes, due 2040 (2)	500	500
Total senior notes	3,875	3,875
Capital securities:		
6.75%, due 2066 (3)	-	275
7.00%, due 2066	722	722
6.05%, due 2067	491	491
Total capital securities	1,213	1,488
Unamortized premiums (discounts)	(16)	(19)
Fair value hedge on interest rate swap agreements	319	55
Total unamortized premiums (discounts) and fair value hedge on interest rate swap agreements	303	36
Total long-term debt	$ 5,391	$ 5,399

(1) The weighted-average interest rate of commercial paper was 0.20% and 0.41% as of December 31, 2011 and 2010, respectively.

(2) We have the option to repurchase the outstanding notes by paying the greater of 100% of the principal amount of the notes to be redeemed or the make-whole amount (as defined in each note agreement), plus in each case any accrued and unpaid interest as of the date of redemption.

(3) During the third quarter of 2011, we redeemed all of our 6.75% capital securities due 2066. See below for the details of the loss on extinguishment of debt.

Details underlying the recognition of a gain (loss) on the extinguishment of debt (in millions) reported within interest and debt expense on our Consolidated Statements of Income (Loss) were as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Principal balance outstanding prior to payoff	$ 275	$ 155	$ 87
Unamortized debt issuance costs and discounts prior to payoff	(8)	(5)	(1)
Amount paid to retire	(275)	(155)	(22)
Gain (loss) on extinguishment of debt, pre-tax	$ (8)	$ (5)	$ 64

Future principal payments due on long-term debt (in millions) as of December 31, 2011, were as follows:

2012	$ 300
2013	200
2014	500
2015	250
2016	-
Thereafter	4,138
Total	$ 5,388

For our long-term debt outstanding, unsecured senior debt, which consists of senior notes, fixed rate notes and other notes with varying interest rates, ranks highest in priority, followed by capital securities.

Credit Facilities and Letters of Credit ("LOCs")

Credit facilities, which allow for borrowing or issuances of LOCs, and LOCs (in millions) were as follows:

	As of December 31, 2011		
	Expiration Date	Maximum Available	LOCs Issued
Credit Facilities			
Four-year revolving credit facility	Jun-2015	$ 2,000	$ 219
LOC facility	Mar-2023	828	828
LOC facility	Aug-2031	419	419
LOC facility	Oct-2031	574	574
Total		$ 3,821	$ 2,040

Effective as of June 10, 2011, we entered into a credit agreement with a syndicate of banks. This agreement (the "credit facility") allows for any combination of issuance of LOCs and borrowing of up to $2.0 billion; however, only $1.0 billion of the borrowing is available to reimburse the banks for drawn LOCs. The credit facility is unsecured and has a commitment termination date of June 10, 2015. LOCs issued under the credit facility may remain outstanding for one year following the applicable commitment termination date of the agreement. The LOCs support

inter-company reinsurance transactions and specific treaties associated with our business sold through reinsurance. LOCs are used primarily to satisfy the U.S. regulatory requirements of our domestic insurance companies for which reserve credit is provided by our affiliated reinsurance companies, as discussed above in "Results of Life Insurance – Income (Loss) from Operations – Strategies to Address Statutory Reserve Strain," and our domestic clients of the business sold through reinsurance.

The credit facility contains customary terms and conditions, including covenants restricting our ability to incur liens, merge or consolidate with another entity where we are not the surviving entity and dispose of all or substantially all of our assets. The credit facility also includes financial covenants including: maintenance of a minimum consolidated net worth (as defined in the facility) equal to the sum of $9.2 billion plus fifty percent (50%) of the aggregate net proceeds of equity issuances received by us in accordance with the terms of the credit facility; and a debt-to-capital ratio as defined in accordance with the credit facility not to exceed 0.35 to 1.00. Further, the credit facility contains customary events of default, subject to certain materiality thresholds and grace periods for certain of those events of default. The events of default include payment defaults, covenant defaults, material

inaccuracies in representations and warranties, certain cross-defaults, bankruptcy and liquidation proceedings and other customary defaults. Upon an event of default, the credit facility provides that, among other things, the commitments may be terminated and the loans then outstanding may be declared due and payable. As of December 31, 2011, we were in compliance with all such covenants.

This credit facility replaced our existing four-year credit facility dated as of June 9, 2010, and set to expire June 9, 2014, and the commitments under the existing credit facility have been terminated. Our 364-day credit facility expired June 8, 2011, prior to entering into the new credit agreement.

On November 1, 2011, one of our wholly-owned subsidiaries entered into a credit facility agreement with a third-party lender. Under the agreement, the lender issued an irrevocable LOC effective November 1, 2011, with a maximum scheduled LOC amount of up to approximately $690 million. The LOC supports an inter-company reinsurance agreement and expires October 1, 2031. On August 26, 2011, one of our wholly-owned subsidiaries entered into a credit facility agreement with a third-party lender. Under the agreement, the lender issued an irrevocable LOC effective August 26, 2011, with a maximum scheduled LOC amount of up to approximately $520 million. The LOC supports an inter-company reinsurance agreement and expires August 26, 2031. On April 28, 2011, certain of our wholly-owned subsidiaries amended and restated the reimbursement agreement entered into on December 31, 2009, with a third-party lender. Under the amended agreement, the lender issued an irrevocable LOC effective April 1, 2011, with a maximum scheduled LOC amount of up to approximately $925 million. The LOC supports an inter-company reinsurance agreement and expires March 31, 2023.

These agreements each contain customary terms and conditions, including covenants restricting the ability of the subsidiaries to incur liens, merge or consolidate with another entity and dispose of all or substantially all of their assets. Further, the agreements contain customary events of default, subject to certain materiality thresholds and grace periods for certain of those events of default. The events of default include payment defaults, covenant defaults, material inaccuracies in representations and warranties, bankruptcy and liquidation proceedings and other customary defaults. Upon an event of default, the agreements provide that, among other things, obligations to issue, amend or increase the amount of any LOC shall be terminated and any obligations shall become immediately due and payable. As of December 31, 2011, we were in compliance with all such covenants.

Shelf Registration

We currently have an effective shelf registration statement, which allows us to issue, in unlimited amounts, securities, including debt securities, preferred stock, common stock, warrants, stock purchase contracts, stock purchase units and trust preferred securities of our affiliated trusts.

Certain Debt Covenants on Capital Securities

Our $1.2 billion in principal amount of capital securities outstanding contain certain covenants that require us to make interest payments in accordance with an alternative coupon satisfaction mechanism (“ACSM”) if we determine that one of the following trigger events exists as of the 30th day prior to an interest payment date (“determination date”):

- LNL’s risk-based capital ratio is less than 175% (based on the most recent annual financial statement filed with the State of Indiana); or
- (i) The sum of our consolidated net income for the four trailing fiscal quarters ending on the quarter that is two quarters prior to the most recently completed quarter prior to the determination date is zero or negative; and (ii) our consolidated stockholders’ equity (excluding accumulated other comprehensive income and any increase in stockholders’ equity resulting from the issuance of preferred stock during a quarter), or “adjusted stockholders’ equity,” as of (x) the most recently completed quarter and (y) the end of the quarter that is two quarters before the most

recently completed quarter, has declined by 10% or more as compared to the quarter that is 10 fiscal quarters prior to the last completed quarter, or the "benchmark quarter."

The ACSM would generally require us to use commercially reasonable efforts to satisfy our obligation to pay interest in full on the capital securities with the net proceeds from sales of our common stock and warrants to purchase our common stock with an exercise price greater than the market price. We would have to utilize the ACSM until the trigger events no longer existed. Our failure to pay interest pursuant to the ACSM will not result in an event of default with respect to the capital securities nor will a nonpayment of interest unless it lasts for 10 consecutive years, although such breaches may result in monetary damages to the holders of the capital securities.

13. Contingencies and Commitments

Contingencies

Regulatory and Litigation Matters

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.

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

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

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of December 31, 2011. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC’s financial position.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of December 31, 2011, we estimate the aggregate range of reasonably possible losses, including amounts in excess of amounts accrued for these matters as of such date, to be up to approximately $100 million.

For other matters, we are not currently able to estimate the reasonably possible loss or range of loss. We are often unable to estimate the possible loss or range of loss until developments in such matters have provided sufficient information to support an assessment of the range of possible loss, such as quantification of a damage demand from plaintiffs, discovery from other parties and investigation of factual allegations, rulings by the court on motions or appeals, analysis by experts, and the progress of settlement negotiations. On a quarterly and annual basis, we review relevant information with respect to litigation contingencies and update our accruals, disclosures and estimates of reasonably possible losses or ranges of loss based on such reviews.

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

On June 13, 2009, a single named plaintiff filed a putative national class action in the Circuit Court of Allen County, Indiana, captioned Peter S. Bezich v. LNL, No. 02C01-0906-PL73, asserting he was charged a cost-of-insurance fee that exceeded the

applicable mortality charge, and that this fee breached the terms of the insurance contract. The parties are conducting fact discovery, and no class certification motion has yet been filed. We dispute the allegations and are vigorously defending this matter.

Commitments

Rescission of Indemnity Reinsurance for Disability Income Business

Included in the business sold to Swiss Re through indemnity reinsurance in 2001 was disability income business. In response to the rescission award of a panel of arbitrators on January 24, 2009, of the underlying reinsurance agreement with Swiss Re, we recorded an adjustment to write down our reinsurance recoverable and the corresponding funds withheld liability, and we released the embedded derivative liability related to the funds withheld nature of the reinsurance agreement, as discussed below. The rescission resulted in our being responsible for paying claims on the business and maintaining sufficient reserves to support the liabilities.

For the year ended December 31, 2009, an unfavorable adjustment of $97 million, after-tax, was reflected in segment income from operations within Other Operations, comprised of increases of $129 million to benefits, $15 million to interest credited and $5 million to underwriting, acquisition, insurance and other expenses, partially offset by a tax benefit of $52 million. In addition, during 2009 the embedded derivative liability release discussed above increased net income by approximately $31 million. The combined adjustments reduced net income by approximately $66 million, after-tax. As a result of the rescission, we reduced our reinsurance recoverables by approximately $900 million related to the reserves for the disability income business and reduced our funds withheld liability by approximately $840 million.

Leases

Certain subsidiaries of ours lease their home office properties. In 2006, we exercised the right and option to extend the Fort Wayne lease for two extended terms such that the lease shall expire in 2019. We retain our right and option to exercise the remaining four extended terms of five years each in accordance with the lease agreement. These agreements also provide us with the right of first refusal to purchase the properties at a price defined in the agreements and the option to purchase the leased properties at fair market value on the last day of any renewal period. In 2007, we exercised the right and option to extend the Hartford lease for one extended term such that the lease shall expire in 2013. During 2007, we moved our corporate headquarters to Radnor, Pennsylvania from Philadelphia, Pennsylvania and entered into a new 13-year lease for office space.

Total rental expense on operating leases for the years ended December 31, 2011, 2010 and 2009, was $42 million, $46 million and $55 million, respectively. Future minimum rental commitments (in millions) as of December 31, 2011, were as follows:

2012	$ 40
2013	35
2014	31
2015	26
2016	22

Information Technology Commitment

Effective January 1, 2012, we renewed our contract with IBM Global Services for information technology services. Annual costs are dependent on usage but are expected to be approximately $9 million for this new five-year commitment.

Football Stadium Naming Rights Commitment

In 2002, we entered into an agreement with the Philadelphia Eagles to name the Eagles' new stadium Lincoln Financial Field. In exchange for the naming rights, we agreed to pay $140 million over a 20-year period through annual payments to the Philadelphia Eagles, which average approximately $7 million per year. The total amount includes a maximum annual increase related to the Consumer Price Index. This future commitment has not been recorded as a liability on our Consolidated Balance Sheets as it is being accounted for in a manner consistent with the accounting for operating leases under the Leases Topic of the FASB ASC.

Vulnerability from Concentrations

As of December 31, 2011, we did not have a concentration of: business transactions with a particular customer or lender; sources of supply of labor or services used in the business; or a market or geographic area in which business is conducted that makes us vulnerable to an event that is at least reasonably possible to occur in the near term and which could cause a severe impact to our financial position.

Although we do not have any significant concentration of customers, our American Legacy Variable Annuity ("ALVA") product offered in our Annuities segment is significant to this segment. The ALVA product accounted for 22%, 25% and 28% of Annuities' variable annuity product deposits in 2011, 2010 and 2009, respectively, and represented approximately 54%, 58% and 61% of the segment's total variable annuity product account values as of December 31, 2011, 2010 and 2009, respectively. In addition, fund choices for certain of our other variable annuity products offered in our Annuities segment include American Fund Insurance SeriesSM ("AFIS") funds. For the Annuities segment, AFIS funds accounted for 27%, 29% and 33% of variable annuity product deposits in 2011, 2010 and 2009, respectively, and represented 63%, 66% and 69% of the segment's total variable annuity product account values as of December 31, 2011, 2010 and 2009, respectively.

Other Contingency Matters

State guaranty funds assess insurance companies to cover losses to contract holders of insolvent or rehabilitated companies. Mandatory assessments may be partially recovered through a reduction in future premium taxes in some states. We have accrued for expected assessments net of estimated future premium tax deductions of $31 million and $10 million as of December 31, 2011 and 2010, respectively.

14. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Years Ended December 31,		
	2011	2010	2009
Series A Preferred Stock			
Balance as of beginning-of-year	10,914	11,497	11,565
Conversion of convertible preferred stock (1)	(842)	(583)	(68)
Balance as of end-of-year	10,072	10,914	11,497
Series B Preferred Stock			
Balance as of beginning-of-year	-	950,000	-
Issuance (redemption) of Series B preferred stock	-	(950,000)	950,000
Balance as of end-of-year	-	-	950,000
Common Stock			
Balance as of beginning-of-year	315,718,554	302,223,281	255,869,859
Stock issued	-	14,137,615	46,000,000
Conversion of convertible preferred stock (1)	13,472	9,328	1,088
Stock compensation/issued for benefit plans	248,553	414,712	436,100
Retirement/cancellation of shares	(24,661,357)	(1,066,382)	(83,766)
Balance as of end-of-year	291,319,222	315,718,554	302,223,281
Common Stock as of End-of-Year	291,480,374	315,893,178	302,407,233

Assuming conversion of preferred stock			
Diluted basis	298,225,244	324,043,137	311,846,021

(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 was as follows:

	For the Years Ended December 31,		
	2011	2010	2009
Weighted-average shares, as used in basic calculation	307,216,181	310,005,264	280,031,363
Shares to cover exercise of outstanding warrants	10,150,292	12,260,236	6,209,013
Shares to cover conversion of preferred stock	173,289	178,720	184,687
Shares to cover non-vested stock	813,905	616,314	550,700
Average stock options outstanding during the year	636,989	707,704	401,369
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(4,658,020)	(5,148,473)	(2,945,429)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the year)	(427,425)	(464,813)	(275,543)
Shares repurchaseable from measured but unrecognized stock option expense	(65,882)	(139,673)	(85,511)
Average deferred compensation shares	1,110,722	1,198,468	1,564,954
Weighted-average shares, as used in diluted calculation	314,950,051	319,213,747	285,635,603

In the event the average market price of LNC common stock exceeds the issue price of stock options and the options have a dilutive effect to our EPS, such options will be shown in the table above. As a result of a loss from continuing operations for the year ended December 31, 2009, shares used in the EPS calculation represent basic shares, since using diluted shares would have been anti-dilutive to the calculation.

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).

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to their deferral amounts. For the years ended December 31, 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 $4 million and $1 million for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011, we had 10,150,292 outstanding warrants. The warrants, each representing the right to purchase one share of our common stock, no par value per share, have an exercise price of $10.85, and expire on July 10, 2019, and are listed on the New York Stock Exchange under the symbol “LNC WS.”

Accumulated OCI

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

	For the Years Ended December 31,		
	2011	2010	2009
Unrealized Gain (Loss) on AFS Securities			
Balance as of beginning-of-year	$ 1,072	$ 49	$ (2,654)
Cumulative effect from adoption of new accounting standards	-	181	(84)
Unrealized holding gains (losses) arising during the year	3,414	2,528	6,204
Change in foreign currency exchange rate adjustment	(5)	(6)	26
Change in DAC, VOBA, DSI and other contract holder funds	(993)	(1,196)	(2,371)
Income tax benefit (expense)	(864)	(478)	(1,366)
Less:			
Reclassification adjustment for gains (losses) included in net income (loss)	(129)	(135)	(569)
Reclassification adjustment for gains (losses) on derivatives included in net income (loss)	-	135	(45)
Associated amortization of DAC, VOBA, DSI and DFEL	(13)	9	161
Income tax benefit (expense)	50	(3)	159
Balance as of end-of-year	$ 2,716	$ 1,072	$ 49
Unrealized OTTI on AFS Securities			
Balance as of beginning-of-year	$ (129)	$ (115)	$ -
(Increases) attributable to:			
Cumulative effect from adoption of new accounting standards	-	-	(18)
Gross OTTI recognized in OCI during the year	(58)	(98)	(357)
Change in DAC, VOBA, DSI and DFEL	11	10	82
Income tax benefit (expense)	16	30	96
Decreases attributable to:			
Sales, maturities or other settlements of AFS securities	103	87	154
Change in DAC, VOBA, DSI and DFEL	(22)	(20)	(29)
Income tax benefit (expense)	(28)	(23)	(43)
Balance as of end-of-year	$ (107)	$ (129)	$ (115)
Unrealized Gain (Loss) on Derivative Instruments			
Balance as of beginning-of-year	$ (15)	$ 11	$ 127
Unrealized holding gains (losses) arising during the year	185	(27)	(89)
Change in foreign currency exchange rate adjustment	7	4	(31)

Change in DAC, VOBA, DSI and DFEL	(1)	(4)	22
Income tax benefit (expense)	(66)	9	(13)
Less:			
Reclassification adjustment for gains (losses) included in net income (loss)	(10)	14	8
Associated amortization of DAC, VOBA, DSI and DFEL	-	(1)	-
Income tax benefit (expense)	4	(5)	(3)
Balance as of end-of-year	$ 116	$ (15)	$ 11
Foreign Currency Translation Adjustment			
Balance as of beginning-of-year	$ 1	$ 3	$ 6
Foreign currency translation adjustment arising during the year	-	(3)	(2)
Income tax benefit (expense)	-	1	(1)
Balance as of end-of-year	$ 1	$ 1	$ 3
Funded Status of Employee Benefit Plans			
Balance as of beginning-of-year	$ (181)	$ (210)	$ (282)
Adjustment arising during the year	(149)	45	111
Income tax benefit (expense)	52	(16)	(39)
Balance as of end-of-year	$ (278)	$ (181)	$ (210)

15. Realized (Gain) Loss

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

	For the Years Ended December 31,		
	2011	2010	2009
Total realized gain (loss) related to certain investments (1)	$ (151)	$ (180)	$ (538)
Realized gain (loss) on the mark-to-market on certain instruments (2)	(83)	75	36
Indexed annuity net derivative results: (3)			
Gross gain (loss)	2	34	8
Associated amortization of DAC, VOBA, DSI and DFEL	(2)	(15)	(4)
Variable annuity net derivatives results: (4)			
Gross gain (loss)	(60)	56	(710)
Associated amortization of DAC, VOBA, DSI and DFEL	(5)	(47)	61
Realized gain (loss) on sale of subsidiaries/businesses	-	-	1
Total realized gain (loss)	$ (299)	$ (77)	$ (1,146)

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

(2) Represents changes in the fair values of certain derivative investments (including those associated with our consolidated VIEs), total return swaps (embedded derivatives that are theoretically included in our various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements) and trading securities.

(3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.

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

16. Underwriting, Acquisition, Insurance, Restructuring and Other Expenses

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

	For the Years Ended December 31,		
	2011	2010	2009
Commissions	$ 1,672	$ 1,616	$ 1,543
General and administrative expenses	1,422	1,412	1,284
Expenses associated with reserve financing and unrelated LOCs	47	34	7

DAC and VOBA deferrals and interest, net of amortization	(651)	(583)	(598)
Broker-dealer expenses	353	320	290
Other intangibles amortization	4	4	4
Media expenses	69	59	53
Taxes, licenses and fees	247	197	160
Merger-related expenses	-	9	17
Restructuring charges (recoveries) for expense initiatives	-	(1)	34
Total	$ 3,163	$ 3,067	$ 2,794

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

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

The eligibility requirements for each plan are described in each plan document and vary for each plan based on completion of a specified period of continuous service and date of hire, subject to age limitations. The frozen pension plan benefits are calculated either on a traditional or cash balance formula. Those formulas are based upon years of credited service and eligible earnings as defined in each plan document. The traditional formula provides benefits stated in terms of a single life annuity payable at age 65. The cash balance formula provides benefits stated as a lump sum hypothetical account balance. That account balance equals the sum of the employee’s accumulated annual benefit credits plus interest credits. Benefit credits, which are based on years of service and base salary plus bonus, ceased as of the date the plan was frozen. Interest credits continue until the participant’s benefit is paid.

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

Obligations, Funded Status and Assumptions

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

	As of or for the Years Ended December 31,					
	2011	2010	2011	2010	2011	2010
	U.S. Pension Benefits		Non-U.S. Pension Benefits		Other Postretirement Benefits	
Change in Plan Assets						
Fair value as of beginning-of-year	$ 918	$ 842	$ 314	$ 307	$ 37	$ 34
Actual return on plan assets	72	118	49	29	3	2
Company and participant contributions	36	31	1	-	15	15
Benefits paid	(70)	(73)	(12)	(12)	(17)	(15)
Medicare Part D subsidy	-	-	-	-	1	1
Foreign exchange translation	-	-	(2)	(10)	-	-
Fair value as of end-of-year	956	918	350	314	39	37
Change in Benefit Obligation						
Balance as of beginning-of-year	1,093	1,050	271	289	155	151
Service cost (1)	3	3	-	-	4	3
Interest cost	58	61	15	16	7	9
Company and participant contributions	-	-	-	-	6	6
Curtailments	-	-	-	-	-	-
Actuarial (gains) losses	154	52	38	(12)	5	-
Benefits paid	(70)	(73)	(12)	(12)	(17)	(15)
Medicare Part D subsidy	-	-	-	-	1	1
Foreign exchange translation	-	-	(1)	(10)	-	-
Balance as of end-of-year	1,238	1,093	311	271	161	155
Funded status of the plans	$ (282)	$ (175)	$ 39	$ 43	$ (122)	$ (118)
Amounts Recognized on the Consolidated Balance Sheets						
Other assets	$ 18	$ 15	$ 39	$ 43	$ -	$ -
Other liabilities	(300)	(190)	-	-	(122)	(118)
Net amount recognized	$ (282)	$ (175)	$ 39	$ 43	$ (122)	$ (118)
Amounts Recognized in Accumulated OCI, Net of Tax						
Net (gain) loss	$ 243	$ 153	$ 33	$ 30	$ 5	$ 2
Prior service credit	-	-	-	-	(3)	(4)
Net amount recognized	$ 243	$ 153	$ 33	$ 30	$ 2	$ (2)
Rate of Increase in Compensation						
Retiree Life Insurance Plan	N/A	N/A	N/A	N/A	4.00 %	4.00 %
All other plans	N/A	N/A	N/A	N/A	N/A	N/A

Weighted-Average Assumptions

Benefit obligations:

Weighted-average discount rate	4.45 %	5.50 %	5.00 %	5.70 %	4.25 %	5.00 %
Expected return on plan assets	7.78 %	8.00 %	5.40 %	5.40 %	6.50 %	6.50 %
Net periodic benefit cost:						
Weighted-average discount rate	5.45 %	6.00 %	5.70 %	5.80 %	5.00 %	6.00 %
Expected return on plan assets	7.78 %	8.00 %	5.40 %	5.80 %	6.50 %	6.50 %

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

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

The discount rate was determined based on a corporate yield curve as of December 31, 2011, and projected benefit obligation cash flows for the U.S. pension plans. We reevaluate this assumption each plan year. For 2012, our discount rate for the U.S. pension plans will be 4.45%, and 5.00% for the non-U.S. plan.

The expected return on plan assets was determined based on historical and expected future returns of the various asset categories, using the plans' target plan allocation. We reevaluate this assumption each plan year. For 2012, our expected return on plan assets is 7.78% for the U.S. plans and 5.40% for the non-U.S. plan.

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

	As of or for the Years Ended December 31,		
	2011	2010	2009
Pre-65 health care cost trend rate	8.50%	9.50%	10.00%
Post-65 health care cost trend rate	8.50%	9.50%	13.00%
Ultimate trend rate	4.50%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2021	2020	2020

We expect the health care cost trend rate for 2012 to be 8.50% for both the pre-65 and the post-65 population. A one-percentage point increase in assumed health care cost trend rates would have increased the accumulated postretirement benefit obligation by $5 million and total service and interest cost components by $1 million. A one-percentage point decrease in assumed health care cost trend rates would have decreased the accumulated postretirement benefit obligation by $8 million and total service and interest cost components by $1 million.

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

	As of December 31,	
	2011	2010
U.S. Plan		
Accumulated benefit obligation	$ 1,118	$ 1,072
Projected benefit obligation	1,118	1,072
Fair value of plan assets	818	881

Components of Net Periodic Benefit Cost

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

	For the Years Ended December 31,					
	2011	2010	2009	2011	2010	2009
	Pension Benefits			Other Postretirement Benefits		
U.S. Plans						
Service cost (1)	$ 3	$ 3	$ 3	$ 4	$ 3	$ 3
Interest cost	58	61	62	7	9	8
Expected return on plan assets	(71)	(65)	(55)	(2)	(2)	(2)
Amortization of prior service cost	-	-	-	(1)	(1)	(1)
Recognized net actuarial loss (gain)	13	15	28	1	1	(2)
Net periodic benefit expense (recovery)	$ 3	$ 14	$ 38	$ 9	$ 10	$ 6
Non-U.S. Plans						
Service cost	$ -	$ -	$ 1			
Interest cost	15	16	16			
Expected return on plan assets	(16)	(16)	(15)			
Amortization of prior service cost	-	-	1			
Recognized net actuarial loss (gain)	-	1	1			
Net periodic benefit expense (recovery)	$ (1)	$ 1	$ 4			

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

We expect our 2012 U.S. pension plans' expense to be approximately $13 million. In addition, we expect our non-U.S. pension plan income for 2012 to be approximately $2 million when assuming an average exchange rate of 1.56 pounds sterling to U.S. dollars.

For 2012, the estimated amount of amortization from accumulated OCI into net periodic benefit expense related to net actuarial loss or gain is expected to be an approximate $26 million loss for our pension plans and less than $1 million loss for our other postretirement plans.

Plan Assets

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

	For the Years Ended December 31,					
	2011	2010	2011	2010	2011	2010
	U.S. Plan - Employees		U.S. Plan - Agents		Non-U.S. Plan	
Asset Class						
Fixed maturity securities	50 %	50 %	80 %	50 %	56 %	65 %
Common stock:						
Domestic equity	35 %	35 %	14 %	35 %	- %	- %

International equity	15 %	15 %	6 %	15 %	- %	- %
Equity securities	- %	- %	- %	- %	43 %	15 %
Cash and invested cash	- %	- %	- %	- %	1 %	20 %

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

- Maintain sufficient liquidity to pay obligations of the plans as they come due;
- Minimize the effect of a single investment loss and large losses to the plans through prudent risk/reward diversification consistent with sound fiduciary standards;
- Maintain an appropriate asset allocation policy;

- Earn a return commensurate with the level of risk assumed through the asset allocation policy; and
- Control costs of administering and managing the plans' investment operations.

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

We currently target asset weightings as follows: for the U.S. Plan – Employees, domestic equity allocations (35%) are split into large cap (25%), small cap (5%) and hedge funds (5%), and for the U.S. Plan – Agents, domestic equity allocations (14%) are split into large cap (10%), small cap (2%) and hedge funds (2%). Fixed maturity securities represent core fixed income investments. The performance of the pension trust assets are monitored on a quarterly basis relative to the plans' objectives.

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

Fair Value of Plan Assets

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

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

	As of December 31,					
	2011	2010	2011	2010	2011	2010
	U.S. Pension Plans		Non-U.S. Pension Plans		Other Postretirement Benefits	
Fixed maturity securities:						
Corporate bonds	$ 370	$ 266	$ 34	$ 22	$ -	$ -
U.S. Government bonds	114	103	13	2	-	-
Foreign government bonds	24	39	206	166	-	-
RMBS	1	2	-	-	-	-
CMBS	4	5	-	-	-	-
CDOs	1	1	1	2	-	-
Common stock	418	444	57	101	-	-
Cash and invested cash	24	58	39	21	39	37
Total	$ 956	$ 918	$ 350	$ 314	$ 39	$ 37

Valuation Methodologies and Associated Inputs for Pension Plans' Assets

The fair value measurements of our pension plans' assets are based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the security, and the valuation methodology is consistently applied to measure the security's fair value. The fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include third-party pricing services, independent broker quotations or pricing matrices. Both observable and unobservable inputs are used in the valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. In order to validate the pricing information and broker-dealer quotes, procedures are

employed, where possible, that include comparisons with similar observable positions, comparisons with subsequent sales, discussions with brokers and observations of general market movements for those security classes. For those securities trading in less liquid or illiquid markets with limited or no pricing information, unobservable inputs are used in order to measure the fair value of these securities. In cases where this information is not available, such as for privately placed securities, fair value is estimated using an internal pricing matrix. This matrix relies on judgment concerning the discount rate used in calculating expected future cash flows, credit quality, industry sector performance and expected maturity.

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

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

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

Plan Cash Flows

It is our practice to make contributions to the qualified pension plans to comply with minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended and with guidance issued there under. In accordance with such practice, no contributions were required for the years ended December 31, 2011 or 2010; however, we elected to contribute $25 million on December 1, 2011. Based on our calculations, we do not expect to be required to make any contributions to our qualified pension plans in 2012 under applicable pension law.

For our nonqualified pension plans, we fund the benefits as they become due to retirees. The amount expected to be contributed to the nonqualified pension plans during 2012 is approximately $10 million.

We expect the following benefit payments (in millions):

	Pension Plans			U.S. Other Postretirement Plans		
	Qualified U.S. Defined Benefit Pension Plans	Nonqualified U.S. Defined Benefit Pension Plans	Qualified Non-U.S. Defined Benefit Pension Plans	Reflecting Medicare Part D Subsidy	Medicare Part D Subsidy	Not Reflecting Medicare Part D Subsidy
2012	$ 72	$ 10	$ 12	$ 10	$ (2)	$ 12
2013	70	10	13	10	(2)	12
2014	68	9	14	11	(2)	13
2015	67	11	14	11	(2)	13
2016	69	9	15	12	(2)	14
	336	44	86	59	(12)	71

Following five
years thereafter

18. Defined Contribution and Deferred Compensation Plans

Defined Contribution Plans

We sponsor defined contribution plans, which include money purchase plans, for eligible employees and agents. We make contributions and matching contributions to each of the active plans in accordance with the plan documents and various limitations under Section 401(a) of the Internal Revenue Code of 1986, as amended. For the years ended December 31, 2011, 2010 and 2009, expenses (income) for these plans were $67 million, $62 million and $63 million, respectively.

Deferred Compensation Plans

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

The results for certain investment options within the plans are hedged by total return swaps. Participants' account values change due primarily to investment earnings driven by market fluctuations. Our expenses increase or decrease in direct proportion to the change in market value of the participants' investment options. Participants are able to select our stock as an investment option; however, it is not hedged by the total return swaps and is a primary source of expense volatility related to these plans. For further discussion of total return swaps related to our deferred compensation plans, see Note 6.

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

	As of December 31,	
	2011	2010
Total liabilities (1)	$ 354	$ 363
Investments held to fund liabilities (2)	133	130

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

Deferred Compensation Plan for Employees

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

	For the Years Ended December 31,		
	2011	2010	2009
Employer matching contributions	$ 6	$ 6	$ 4
Increase (decrease) in measurement of liabilities, net of total return swap	1	1	(5)
Total plan expenses (income)	$ 7	$ 7	$ (1)

Deferred Compensation Plans for Agents

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

	For the Years Ended December 31,		
	2011	2010	2009
Employer matching contributions	$ 1	$ 3	$ 1
Increase (decrease) in measurement of liabilities, net of total return swap	-	3	3
Total plan expenses (income)	$ 1	$ 6	$ 4

Deferred Compensation Plan for Non-Employee Directors

Non-employee directors may defer a portion of their annual retainers, and we credit deferred stock units annually to their accounts. The prescribed "phantom" investment options are identical to those offered in the employees' plan. For the years ended December 31, 2011, 2010 and 2009, expenses (income) for this plan were less than ($1) million, $2 million and $1 million, respectively.

Deferred Compensation Plan for Former JP Agents

Eligible former agents of JP may participate in this deferred compensation plan. Participants may elect to defer commissions and bonuses and specify where this deferred compensation will be invested in selected notional mutual funds. Participants may not receive the returns on these funds until attaining a specified age or in the event of a significant lifestyle change. The funded amount is rebalanced to match the funds that have been elected under the deferred compensation plan. The plan obligation increases with contributions, deferrals and investment gains, and decreases with withdrawals and investment losses. The plan assets increase with investment gains and decrease with investment losses and payouts of benefits. For the years ended December 31, 2011, 2010 and 2009, expenses (income) for this plan were $4 million, $2 million and $1 million, respectively.

19. Stock-Based Incentive Compensation Plans

LNC Stock-Based Incentive 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"), restricted stock units, and restricted stock awards ("nonvested stock"). We have a policy of issuing new shares to satisfy option exercises.

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

	For the Years Ended December 31,		
	2011	2010	2009
Stock options	$ 8	$ 5	$ 6
Performance shares	2	(1)	(2)
Restricted stock units and nonvested stock	12	12	9
Total	$ 22	$ 16	$ 13
Recognized tax benefit	$ 8	$ 6	$ 5

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

	For the Years Ended December 31,					
	2011		2010		2009	
	Expense	Weighted-Average Period	Expense	Weighted-Average Period	Expense	Weighted-Average Period
Stock options	$ 6	1.7	$ 4	1.8	$ 6	1.7
Performance shares	4	2.0	-	-	-	1.0
SARs	1	3.4	1	3.7	2	4.1
Restricted stock units and nonvested stock	17	1.7	19	1.9	13	2.2
Total unrecognized stock-based incentive compensation expense	$ 28		$ 24		$ 21	

In the first quarter of 2011, a performance period from 2011-2013 was approved for certain of our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consisted of LNC restricted stock units representing approximately 34%, LNC stock options representing approximately 33% and LNC performance shares representing approximately 33% of the total award. LNC stock options granted for this performance period vest ratably over the three-year period, based solely on a service condition. Depending on the performance results for this period, the ultimate payout of performance shares could range from zero to 200% of the target award. Under the 2011-2013 plan, a total of 221,813 LNC restricted stock units, 459,093 LNC stock options and 215,137 LNC performance shares were granted.

In the first quarter of 2010, a performance period from 2010-2012 was approved for certain of our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consisted of LNC stock options representing approximately 34% and LNC restricted stock units representing approximately 66% of the total award. LNC

stock options granted for this performance period vest ratably over the three-year period, based solely on a service condition. Under the 2010-2012 plan, a total of 301,524 LNC stock options and 575,353 LNC restricted stock units were granted.

In the first quarter of 2009, a performance period from 2009-2011 was approved for our executive officers by the Compensation Committee. The award for executive officers participating in this performance period consisted of LNC restricted stock units representing approximately 27%, LNC stock options representing approximately 40% and performance cash awards representing approximately 33% of the total award. LNC stock options granted for this performance period vest ratably over the three-year period, based solely on a service condition. Under the 2009-2011 plan, a total of 609,175 LNC stock options and 902,269 LNC restricted stock units were granted.

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

	For the Years Ended December 31,		
	2011	2010	2009
Weighted-average fair value per option granted	$ 13.88	$ 16.91	$ 9.47
Assumptions:			
Dividend yield	1.2%	1.3%	1.8%
Expected volatility	48.5%	72.5%	78.7%
Risk-free interest rate	1.4-2.9%	2.7-3.3%	1.5-3.2%
Expected life (in years)	6.7	6.3	5.8

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

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	1,948,923	$ 49.03		
Granted - original	95,516	29.97		
Exercised (includes shares tendered)	(7,662)	24.15		
Forfeited or expired	(187,329)	48.60		
Outstanding as of December 31, 2011	1,849,448	$ 48.19	1.09	$ -
Vested or expected to vest as of December 31, 2011 (1)	1,236,345	$ 51.01	1.26	$ -

Exercisable as of December 31, 2011	1,734,930	$	49.46	0.94	$ -

(1) Includes estimated forfeitures.

The total fair value of options vested during the years ended December 31, 2011, 2010 and 2009, was $2 million, $9 million and $1 million, respectively. The total intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009, was zero.

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	7,755,483	$ 47.20		
Granted - original	491,653	30.65		
Exercised (includes shares tendered)	(24,096)	17.62		
Forfeited or expired	(1,572,482)	44.47		
Outstanding as of December 31, 2011	6,650,558	$ 46.73	3.66	$ 2
Vested or expected to vest as of December 31, 2011 (1)	6,384,696	$ 47.59	3.48	$ 1
Exercisable as of December 31, 2011	5,969,616	$ 48.95	3.08	$ 1

(1) Includes estimated forfeitures.

The total fair value of options vested during the years ended December 31, 2011, 2010 and 2009, was $7 million, $4 million and $8 million, respectively. The total intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009, was zero.

Information with respect to our performance shares was as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested as of December 31, 2010	210,695	$ 42.28
Granted	215,137	31.03
Forfeited	(228,383)	41.41
Nonvested as of December 31, 2011	197,449	$ 31.02

Stock Appreciation Rights

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

We recognize compensation expense for SARs based on the fair value method using the Black-Scholes option-pricing model. Compensation expense and the related liability are recognized on a straight-line basis over the vesting period of the SARs. The SARs liability is marked-to-market through net income, which causes volatility in net income (loss) as a result of changes in the market value of our stock and reported within underwriting, acquisition, insurance and other expenses on our Consolidated Statements of Income (Loss). We have hedged a portion of this volatility by purchasing call options on LNC stock. Call options hedging vested SARs are also marked-to-market through net income. See Note 6 for further information on our call options on LNC stock. The SARs liability as of December 31, 2011, 2010 and 2009, was $1 million and reported within other liabilities on our Consolidated Balance Sheets.

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

	For the Years Ended December 31,		
	2011	2010	2009
Weighted-average fair value per SAR granted	$ 9.41	$ 7.81	$ 12.47
Assumptions:			
Dividend yield	1.9%	2.4%	0.2%
Expected volatility	39.1%	38.2 %	106.0%
Risk-free interest rate	2.2%	1.8%	2.4%
Expected life (in years)	5.0	5.0	5.0

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

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of December 31, 2010	715,631	$ 47.02		
Granted - original	106,950	29.97		
Exercised (includes shares tendered)	(8,818)	16.53		
Forfeited or expired	(142,438)	54.14		
Outstanding as of December 31, 2011	671,325	$ 43.26	1.89	$ -
Vested or expected to vest as of December 31, 2011 (1)	648,545	$ 43.78	1.84	$ -
Exercisable as of December 31, 2011	480,041	$ 49.44	1.30	$ -

(1) Includes estimated forfeitures.

The payment for SARs exercised during the years ended December 31, 2011, 2010 and 2009, was zero.

Restricted Stock Units

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

Weighted-
Average
Grant-Date

	Shares	Fair Value
Outstanding as of December 31, 2010	1,563,928	$ 23.38
Granted	540,394	30.20
Vested	(206,294)	33.36
Forfeited	(118,675)	25.09
Outstanding as of December 31, 2011	1,779,353	$ 23.94

20. Statutory Information and Restrictions

The Company's domestic life insurance subsidiaries prepare financial statements in accordance with statutory accounting principles ("SAP") prescribed or permitted by the insurance departments of their states of domicile, which may vary materially from GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the National Association of Insurance

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

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

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

	As of December 31,	
	2011	2010
U.S. capital and surplus	$ 7,264	$ 6,955

	For the Years Ended December 31,		
	2011	2010	2009
U.S. net gain (loss) from operations, after-tax	$ 323	$ 557	$ 913
U.S. net income (loss)	135	432	(4)
U.S. dividends to LNC Parent Company	818	684	455

The decrease in statutory net income (loss) for the year ended December 31, 2011, from that of 2010, was primarily due to increased realized losses in invested assets, an increase in reserves on UL secondary guarantee products and prior year favorable tax items that did not repeat in the current year.

The increase in statutory net income (loss) for the year ended December 31, 2010, from that of 2009, was primarily due to a significant decrease in realized losses on investments due to improving market conditions throughout 2010.

The states of domicile of the Company's insurance subsidiaries have adopted certain prescribed accounting practices that differ from those found in NAIC SAP. These prescribed practices are the use of continuous Commissioners Annuity Reserve Valuation Method ("CARVM") in the calculation of reserves as prescribed by the state of New York and the calculation of reserves on universal life policies based on the Indiana universal life method as prescribed by the state of Indiana. The insurance subsidiaries also have several accounting practices permitted by the states of domicile that differ from those found in NAIC SAP. Specifically, these are accounting for the lesser of the face amount of all amounts outstanding under an LOC and the value of the Valuation of Life Insurance Policies Model Regulation ("XXX") additional statutory reserves as an admitted asset and a form of surplus and the use of a more conservative valuation interest rate on certain annuities as of December 31, 2011 and 2010.

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

	As of December 31,	
	2011	2010
Calculation of reserves using the Indiana universal life method	$ 270	$ 314
Calculation of reserves using continuous CARVM	(2)	(5)
Conservative valuation rate on certain annuities	(20)	(15)
Lesser of LOC and XXX additional reserve as surplus	1,731	457

Our insurance subsidiaries are subject to certain insurance department regulatory restrictions as to the transfer of funds and payment of dividends to the holding company. Under Indiana laws and regulations, our Indiana insurance subsidiaries, including our primary insurance subsidiary, LNL, may pay dividends to LNC without prior approval of the Indiana Insurance Commissioner (the "Commissioner"), only from unassigned surplus and must receive prior approval of the Commissioner to pay a dividend if such dividend, along with all other dividends paid within the preceding 12 consecutive months, would exceed the statutory limitation. The current statutory limitation is the greater of 10% of the insurer's contract holders' surplus, as shown on its last

annual statement on file with the Commissioner or the insurer's statutory net gain from operations for the previous 12 months, but in no event to exceed statutory unassigned surplus. As discussed above, we may not consider the benefit from the statutory accounting principles relating to our insurance subsidiaries' deferred tax assets in calculating available dividends. Indiana law gives the Commissioner broad discretion to disapprove requests for dividends in excess of these limits. New York, the state of domicile of our other major insurance subsidiary, LLANY, has similar restrictions, except that in New York it is the lesser of 10% of surplus to contract holders as of the immediately preceding calendar year-end or net gain from operations for the immediately preceding calendar year, not including realized capital gains. We expect our domestic insurance subsidiaries could pay dividends of approximately $675 million in 2012 without prior approval from the respective state commissioners.

All payments of principal and interest on the surplus notes must be approved by the respective Commissioner of Insurance.

21. Fair Value of Financial Instruments

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

	As of December 31,			
	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 75,433	$ 75,433	$ 68,030	$ 68,030
VIEs' fixed maturity securities	700	700	584	584
Equity securities	139	139	197	197
Trading securities	2,675	2,675	2,596	2,596
Mortgage loans on real estate	6,942	7,608	6,752	7,183
Derivative investments	3,151	3,151	1,076	1,076
Other investments	1,069	1,069	1,038	1,038
Cash and invested cash	4,510	4,510	2,741	2,741
Separate account assets	83,477	83,477	84,630	84,630
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	(399)	(399)	(497)	(497)
GLB reserves embedded derivatives	(2,217)	(2,217)	(408)	(408)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(1,114)	(1,114)	(1,108)	(1,108)
Account values of certain investment contracts	(27,468)	(30,812)	(26,130)	(27,142)
Short-term debt (1)	(300)	(309)	(351)	(364)

Long-term debt	(5,391)	(5,025)	(5,399)	(5,512)
Reinsurance related embedded derivatives	(168)	(168)	(102)	(102)
VIEs' liabilities - derivative instruments	(291)	(291)	(209)	(209)
Other liabilities:				
Deferred compensation plans embedded derivatives	(354)	(354)	(363)	(363)
Credit default swaps	(16)	(16)	(16)	(16)
Benefit Plans' Assets (2)	1,345	1,345	1,269	1,269

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

(2) Included in the funded statuses of the benefit plans, which is reported in other liabilities on our Consolidated Balance Sheets. Refer to Note 17 for additional detail.

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

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

Mortgage Loans on Real Estate

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

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 December 31, 2011 and 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 December 31, 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 above:

	As of December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 63	$ 57,310	$ 1,888	$ 59,261
U.S. Government bonds	475	18	1	494
Foreign government bonds	-	636	97	733
RMBS	-	7,881	158	8,039
CMBS	-	1,566	34	1,600
CDOs	-	-	102	102
State and municipal bonds	-	4,047	-	4,047
Hybrid and redeemable preferred securities	15	1,042	100	1,157
VIEs' fixed maturity securities	108	592	-	700
Equity AFS securities	37	46	56	139
Trading securities	2	2,605	68	2,675
Derivative investments	-	681	2,470	3,151
Cash and invested cash	-	4,510	-	4,510
Separate account assets	-	83,477	-	83,477
Total assets	$ 700	$ 164,411	$ 4,974	$ 170,085
Liabilities				
Future contract benefits:				
Indexed annuity contracts embedded derivatives	$ -	$ -	$ (399)	$ (399)
GLB reserves embedded derivatives	-	-	(2,217)	(2,217)
Long-term debt - interest rate swap agreements	-	(319)	-	(319)
Reinsurance related embedded derivatives	-	(168)	-	(168)
VIEs' liabilities - derivative instruments	-	-	(291)	(291)
Other liabilities:				
Deferred compensation plans embedded derivatives	-	-	(354)	(354)

Credit default swaps	-	-	(16)	(16)
Total liabilities	$ -	$ (487)	$ (3,277)	$ (3,764)
Benefit Plans' Assets	$ 99	$ 1,246	$ -	$ 1,345

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	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
RMBS	-	8,719	119	8,838
CMBS	-	1,944	109	2,053
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	37	68	92	197
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)

Benefit Plans' Assets	$ 116	$ 1,113	$ 40	$ 1,269

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

	For the Year Ended December 31, 2011					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,816	$ 2	$ 42	$ (138)	$ 166	$ 1,888
U.S. Government bonds	2	-	-	(1)	-	1
Foreign government bonds	113	-	4	(3)	(17)	97
RMBS	119	(3)	7	35	-	158
CMBS	109	(62)	62	(78)	3	34
CDOs	172	19	(17)	(72)	-	102
Hybrid and redeemable preferred securities	119	(1)	(6)	(9)	(3)	100
Equity AFS securities	92	8	(12)	1	(33)	56
Trading securities	76	1	3	(8)	(4)	68
Derivative investments	1,495	495	363	117	-	2,470
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(497)	5	-	93	-	(399)
GLB reserves embedded derivatives	(408)	(1,809)	-	-	-	(2,217)
VIEs' liabilities - derivative instruments (5)	(209)	(82)	-	-	-	(291)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(363)	(11)	-	20	-	(354)
Credit default swaps (7)	(16)	(7)	-	7	-	(16)
Total, net	$ 2,620	$ (1,445)	$ 446	$ (36)	$ 112	$ 1,697
Benefit plans' assets (8)	$ 40	$ 2	$ (3)	$ (39)	$ -	$ -

	For the Year Ended December 31, 2010					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, 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	$ (42)	$ 56	$ (218)	$ (50)	$ 1,816
U.S. Government bonds	3	-	-	(4)	3	2
Foreign government bonds	92	-	8	(4)	17	113
RMBS	136	(5)	9	(17)	(4)	119
CMBS	259	(47)	87	(72)	(118)	109
CDOs	153	1	30	(12)	-	172
CLNs	322	-	278	-	(600)	-
Hybrid and redeemable preferred securities	156	3	(26)	(14)	-	119
Equity AFS securities	88	-	8	(4)	-	92
Trading securities	91	3	(10)	(7)	(1)	76
Derivative investments	1,368	(151)	7	271	-	1,495
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(419)	(81)	-	3	-	(497)
GLB reserves embedded derivatives	(676)	268	-	-	-	(408)
VIEs' liabilities - derivativeinstruments (5)	-	16	-	-	(225)	(209)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(332)	(34)	-	3	-	(363)
Credit default swaps (7)	(65)	7	-	42	-	(16)
Total, net	$ 3,246	$ (62)	$ 447	$ (33)	$ (978)	$ 2,620
Benefit plans' assets (8)	$ 3	$ -	$ 3	$ 34	$ -	$ 40

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	For the Year Ended December 31, 2009					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, 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	$ 2,335	$ (46)	$ 321	$ (239)	$ (301)	$ 2,070
U.S. Government bonds	3	-	-	-	-	3
Foreign government bonds	60	1	2	10	19	92
RMBS	179	(8)	36	85	(156)	136
CMBS	244	1	59	(45)	-	259
CDOs	151	(35)	61	(22)	(2)	153
CLNs	50	-	272	-	-	322
State and municipal bonds	125	-	-	69	(194)	-
Hybrid and redeemable preferred securities	117	(21)	49	2	9	156
Equity AFS securities	94	(8)	26	(24)	-	88
Trading securities	81	34	-	(7)	(17)	91
Derivative investments	2,147	(712)	(135)	68	-	1,368
Future contract benefits: (4)						
Indexed annuity contracts embedded derivatives	(252)	(75)	-	(92)	-	(419)
GLB reserves embedded derivatives	(2,904)	2,228	-	-	-	(676)
Other liabilities:						
Deferred compensation plans embedded derivatives (6)	(336)	(63)	-	67	-	(332)
Credit default swaps (7)	(51)	(37)	-	23	-	(65)
Total, net	$ 2,043	$ 1,259	$ 691	$ (105)	$ (642)	$ 3,246
Benefit plans' assets (8)	$ 12	$ -	$ -	$ (2)	$ (7)	$ 3

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see 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-year amortized cost and beginning-of-year fair value was included in OCI and earnings, respectively, in prior years.

(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).
(8) The expected return on plan assets is reported in underwriting, acquisition, insurance and other expenses 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 Year Ended December 31, 2011					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 237	$ (216)	$ (16)	$ (54)	$ (89)	$ (138)
U.S. Government bonds	-	-	-	(1)	-	(1)
Foreign government bonds	-	(2)	-	-	(1)	(3)
RMBS	51	(1)	-	(15)	-	35
CMBS	-	(53)	-	(24)	(1)	(78)
CDOs	-	(33)	-	(39)	-	(72)
Hybrid and redeemable preferred securities	9	(18)	-	-	-	(9)
Equity AFS securities	19	(18)	-	-	-	1
Trading securities	-	(3)	-	(5)	-	(8)
Derivative investments	396	(2)	(277)	-	-	117
Future contract benefits:						
Indexed annuity contracts embedded derivatives	(59)	-	-	152	-	93
Other liabilities:						
Deferred compensation plans embedded derivatives	-	-	-	20	-	20
Credit default swaps	-	7	-	-	-	7
Total, net	$ 653	$ (339)	$ (293)	$ 34	$ (91)	$ (36)
Benefit plans' assets	$ -	$ (22)	$ (17)	$ -	$ -	$ (39)

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

	For the Years Ended December 31,		
	2011	2010	2009
Investments: (1)			
Trading securities	$ -	$ -	$ 32
Derivative investments	472	(162)	(486)
Future contract benefits: (1)			
Indexed annuity contracts embedded derivatives	(1)	44	(17)
GLB reserves embedded derivatives	(1,615)	419	2,405
VIEs' liabilities - derivative instruments (1)	(82)	16	-
Other liabilities:			
	(11)	(34)	(63)

Deferred compensation plans embedded derivatives (2)			
Credit default swaps (3)	(8)	(12)	(14)
Total, net	$ (1,245)	$ 271	$ 1,857

(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 Years Ended December 31,					
	2011			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	$ 249	$ (83)	$ 166	$ 147	$ (197)	$ (50)
U.S. Government bonds	-	-	-	3	-	3
Foreign government bonds	-	(17)	(17)	17	-	17
RMBS	-	-	-	-	(4)	(4)
CMBS	4	(1)	3	3	(121)	(118)
CLNs	-	-	-	-	(600)	(600)
Hybrid and redeemable preferred securities	18	(21)	(3)	-	-	-
Equity AFS securities	2	(35)	(33)	-	-	-
Trading securities	1	(5)	(4)	-	(1)	(1)
Future contract benefits:						
VIEs' liabilities - derivative instruments	-	-	-	(225)	-	(225)
Total, net	$ 274	$ (162)	$ 112	$ (55)	$ (923)	$ (978)

Transfers in and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the years ended December 31, 2011 and 2010, our corporate bonds and CMBS transfers in and out were attributable primarily to the securities’ observable market information being available or no longer being available, respectively. For the year ended December 31, 2010, the 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 2. For the years ended December 31, 2011 and 2010, there were no significant transfers between Level 1 and 2 of the fair value hierarchy.

22. Segment Information

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

The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering individual fixed annuities, including indexed annuities and variable annuities. The Retirement Plan Services segment provides employer-sponsored variable and fixed annuities, defined benefit, individual retirement accounts and mutual-fund based programs in the retirement plan marketplaces.

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 and survivorship versions of UL and VUL, including corporate-owned UL and VUL insurance and bank-owned UL

and VUL insurance products. The Group Protection segment offers group life, disability and dental insurance to employers, and its products are marketed primarily through a national distribution system of regional group offices. These offices develop business through employee benefit brokers, third-party administrators and other employee benefit firms.

Other Operations includes investments related to the excess capital in our insurance subsidiaries; investments in media properties and other corporate investments; benefit plan net liability; the unamortized deferred gain on indemnity reinsurance related to the sale of reinsurance; the results of certain disability income business; 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.

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 instruments, 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 Years Ended December 31,		
	2011	2010	2009
Revenues			
Operating revenues:			
Annuities	$ 2,865	$ 2,654	$ 2,301
Retirement Plan Services	1,017	988	926
Life Insurance	4,739	4,590	4,295
Group Protection	1,939	1,831	1,713
Other Operations	461	487	465

Excluded realized gain (loss), pre-tax	(388)	(146)	(1,200)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	3	3	3
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	-	(4)
Total revenues	$ 10,636	$ 10,407	$ 8,499

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	For the Years Ended December 31,		
	2011	2010	2009
Net Income (Loss)			
Income (loss) from operations:			
Annuities	$ 592	$ 484	$ 353
Retirement Plan Services	167	154	133
Life Insurance	604	513	569
Group Protection	101	72	124
Other Operations	(146)	(186)	(237)
Excluded realized gain (loss), after-tax	(252)	(95)	(780)
Gain (loss) on early extinguishment of debt, after-tax	(5)	(3)	42
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	2	2	2
Impairment of intangibles, after-tax	(747)	-	(710)
Benefit ratio unlocking, after-tax	(14)	10	89
Income (loss) from continuing operations, after-tax	302	951	(415)
Income (loss) from discontinued operations, after-tax	(8)	29	(70)
Net income (loss)	$ 294	$ 980	$ (485)

	For the Years Ended December 31,		
	2011	2010	2009
Net Investment Income			
Annuities	$ 1,106	$ 1,119	$ 1,037
Retirement Plan Services	793	769	732
Life Insurance	2,294	2,186	1,975
Group Protection	152	141	127
Other Operations	307	326	307
Total net investment income	$ 4,652	$ 4,541	$ 4,178

	For the Years Ended December 31,		
	2011	2010	2009
Amortization of DAC and VOBA, Net of Interest			
Annuities	$ 405	$ 421	$ 360
Retirement Plan Services	60	79	75
Life Insurance	539	538	571
Group Protection	46	46	47
Total amortization of DAC and VOBA, net of interest	$ 1,050	$ 1,084	$ 1,053

	For the Years Ended December 31,		
	2011	2010	2009
Federal Income Tax Expense (Benefit)			
Annuities	$ 114	$ 102	$ 41
Retirement Plan Services	67	60	50
Life Insurance	283	236	245
Group Protection	54	38	67
Other Operations	(76)	(107)	(143)
Excluded realized gain (loss)	(136)	(51)	(420)
Gain (loss) on early extinguishment of debt	(3)	(2)	23
Reserve changes (net of related amortization) on business sold through reinsurance	1	1	1
Impairment of intangibles	-	-	(16)
Benefit ratio unlocking	(7)	6	46
Total federal income tax expense (benefit)	$ 297	$ 283	$ (106)

	As of December 31,	
	2011	2010
Assets		
Annuities	$ 97,272	$ 91,435
Retirement Plan Services	28,774	28,562
Life Insurance	60,544	56,713
Group Protection	3,458	3,254
Other Operations	12,858	13,860
Total assets	$ 202,906	$ 193,824

23. Supplemental Disclosures of Cash Flow Data

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

	For the Years Ended December 31,		
	2011	2010	2009
Interest paid	$ 287	$ 282	$ 244
Income taxes paid (received)	(36)	(107)	(189)
Significant non-cash investing and financing transactions:			
Business combinations:			
Fair value of assets acquired (includes cash and invested cash)	$ -	$ -	$ 7
Liabilities assumed	$ -	$ -	$ 7
Business dispositions:			
Assets disposed (includes cash and invested cash)	$ -	$ (509)	$ (8,044)
Liabilities disposed	(3)	116	7,457
Foreign currency awards released	-	-	54
Cash received	-	459	314
Gain (loss) on dispositions	$ (3)	$ 66	$ (219)
Sale of subsidiaries/businesses:			

Proceeds from sale of subsidiaries/businesses	$ -	$ 4	$ 15
Assets disposed (includes cash and invested cash)	-	-	(5)
Gain (loss) on sale of subsidiaries/businesses	$ -	$ 4	$ 10

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24. Quarterly Results of Operations (Unaudited)

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

	For the Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
2011				
Total revenues	$ 2,714	$ 2,804	$ 2,548	$ 2,570
Total benefits and expenses	2,246	2,363	2,409	3,019
Income (loss) from continuing operations	339	325	151	(513)
Income (loss) from discontinued operations, net of federal income taxes	-	-	(8)	-
Net income (loss)	339	325	143	(513)
Earnings (loss) per common share - basic:				
Income (loss) from continuing operations	1.08	1.04	0.50	(1.73)
Income (loss) from discontinued operations	-	-	(0.03)	-
Net income (loss)	1.08	1.04	0.47	(1.73)
Earnings (loss) per common share - diluted:				
Income (loss) from continuing operations	1.05	1.01	0.47	(1.73)
Income (loss) from discontinued operations	-	-	(0.03)	-
Net income (loss)	1.05	1.01	0.44	(1.73)
2010				
Total revenues	$ 2,527	$ 2,605	$ 2,613	$ 2,662
Total benefits and expenses	2,179	2,275	2,310	2,409
Income (loss) from continuing operations	255	252	248	196
Income (loss) from discontinued operations, net of federal income taxes	28	3	(2)	-
Net income (loss)	283	255	246	196
Earnings (loss) per common share - basic:				
Income (loss) from continuing operations	0.79	0.34	0.79	0.62
Income (loss) from discontinued operations	0.09	0.01	(0.01)	-
Net income (loss)	0.88	0.35	0.78	0.62
Earnings (loss) per common share - diluted:				
Income (loss) from continuing operations	0.76	0.32	0.76	0.60
Income (loss) from discontinued operations	0.09	0.01	(0.01)	-
Net income (loss)	0.85	0.33	0.75	0.60

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

None.

Item 9A. Controls and Procedures

(a) Conclusions Regarding Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period required by this report, we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us and our consolidated subsidiaries required to be disclosed in our periodic reports under the Exchange Act.

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

Management's Report on Internal Control Over Financial Reporting is included on page 119 of "Item 8. Financial Statements and Supplementary Data" and is incorporated herein by reference.

A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. Projections of any evaluation of controls' effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

(c) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as that term is defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information for this item relating to officers of LNC is incorporated by reference to "Part I – Executive Officers of the Registrant." Information for this item relating to directors of LNC is incorporated by reference to the sections captioned "GOVERNANCE OF THE COMPANY – Our Corporate Governance Guidelines," "GOVERNANCE OF THE

COMPANY – Director Nomination Process," "THE BOARD OF DIRECTORS AND COMMITTEES – Current Committee Membership and Meetings Held During 2012," "THE BOARD OF DIRECTORS AND COMMITTEES – Audit Committee," "ITEM 1 – Election of Directors," "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" and "GENERAL – Shareholder Proposals" of LNC's Proxy Statement for the Annual Meeting scheduled for May 24, 2012.

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

Item 11. Executive Compensation

Information for this item is incorporated by reference to the sections captioned "EXECUTIVE COMPENSATION," "COMPENSATION OF DIRECTORS" and "COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION" of LNC's Proxy Statement for the Annual Meeting scheduled for May 24, 2012.

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

Information for this item is incorporated by reference to the section captioned "SECURITY OWNERSHIP" of LNC's Proxy Statement for the Annual Meeting scheduled for May 24, 2012.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below provides information as of December 31, 2011, regarding securities authorized for issuance under LNC's equity compensation plans. See Note 19 to the consolidated financial statements included in "Part II – Item 8. Financial Statements and Supplementary Data" of this Form 10-K for a brief description of our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)	
Equity compensation plans approved by shareholders	7,183,136	(1)(2)	$ 40.32	11,190,459	(3)
Equity compensation plans not approved by shareholders	-		-	-	
Total	7,183,136		$ 40.32	11,190,459	

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

- 3,804,009 shares to be issued upon exercise of outstanding options as of December 31, 2011, under the JP Long-Term Stock Incentive Plan with a weighted-average exercise price of $46.87; and
- 73,712 shares to be issued upon exercise of outstanding options as of December 31, 2011, under the JP Non-Employee Directors Stock Option Plan with a weighted-average exercise price of $65.74.

(2) This amount includes the following:

- Outstanding options of 2,580,687;

- Outstanding long-term incentive awards of 1,557,531, of which 1,162,633 represent options with performance conditions and 394,898 represent the number of performance shares based on the maximum amounts potentially payable under the awards in stock options and shares (including potential dividend equivalents). The long-term incentive awards have not been earned as of December 31, 2011. The number of options and shares, if any, to be issued pursuant to such awards will be determined based on our, and in some cases, our subsidiaries performance over the applicable three-year performance period (target amounts are set forth in Note 19 to the consolidated financial statements, included in Part II – Item 8 of the Form 10-K for the year ended December 31, 2011. Since the shares that may be received in payment of the awards have no exercise price, they are not included in the weighted-average exercise price calculation in column (b) above. The long-term incentive awards are all issued under the LNC 2009 Amended and Restated Incentive Compensation Plan ("ICP");
- Outstanding restricted stock units of 1,779,353; and
- Outstanding deferred stock units of 1,265,565, which are not included in Note 19 to the consolidated financial statements, included in Part II – Item 8 of the Form 10-K for the year ended December 31, 2011.

(3) Includes up to 10,920,004 securities available for issuance in connection with restricted stock, restricted stock units, performance stock units, deferred stock, and deferred stock unit awards under the ICP. Shares that may be issued in payment of awards, other than options and stock appreciation rights, granted between May 12, 2005, and May 13, 2009, reduce the

number of securities remaining available for future issuance under equity compensation plans at a ratio of 3.25-to-1. Shares that may be issued in payment of awards, other than options and stock appreciation rights, granted after May 13, 2009, reduce the number of securities remaining available for future issuance under equity compensation plans at a ratio of 1.63-to-1. Shares that may be issued in payment of awards granted prior to May 12, 2005, and grants for options and stock appreciation rights, reduce the number of securities remaining available for future issuance under equity compensation plans on a 1-for-1 basis. Also includes up to 270,455 securities available for issuance in connection with deferred stock units under the Deferred Compensation Plan for Non-Employee Directors.

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

Information for this item is incorporated by reference to the sections captioned “RELATED PARTY TRANSACTIONS” and “GOVERNANCE OF THE COMPANY – Director Independence” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 24, 2012.

Item 14. Principal Accounting Fees and Services

Information for this item is incorporated by reference to the sections captioned “ITEM 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM – Independent Registered Public Accounting Firm Fees and Services” and “ITEM 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM – Audit Committee Pre-Approval Policy” of LNC’s Proxy Statement for the Annual Meeting scheduled for May 24, 2012.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

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

Management Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets – December 31, 2011 and 2010

Consolidated Statements of Income (Loss) – Years ended December 31, 2011, 2010 and 2009

Consolidated Statements of Stockholders’ Equity – Years ended December 31, 2011, 2010 and 2009

Consolidated Statements of Cash Flows – Years ended December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

(a) (2) Financial Statement Schedules

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

(a) (3) Listing of Exhibits

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

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

SIGNATURES

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

LINCOLN NATIONAL CORPORATION

Date: February 23, 2012 By: – /s/ Randal J. Freitag–––––
–––
Randal J. Freitag
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 23, 2012.

Signature	Title
/s/ Dennis R. Glass Dennis R. Glass	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Randal J. Freitag Randal J. Freitag	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Douglas N. Miller Douglas N. Miller	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ William J. Avery William J. Avery	Director
/s/ William H. Cunningham William H. Cunningham	Director
/s/ George W. Henderson, III George W. Henderson, III	Director
/s/ Eric G. Johnson Eric G. Johnson	Director
/s/ Gary C. Kelly Gary C. Kelly	Director
/s/ M. Leanne Lachman M. Leanne Lachman	Director
/s/ Michael F. Mee Michael F. Mee	Director

/s/ William Porter Payne William Porter Payne	Director
/s/ Patrick S. Pittard Patrick S. Pittard	Director
/s/ Isaiah Tidwell Isaiah Tidwell	Director

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Index to Financial Statement Schedules

I–Summary of Investments – Other than Investments in Related Parties	FS-2
II–Condensed Financial Information of Registrant	FS-3
III–Supplementary Insurance Information	FS-6
IV–Reinsurance	FS-8
V–Valuation and Qualifying Accounts	FS-9

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or the required information is included in the consolidated financial statements, and therefore omitted. See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” on page 40 for more detail on items contained within these schedules.

LINCOLN NATIONAL CORPORATION
SCHEDULE I – CONSOLIDATED SUMMARY OF INVESTMENTS – OTHER THAN INVESTMENTS IN RELATED PARTIES
(in millions)

Column A	Column B	Column C	Column D
	As of December 31, 2011		
Type of Investment	Cost	Fair Value	Carrying Value
Available-For-Sale Fixed Maturity Securities (1)			
Bonds:			
U.S. government and government agencies and authorities	$ 439	$ 494	$ 494
States, municipalities and political subdivisions	3,490	4,047	4,047
Mortgage-backed securities	9,332	9,639	9,639
Foreign governments	668	733	733
Public utilities	10,644	12,074	12,074
Convertibles and bonds with warrants attached	5	1	1
All other corporate bonds	43,133	47,288	47,288
Hybrid and redeemable preferred securities	1,277	1,157	1,157
Variable interest entities	673	700	700
Total available-for-sale fixed maturity securities	69,661	76,133	76,133
Available-For-Sale Equity Securities (1)			
Common stocks:			
Banks, trusts and insurance companies	87	87	87
Industrial, miscellaneous and all other	12	4	4
Nonredeemable preferred securities	36	48	48
Total available-for-sale equity securities	135	139	139
Trading securities	2,301	2,67	2,675
Mortgage loans on real estate	6,942	7,608	6,942
Real estate	137	N/A	137
Policy loans	2,884	N/A	2,884
Derivative instruments	1,668	3,151	3,151
Other investments	1,069	1,069	1,069
Total investments	$ 84,797		$ 93,130

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

LINCOLN NATIONAL CORPORATION
SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
(Parent Company Only) (in millions, except share data)

	As of December 31,	
	2011	2010
ASSETS		
Investments in subsidiaries (1)	$ 16,818	$ 15,485
Derivative investments	305	55
Other investments	29	135
Cash and invested cash	622	582
Loans and accrued interest to subsidiaries (1)	2,605	2,759
Other assets	286	257
Total assets	$ 20,665	$ 19,273
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Common and preferred dividends payable	$ 23	$ 16
Short-term debt	300	350
Long-term debt	5,641	5,649
Loans from subsidiaries (1)	58	-
Other liabilities	479	452
Total liabilities	6,501	6,467
Contingencies and Commitments		
Stockholders' Equity		
Preferred stock - 10,000,000 shares authorized; Series A	-	-
Common stock - 800,000,000 shares authorized	7,590	8,124
Retained earnings	4,126	3,934
Accumulated other comprehensive income (loss)	2,448	748
Total stockholders' equity	14,164	12,806
Total liabilities and stockholders' equity	$ 20,665	$ 19,273

(1) Eliminated in consolidation.

LINCOLN NATIONAL CORPORATION
SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
STATEMENTS OF INCOME
(Parent Company Only) (in millions)

	For the Years December 31,		
	2011	2010	2009
Revenues			
Dividends from subsidiaries (1)	$ 875	$ 712	$ 767
Interest from subsidiaries (1)	125	99	94
Net investment income	2	-	(5)
Realized gain (loss)	(3)	(4)	1
Other revenue	-	5	1
Total revenues	999	812	858
Expenses			
Operating and administrative	2	99	26
Interest - subsidiaries (1)	5	6	8
Interest - other	310	290	195
Total expenses	317	395	229
Income (loss) before federal income taxes, equity in income (loss) of subsidiaries, less dividends	682	417	629
Federal income tax expense (benefit)	(68)	(106)	(50)
Income (loss) before equity in income (loss) of subsidiaries, less dividends	750	523	679
Equity in income (loss) of subsidiaries, less dividends	(456)	457	(1,164)
Net income (loss)	$ 294	$ 980	$ (485)

(1) Eliminated in consolidation.

LINCOLN NATIONAL CORPORATION
SCHEDULE II – CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)
STATEMENTS OF CASH FLOWS
(Parent Company Only) (in millions)

	For the Years December 31,		
	2011	2010	2009
Cash Flows from Operating Activities			
Net income (loss)	$ 294	$ 980	$ (485)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in (income) loss of subsidiaries greater than distributions (1)	456	(457)	1,164
Realized (gain) loss	3	4	(1)
Change in fair value of equity collar	-	-	3
Change in legal accruals	(70)	70	-
Change in federal income tax accruals	32	(190)	(69)
(Gain) loss on early extinguishment of debt	8	5	(64)
Other	(22)	(22)	(4)
Net cash provided by (used in) operating activities	701	390	544
Cash Flows from Investing Activities			
Purchases of investments	-	-	(50)
Sales or maturities of investments	105	-	37
Capital contribution to subsidiaries (1)	(17)	(125)	(1,260)
Proceeds from sale of subsidiaries/businesses, net of cash disposed	-	459	320
Net cash provided by (used in) investing activities	88	334	(953)
Cash Flows from Financing Activities			
Payment of long-term debt, including current maturities	(525)	(405)	(522)
Issuance of long-term debt, net of issuance costs	300	749	788
Increase (decrease) in commercial paper, net	(100)	1	(216)
Increase (decrease) in loans from subsidiaries, net (1)	58	(97)	(291)
Increase (decrease) in loans to subsidiaries, net (1)	154	(683)	-
Common stock issued for benefit plans and excess tax benefits	1	-	-
Issuance (redemption) of Series B preferred stock and issuance (repurchase and cancellation) of associated common stock warrants	-	(998	950
Issuance of common stock	-	368	652
Repurchase of common stock	(575)	(25)	-
Dividends paid to common and preferred stockholders	(62)	(42)	(79)

Net cash provided by (used in) financing activities	(749)	(1,132)	1,282
Net increase (decrease) in cash and invested cash	40	(408)	873
Cash and invested cash as of beginning-of-year	582	990	117
Cash and invested cash as of end-of-year	$ 622	$ 582	$ 990

(1) Eliminated in consolidation.

LINCOLN NATIONAL CORPORATION
SCHEDULE III – CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION
(in millions)

Column A	Column B	Column C	Column D	Column E	Column F
Segment	DAC and VOBA	Future Contract Benefits	Unearned Premiums (1)	Other Contract Holder Funds	Insurance Premiums
		As of or for the Year Ended December 31, 2011			
Annuities	$ 2,318	$ 3,642	$ -	$ 20,701	$ 74
Retirement Plan Services	331	7	-	13,624	-
Life Insurance	5,348	7,984	-	34,066	441
Group Protection	194	1,742	-	236	1,778
Other Operations	-	6,438	-	839	1
Total	$ 8,191	$ 19,813	$ -	$ 69,466	$ 2,294
		As of or for the Year Ended December 31, 2010			
Annuities	$ 2,250	$ 1,707	$ -	$ 20,135	$ 53
Retirement Plan Services	360	2	-	12,773	-
Life Insurance	6,145	7,606	-	32,386	439
Group Protection	175	1,620	-	256	1,682
Other Operations	-	6,592	-	857	2
Total	$ 8,930	$ 17,527	$ -	$ 66,407	$ 2,176
		As of or for the Year Ended December 31, 2009			
Annuities	$ 2,381	$ 1,991	$ -	$ 19,014	$ 89
Retirement Plan Services	538	3	-	12,240	-
Life Insurance	6,432	7,108	-	30,616	392
Group Protection	159	1,459	-	181	1,579
Other Operations	-	6,584	-	913	4
Total	$ 9,510	$ 17,145	$ -	$ 62,964	$ 2,064

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

LINCOLN NATIONAL CORPORATION
SCHEDULE III – CONSOLIDATED SUPPLEMENTARY INSURANCE INFORMATION (Continued)
(in millions)

Column A	Column G	Column H	Column I	Column J	Column K
		Benefits	Amortization		
	Net	and	of DAC	Other	
	Investment	Interest	and	Operating	Premiums
Segment	Income	Credited	VOBA	Expenses (2)	Written
		As of or for the Year Ended December 31, 2011			
Annuities	$ 1,106	$ 934	$ 405	$ 841	$ -
Retirement Plan Services	793	439	60	284	-
Life Insurance	2,294	2,904	539	409	-
Group Protection	152	1,317	46	420	-
Other Operations	307	239	-	453	-
Total	$ 4,652	$ 5,833	$ 1,050	$ 2,407	$ -
		As of or for the Year Ended December 31, 2010			
Annuities	$ 1,119	$ 884	$ 421	$ 749	$ -
Retirement Plan Services	769	440	79	253	-
Life Insurance	2,186	2,933	538	370	-
Group Protection	141	1,300	46	376	-
Other Operations	326	258	-	526	-
Total	$ 4,541	$ 5,815	$ 1,084	$ 2,274	$ -
		As of or for the Year Ended December 31, 2009			
Annuities	$ 1,037	$ 783	$ 360	$ 632	$ -
Retirement Plan Services	732	433	75	227	-
Life Insurance	1,975	2,558	571	352	-
Group Protection	127	1,120	47	355	-
Other Operations	307	405	-	372	-
Total	$ 4,178	$ 5,299	$ 1,053	$ 1,938	$ -

(2) Excludes impairment of intangibles of $747 million and $730 million for the years ended December 31, 2011 and 2009, respectively. The allocation of expenses between investments and other operations is based on a number of assumptions and estimates. Results would change if different methods were applied.

LINCOLN NATIONAL CORPORATION
SCHEDULE IV – CONSOLIDATED REINSURANCE
(in millions)

Column A	Column B	Column C	Column D	Column E	Column F
		Ceded	Assumed		Percentage of
		to	from		Amount
	Gross	Other	Other	Net	Assumed
Description	Amount	Companies	Companies	Amount	to Net
	As of or for the Year Ended December 31, 2011				
Individual life insurance in force (1)	$ 881,100	$ 331,700	$ 2,800	$ 552,200	0.5%
Premiums:					
Life insurance and annuities (2)	5,811	1,252	10	4,569	0.2%
Accident and health insurance	1,186	24	-	1,162	-%
Total premiums	$ 6,997	$ 1,276	$ 10	$ 5,731	
	As of or for the Year Ended December 31, 2010				
Individual life insurance in force (1)	$ 842,300	$ 337,800	$ 3,000	$ 507,500	0.6%
Premiums:					
Life insurance and annuities (2)	5,458	1,170	13	4,301	0.3%
Accident and health insurance	1,141	32	-	1,109	-%
Total premiums	$ 6,599	$ 1,202	$ 13	$ 5,410	
	As of or for the Year Ended December 31, 2009				
Individual life insurance in force (1)	$ 799,900	$ 342,600	$ 3,000	$ 460,300	0.7%
Premiums:					
Life insurance and annuities (2)	5,025	1,126	10	3,909	0.3%
Accident and health insurance	1,099	22	-	1,077	-%
Total premiums	$ 6,124	$ 1,148	$ 10	$ 4,986	

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

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

LINCOLN NATIONAL CORPORATION
SCHEDULE V – CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
(in millions)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning-of-Year	Charged to Costs Expenses (1)	Charged to Other Accounts - Describe	Deductions - Describe (2)	Balance at End-of-Year
For the Year Ended December 31, 2011					
Deducted from asset accounts:					
Reserve for mortgage loans on real estate	$ 13	$ 24	$ -	$ (6)	$ 31
For the Year Ended December 31, 2010					
Deducted from asset accounts:					
Reserve for mortgage loans on real estate	$ 22	$ 18	$ -	$ (27)	$ 13
For the Year Ended December 31, 2009					
Deducted from asset accounts:					
Reserve for mortgage loans on real estate	$ -	$ 35	$ -	$ (13)	$ 22

(1) Excludes charges for the direct write-off assets.
(2) Deductions reflect sales, foreclosures of the underlying holdings or change in reserves.

INDEX TO EXHIBITS

2.1 Stock Purchase Agreement between Lincoln Financial Media Company and Raycom Holdings, LLC is incorporated by reference to Exhibit 2.3 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2007.***

2.2 Purchase and Sale Agreement By and Among LNC, Lincoln National Investment Companies, Inc. and Macquarie Bank Limited, dated as of August 18, 2009 is incorporated by reference to Exhibit 2.1 to LNC's Quarterly Report on Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2009.***

3.1 LNC Restated Articles of Incorporation are incorporated by reference to Exhibit 3.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on August 17, 2010.

3.2 Articles of Amendment to the Restated Articles of Incorporation of LNC dated May 26, 2011 are incorporated by reference to Exhibit 3.1 of LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 31, 2011.

3.3 Amended and Restated Bylaws of LNC (effective May 31, 2011) are incorporated by reference to Exhibit 3.3 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2011.

4.1 Indenture of LNC, dated as of September 15, 1994, between LNC and The Bank of New York, as trustee, is incorporated by reference to Exhibit 4(c) to LNC's Registration Statement on Form S-3/A (File No. 33-55379) filed with the SEC on September 15, 1994.

4.2 First Supplemental Indenture, dated as of November 1, 2006, to Indenture dated as of September 15, 1994 is incorporated by reference to Exhibit 4.4 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2006.

4.3 Junior Subordinated Indenture, dated as of May 1, 1996, between LNC and The Bank of New York Trust Company, N.A. (successor in interest to J.P. Morgan Trust Company and The First National Bank of Chicago) is incorporated by reference to Exhibit 4(j) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2001.

4.4 First Supplemental Indenture, dated as of August 14, 1998, to Junior Subordinated Indenture dated as of May 1, 1996 is incorporated by reference to Exhibit 4.3 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on August 27, 1998.

4.5 Second Supplemental Junior Subordinated Indenture, dated April 20, 2006, to Junior Subordinated Indenture, dated as of May 1, 1996, is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 20, 2006.

4.6 Third Supplemental Junior Subordinated Indenture dated May 17, 2006, to Junior Subordinated Indenture, dated as of May 1, 1996, is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 17, 2006.

4.7 Fourth Supplemental Junior Subordinated Indenture, dated as of November 1, 2006, to Junior Subordinated Indenture, dated May 1, 1996, is incorporated by reference to Exhibit 4.9 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2006.

4.8 Fifth Supplemental Junior Subordinated Indenture, dated as of March 13, 2007, to Junior Subordinated Indenture, dated May 1, 1996, is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 13, 2007.

4.9 Senior Indenture, dated as of March 10, 2009, between LNC and the Bank of New York Mellon, is incorporated by reference to LNC's Form S-3ASR (File No. 333-157822) filed with the SEC on March 10, 2009.

4.10 Junior Subordinated Indenture, dated as of March 10, 2009, between LNC and the Bank of New York Mellon, is incorporated by reference to LNC's Form S-3ASR (File No. 333-157822) filed with the SEC on March 10, 2009.

4.11 Indenture, dated as of November 21, 1995, between Jefferson-Pilot Corporation and U.S. National Bank Association (as successor in interest to Wachovia Bank, National Association), is incorporated by reference to Exhibit 4.7 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2006.

4.12 Third Supplemental Indenture, dated as of January 27, 2004, to Indenture dated as of November 21, 1995, is incorporated by reference to Exhibit 4.8 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2006.

4.13 Fourth Supplemental Indenture, dated as of January 27, 2004, to Indenture dated as of November 21, 1995, is incorporated by reference to Exhibit 4.9 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2006.

4.14 Fifth Supplemental Indenture, dated as of April 3, 2006, to Indenture, dated as of November 21, 1995, incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 3, 2006.

4.15 Sixth Supplemental Indenture, dated as of March 1, 2007, to Indenture dated as of November 21, 1995, is incorporated by reference to Exhibit 4.4 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2007.

4.16 Form of 7% Notes due March 15, 2018 incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 24, 1998.

4.17 Form of 6.20% Note dated December 7, 2001 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on December 11, 2001.

4.18 Form of 6.75% Trust Preferred Security Certificate is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on September 16, 2003.

4.19 Form of 6.75% Junior Subordinated Deferrable Interest Debentures, Series F is incorporated by reference to Exhibit 4.3 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on September 16, 2003.

4.20 Form of 4.75% Note due February 15, 2014 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on February 4, 2004.

4.21 Form of 7% Capital Securities due 2066 of LNC is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File NO. 1-6028) filed with the SEC on May 17, 2006.

4.22 Form of 6.75% Capital Securities due 2066 of Lincoln Financial Corporation is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 20, 2006.

4.23 Form of Floating Rate Senior Note due April 6, 2009 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 7, 2006.

4.24 Form of 6.15% Senior Note due April 6, 2036 is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 7, 2006.

4.25 Amended and Restated Trust Agreement dated September 11, 2003, among LNC, as Depositor, Bank One Trust Company, National Association, as Property Trustee, Bank One Delaware, Inc., as Delaware Trustee, and the Administrative Trustees named therein is incorporated by reference to Exhibit 4.1 of Form 8-K (File No. 1-6028) filed with the SEC on September 16, 2003.

4.26 Guarantee Agreement, dated September 11, 2003, between LNC, as Guarantor, and Bank One Trust Company, National Association, as Guarantee Trustee is incorporated by reference to Exhibit 4.4 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on September 16, 2003.

4.27 Form of 6.05% Capital Securities due 2067 is incorporated by reference to Exhibit 4.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 13, 2007.

4.28 Form of Floating Rate Senior Notes due 2010 is incorporated by reference to Exhibit 4.3 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 13, 2007.

4.29 Form of 5.65% Senior Notes due 2012 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on August 27, 2007.

4.30 Form of 6.30% Senior Notes due 2037 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on October 9, 2007.

4.31 Form of 8.75% Senior Notes due 2019 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 22, 2009.

4.32 Form of 6.25% Senior Notes due 2020 is incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on December 11, 2009.

4.33 Form of 4.30% Senior Notes due 2015 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 18, 2010.

4.34 Form of 7.00% Senior Notes due 2040 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 18, 2010.

4.35 Form of 4.85% Senior Notes due 2021 incorporated by reference to Exhibit 4.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 24, 2011.

4.36 First Supplemental Indenture, dated as of April 3, 2006, among Lincoln JP Holdings, L.P. and JPMorgan Chase Bank, N.A., as trustee, to the Indenture, dated as of January 15, 1997, among Jefferson-Pilot and JPMorgan Chase Bank, N.A., as trustee, is incorporated by reference to Exhibit 10.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 3, 2006.

10.1 LNC 2009 Amended and Restated Incentive Compensation Plan (as amended and restated on May 14, 2009) is incorporated by reference to Exhibit 4 to LNC's Proxy Statement (File No. 1-6028) filed with the SEC on April 9, 2009.*

10.2 Form of Restricted Stock Unit Award Agreement under the LNC Amended and Restated Incentive Compensation Plan, adopted February 7, 2008 is incorporated by reference to Exhibit 10.6 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2008.*

10.3 Form of Restricted Stock Award Agreement is incorporated by reference to Exhibit 10.7 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2008.*

10.4 Form of Restricted Stock Unit Award Agreement under the LNC Amended and Restated Incentive Compensation Plan, adopted May 2008, is incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 6, 2008.*

10.5 Form of Restricted Stock Unit Award Agreement under the LNC 2009 Amended and Restated Incentive Compensation Plan, adopted November 2009, is incorporated by reference to Exhibit 99.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on November 6, 2009.*

10.6 LNC Stock Option Plan for Non-Employee Directors is incorporated by reference to Exhibit 5 to LNC's Proxy Statement (File No. 1-6028) filed with the SEC on April 4, 2007.*

10.7 Non-Qualified Stock Option Agreement for the LNC Stock Option Plan for Non-Employee Directors is incorporated by reference to Exhibit 10.3 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 10, 2007.*

10.8 2007 Non-Employee Director Fees (revised to include fee for non-Executive Chairman) (unchanged for 2010) is incorporated by reference to Exhibit 10.3 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2007.*

10.9

2011 Non-Employee Director Fees (revised to include fee for non-Executive Chairman) is incorporated by reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2010.*

10.10 Form of Restricted Stock Award Agreement (2007) is incorporated by reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2007.*

10.11 Amended and Restated LNC Supplemental Retirement Plan is incorporated by reference to Exhibit 10.10 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2007.*

10.12 2009 Severance Plan for Officers of LNC is incorporated by reference to Exhibit 99.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on March 19, 2009.*

10.13 Severance Plan for Officers of LNC is incorporated by reference to Exhibit 99.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on November 6, 2009.*

10.14 Amended and Restated Salary Continuation Plan for Executives of LNC and Affiliates is incorporated by reference to Exhibit 10.13 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2007.*

10.15 The LNC Outside Directors' Value Sharing Plan, last amended March 8, 2001, is incorporated by reference to Exhibit 10(e) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2001.*

10.16 LNC Deferred Compensation and Supplemental/Excess Retirement Plan, as amended and restated effective December 31, 2010, is incorporated by reference to Exhibit 10.16 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2010.*

10.17 LNC 1993 Stock Plan for Non-Employee Directors, as last amended May 10, 2001, is incorporated by reference to Exhibit 10(g), to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2001.*

10.18 Amendment No. 2 to the LNC 1993 Stock Plan for Non-Employee Directors (effective February 1, 2006) is incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 13, 2006.*

10.19 Non-Qualified Stock Option Agreement (For Non-Employee Directors) under the LNC 1993 Stock Plan for Non-Employee Directors is incorporated by reference to Exhibit 10(z) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2004.*

10.20 Amendment of outstanding Non-Qualified Option Agreements (for Non-Employee Directors) under the LNC 1993 Stock Plan for Non-Employee Directors is incorporated by reference to Exhibit 10.2 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 12, 2006.*

10.21 LNC Executives' Severance Benefit Plan (effective August 7, 2008) is incorporated by reference to Exhibit 10.3 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2008.*

10.22 Amendment No. 1 to the LNC Executives' Severance Benefit Plan (effective November 9, 2011) is filed herewith.*

10.23 Amended and Restated LNC Excess Retirement Plan is incorporated by reference to Exhibit 10.26 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2007.*

10.24 LNC Deferred Compensation Plan for Non-Employee Directors, as amended and restated November 5, 2008 is incorporated by reference to Exhibit 10.23 to LNC's Form 10-K (File NO. 1-6028) for the year ended December 31, 2008.*

10.25 Form of LNC Restricted Stock Agreement is incorporated by reference to Exhibit 10(b) to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 20, 2005.*

10.26 Form of LNC Stock Option Agreement is incorporated by reference to Exhibit 10(c) to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 20, 2005.*

10.27 Form of 2008-2010 Performance Cycle Agreement under the LNC Amended and Restated Incentive Compensation Plan, is incorporated by reference to Exhibit 10.1 of LNC's Form 8-K (File No.

1-6028) filed with the SEC on February 13, 2008.*

10.28 Description of Special 2008 Annual Incentive Payout Arrangement with Terrance J. Mullen, Former President of Lincoln Financial Distributors, is incorporated by reference to Exhibit 10.4 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2008.*

10.29 2009 Executive compensation Matters dated March 30, 2009 is incorporated by reference to Exhibit 10.2 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2009.*

10.30 Agreement, Waiver and General Release between Elizabeth L. Reeves and LNC is incorporated by reference to Exhibit 10.2 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2008.*

10.31 Form of 2008 Non-Qualified Stock Option Agreement under the LNC Amended and Restated Incentive Compensation Plan is incorporated by reference to Exhibit 10.2 of LNC's Form 8-K (File No. 1-6028) filed with the SEC on February 13, 2008.*

10.32 LNC Employees' Supplemental Pension Benefit Plan is incorporated by reference to Exhibit 10(e) to LNC's Form 8-K (File No. 1-6028) filed with the SEC on January 20, 2005.*

10.33 Description of resolution dated January 13, 2005 amending the LNC Employees' Supplemental Pension benefit Plan incorporated by reference to Exhibit 10(d) to LNC's Form 10-Q (File No 1-6028) for the quarter ended March 31, 2005.*

10.34 Form of Indemnification between LNC and each director incorporated by reference to Exhibit 10.1 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended September 30, 2009.*

10.35 Form of Stock Option Agreement is incorporated by reference to Exhibit 10.3 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 18, 2006.*

10.36 Form of nonqualified LNC restricted stock award agreement is incorporated by reference to Exhibit 10.15 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on April 7, 2006.*

10.37 LNC Domestic Relocation Policy Home Sale Assistance Plan, effective as of September 6, 2007, is incorporated by reference to Exhibit 10.35 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2009.*

10.38 Jefferson Pilot Corporation Long Term Stock Incentive Plan, as amended in February 2005, is incorporated by reference to Exhibit 10(iii) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004.*

10.39 Jefferson Pilot Corporation Non-Employee Directors' Stock Option Plan, as amended in February 2005, is incorporated by reference to Exhibit 10(iv) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004.*

10.40 Jefferson Pilot Corporation Non-Employee Directors' Stock Option Plan, as last amended in 1999, is incorporated by reference to Exhibit 10(vii) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 1998.*

10.41 Jefferson Pilot Corporation forms of stock option terms for non-employee directors are incorporated by reference to Exhibit 10(xi) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004 and to Exhibit 10.2 of Jefferson-Pilot's Form 8-K filed with the SEC on February 17, 2006.*

10.42 Jefferson Pilot Corporation forms of stock option terms for officers are incorporated by reference to Exhibit 10(xi) of Jefferson-Pilot's Form 10-K (File No. 1-5955) for the year ended December 31, 2004 and to Exhibit 10.1 of Jefferson-Pilot's Form 8-K filed with the SEC on February 17, 2006.*

10.43 Jefferson-Pilot Deferred Fee Plan for Non-Employee Directors, as amended and restated November 5, 2008 is incorporated by reference to Exhibit 10.55 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2008.*

10.44 Lease and Agreement dated August 1, 1984, with respect to LNL's offices located at Clinton Street and Harrison Street, Fort Wayne, Indiana is incorporated by reference to Exhibit 10(n) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 1995.

10.45 First Amendment of Lease, dated as of June 16, 2006, between Trona Cogeneration Corporation and The Lincoln National Life Insurance Company, is incorporated by reference to Exhibit 10.22 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended June 30, 2006.

10.46 Agreement of Lease dated February 17, 1998, with respect to LNL's offices located at 350 Church Street, Hartford, Connecticut is incorporated by reference to Exhibit 10(q) to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 1997.

10.47 Stock and Asset Purchase Agreement by and among LNC, The Lincoln National Life Insurance Company, Lincoln National Reinsurance Company (Barbados) Limited and Swiss Re Life & Health America Inc. dated July 27, 2001 is incorporated by reference to Exhibit 99.1 to LNC's Form 8-K (File No. 1-6028) filed with the Commission on August 1, 2001. Omitted schedules and exhibits listed in the Agreement will be furnished to the Commission upon request.

10.48 Credit Agreement, dated as of June 10, 2010, among Lincoln National Corporation, as an Account Party and Guarantor, the Subsidiary Account Parties, as additional Account Parties, JPMorgan Chase Bank, N.A. as administrative agent, and the other lenders named therein, incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on June 15, 2011.

10.49	Master Confirmation Agreement and related Supplemental Confirmation, dated March 14, 2007, and Trade Notification, dated March 16, 2007, relating to LNC's Accelerated Stock Repurchase with Citibank, N.A. is incorporated by reference to Exhibit 10.2 to LNC's Form 10-Q (File No. 1-6028) for the quarter ended March 31, 2007.**
10.50	Indemnity Reinsurance Agreement, dated as of January 1, 1998, between Connecticut General Life Insurance Company and Lincoln Life & Annuity Company of New York is incorporated by reference to Exhibit 10.67 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2008.***
10.51	Coinsurance Agreement, dated as of October 1, 1998, AETNA Life Insurance and Annuity Company and Lincoln Life & Annuity Company of New York is incorporated by reference to Exhibit 10.68 to LNC's Form 10-K (File No. 1-6028) for the year ended December 31, 2008.***
10.52	Investment Advisory Agreement, dated as of January 4, 2010, between The Lincoln National Life Insurance Company and Delaware Investment Advisers is incorporated by reference to Exhibit 10.58 to LNC's for 10-K (File No. 1-6028) for the year ended December 31, 2009.**
10.53	Investment Advisory Agreement, dated as of January 4, 2010, between Lincoln Life & Annuity Company of New York and Delaware Investment Advisers is incorporated by reference to Exhibit 10.59 to LNC's for 10-K (File No. 1-6028) for the year ended December 31, 2009.**
10.54	Reimbursement Agreement, dated December 31, 2009, between Lincoln Reinsurance Company of Vermont I, Lincoln Financial Holdings, LLC II and Credit Suisse AG is incorporated by reference to Exhibit 10.60 to LNC's for 10-K (File No. 1-6028) for the year ended December 31, 2009.**
12	Historical Ratio of Earnings to Fixed Charges.
21	Subsidiaries List.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	Attached as Exhibit 101 to this report are the following Interactive Data Files formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2011 and 2010; (ii) Consolidated Statements of Income (Loss) for the years ended December 31, 2011, 2010 and 2009; (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; (v) Notes to the Consolidated Financial Statements; and (vi) Financial Statement Schedules. Users of this data are advised pursuant to Rule 401 of Regulation S-T that the information contained in the XBRL documents is unaudited and these are not the official publicly filed financial statements of Lincoln National Corporation.

In accordance with Rule 402 of Regulation S-T, the XBRL related information in this report shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

* This exhibit is a management contract or compensatory plan or arrangement.
** Portions of the exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of the Securities and Exchange Commission ("SEC") pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.
*** Schedules to the agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. LNC will furnish supplementally a copy of the schedule to the SEC, upon request.

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