LINCOLN NATIONAL CORP
Form 10-Q
November 07, 2012

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

FORM 10-Q

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

For the quarterly period ended September 30, 2012
OR

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

For the transition period from to

Commission File Number: 1-6028

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

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

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

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

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

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

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

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

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

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

Lincoln National Corporation

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

Contingencies and Commitments (See Note 9)

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

See accompanying Notes to Consolidated Financial Statements

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

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

See accompanying Notes to Consolidated Financial Statements

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

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

See accompanying Notes to Consolidated Financial Statements

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

	For the Nine Months Ended September 30,	
	2012	2011
Cash Flows from Operating Activities		
Net income (loss)	$ 971	$ 770
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(96)	(44)
Trading securities purchases, sales and maturities, net	124	33
Change in premiums and fees receivable	42	(48)
Change in accrued investment income	(86)	(90)
Change in future contract benefits and other contract holder funds	(264)	141
Change in reinsurance related assets and liabilities	71	(210)
Change in federal income tax accruals	44	255
Realized (gain) loss	(28)	170
(Gain) loss on early extinguishment of debt	-	8
Amortization of deferred gain on business sold through reinsurance	(56)	(56)
(Gain) loss on disposal of discontinued operations	1	3
Other	(57)	2
Net cash provided by (used in) operating activities	666	934
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(8,437)	(8,540)
Sales of available-for-sale securities	965	1,274
Maturities of available-for-sale securities	4,471	3,988
Purchases of other investments	(1,418)	(2,202)
Sales or maturities of other investments	1,622	2,336
Increase (decrease) in payables for collateral on investments	833	2,196
Other	(103)	(63)
Net cash provided by (used in) investing activities	(2,067)	(1,011)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(300)	(275)
Issuance of long-term debt, net of issuance costs	300	298
Increase (decrease) in commercial paper, net	-	(100)
Deposits of fixed account values, including the fixed portion of variable	7,612	8,187
Withdrawals of fixed account values, including the fixed portion of variable	(4,103)	(3,750)
Transfers to and from separate accounts, net	(1,775)	(1,763)
Common stock issued for benefit plans and excess tax benefits	(3)	(6)
Repurchase of common stock	(400)	(375)
Dividends paid to common and preferred stockholders	(67)	(48)
Net cash provided by (used in) financing activities	1,264	2,168

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

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for the Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Form 10-K"), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2011 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company's results. Operating results for the nine month period ended September 30, 2012, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012. All material intercompany accounts and transactions have been eliminated in consolidation.

See Note 2 "Financial Services – Insurance Industry Topic" below for information about the retrospective restatement of amounts due to the adoption of new accounting guidance. In addition, certain amounts reported in prior years' consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. These reclassifications had no effect on net income or stockholders' equity of the prior years.

2. New Accounting Standards

Adoption of New Accounting Standards

Comprehensive Income Topic

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"), with an objective of increasing the prominence of items reported in other comprehensive income ("OCI"); however, in December 2011, the FASB deferred a portion of the

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

Fair Value Measurements and Disclosures Topic

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards" ("ASU 2011-04"), which was issued to create a consistent framework for the application of fair value measurement across jurisdictions. For a more detailed description of ASU 2011-04 see "Future Adoption of New Accounting Standards – Fair Value Measurements and Disclosures Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-04 effective January 1, 2012, and have included the additional disclosures required for fair value measurements in Note 13 for the quarterly period ended September 30, 2012.

Financial Services – Insurance Industry Topic

In October 2010, the FASB issued ASU No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (“ASU 2010-26”), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. The determination of deferability must be made on a contract-level basis.

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

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

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

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

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

Intangibles – Goodwill and Other Topic

In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08"), which provides an option to first assess qualitative factors to determine if it is necessary to complete the two-step goodwill impairment test. For a more detailed description of ASU 2011-08, see "Future Adoption of New Accounting Standards – Intangibles – Goodwill and Other Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-08 effective January 1, 2012. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Transfers and Servicing Topic

In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements" ("ASU 2011-03"), which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. For a more detailed description of ASU 2011-03, see "Future Adoption of New Accounting Standards – Transfers and Servicing Topic" in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-03 effective January 1, 2012. The adoption did not have a material effect on our consolidated financial condition and results of operations.

Future Adoption of New Accounting Standards

Balance Sheet Topic

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

Intangibles – Goodwill and Other

In July 2012, the FASB issued ASU No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment” (“ASU 2012-02”), which provides an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If based on the qualitative assessment an entity determines that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the quantitative impairment test is not required. In addition, an entity has the option to bypass the qualitative assessment in any period and proceed directly to

the quantitative assessment, with the option to return to the qualitative assessment in any subsequent period. The amendments in ASU 2012-02 are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We will adopt the provisions of ASU 2012-02 in the fourth quarter of 2012 and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

3. Dispositions

Discontinued Operations

On January 4, 2010, we closed on the stock sale of our subsidiary Delaware Management Holdings, Inc. ("Delaware"), which provided investment products and services to individuals and institutions, to Macquarie Bank Limited. On October 1, 2009, we closed on the stock sale of Lincoln National (UK) plc ("Lincoln UK"), our subsidiary, which focused primarily on providing life and retirement income products in the United Kingdom to SLF of Canada UK Limited, and we retained Lincoln UK's pension plan assets and liabilities.

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

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

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

4. Variable Interest Entities ("VIEs")

Consolidated VIEs

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

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

Amount and Date of Issuance	
$400	$200
December	April

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

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

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

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

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

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

For details related to the fixed maturity available-for-sale ("AFS") securities for these VIEs, see Note 4.

As described more fully in Note 1 of our 2011 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the fixed maturity securities were

not other-than-temporarily impaired as of September 30, 2012.

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

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

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

Unconsolidated VIEs

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

5. Investments

AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards CodificationTM ("ASC"), we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 1 in our 2011 Form 10-K, which also includes additional disclosures regarding our fair value measurements.

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

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

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

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

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

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

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

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

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

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

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We perform detailed analysis on the AFS securities backed by pools of residential and commercial mortgages that are most at risk of impairment based on factors discussed in Note 1 in our 2011 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

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

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

For the nine months ended September 30, 2012 and 2011, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $6 million and $42 million, pre-tax, respectively, and before associated amortization expense for DAC, value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL"), of which $(31) million and $9 million, respectively, was recognized in OCI and $37 million and $33 million, respectively, was recognized in net income (loss).

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

	As of September 30, 2012			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities (1)
Less than six months	$ 13	$ 5	$ 1	11
Six months or greater, but less than nine months	18	10	-	5
Nine months or greater, but less than twelve months	7	2	-	1
Twelve months or greater	546	289	142	154
Total	$ 584	$ 306	$ 143	171

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

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses on AFS securities decreased $483 million for the nine months ended September 30, 2012. As discussed further below, we believe the unrealized loss position as of September 30, 2012, did not represent OTTI as we did not intend to sell these fixed maturity AFS securities, it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of September 30, 2012, management believed we had the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of September 30, 2012, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the underlying collateral and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of September 30, 2012, the unrealized losses associated with our MBS and CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model as discussed above. The key assumptions included default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each security.

As of September 30, 2012, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined we expected to recover the entire amortized cost of each security.

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

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

During 2012 and 2011, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

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

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

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

	As of September 30, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses and OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$ 259	$ 2	$ 104	$ 157	$ 78
RMBS	662	19	42	639	267
CMBS	43	1	20	24	88
Total	$ 964	$ 22	$ 166	$ 820	$ 433

As of December 31, 2011

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

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Mortgage Loans on Real Estate

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

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

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

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

	As of September 30, 2012	As of December 31, 2011
Number of impaired mortgage loans on real estate	9	12
Principal balance of impaired mortgage loans on real estate	$ 65	$ 100
Valuation allowance associated with impaired mortgage loans on real estate	(21)	(31)
Carrying value of impaired mortgage loans on real estate	$ 44	$ 69

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Average carrying value for impaired mortgage loans on real estate	$ 42	$ 58	$ 52	$ 55
Interest income recognized on impaired mortgage loans on real estate	1	-	1	2
Interest income collected on impaired mortgage loans on real estate	1	-	1	2

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

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

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

Alternative Investments

As of September 30, 2012, and December 31, 2011, alternative investments included investments in 99 and 96 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

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

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
OTTI Recognized in Net Income (Loss)				
Corporate bonds	$ (5)	$ (3)	$ (34)	$ (9)
RMBS	(16)	(22)	(48)	(65)
CMBS	(14)	(8)	(50)	(47)
CDOs	(2)	-	(2)	(1)
Hybrid and redeemable preferred securities	-	-	-	(2)
Gross OTTI recognized in net income (loss)	(37)	(33)	(134)	(124)
Associated amortization of DAC, VOBA, DSI and DFEL	5	7	22	26
Net OTTI recognized in net income (loss), pre-tax	$ (32)	$ (26)	$ (112)	$ (98)
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ (17)	$ (21)	$ (96)	$ (48)
Change in DAC, VOBA, DSI and DFEL	2	3	14	11
Net portion of OTTI recognized in OCI, pre-tax	$ (15)	$ (18)	$ (82)	$ (37)

Determination of Credit Losses on Corporate Bonds and CDOs

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

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

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

Determination of Credit Losses on MBS

As of September 30, 2012, and December 31, 2011, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 25% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) in the pool to project the future expected cash flows.

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

Payables for Collateral on Investments

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

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

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

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

	For the Nine Months Ended September 30,	
	2012	2011
Collateral payable held for derivative investments	$ (27)	$ 1,793

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

Investment Commitments

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

Concentrations of Financial Instruments

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

As of September 30, 2012, and December 31, 2011, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $8.5 billion and $7.7 billion, respectively, or 9% and 8% of our invested assets portfolio, respectively, and our investment securities in the banking industry with a fair value of $4.9 billion and $5.6 billion, or 5% and 6% of our invested assets portfolio, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

6. Derivative Instruments

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

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

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

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

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

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

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

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

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

	For the Nine Months Ended September 30,	
	2012	2011
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 119	$ (15)
Other comprehensive income (loss):		