LINCOLN NATIONAL CORP
Form 10-Q
November 06, 2009

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, 2009
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, 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 2, 2009, there were 302,080,185 shares of the registrant’s common stock outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of September 30, 2009 (Unaudited)	As of December 31, 2008
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity (amortized cost: 2009 – $60,442; 2008 – $54,381)	$ 60,666	$ 48,141
Equity (cost: 2009 – $393; 2008 – $428)	283	254
Trading securities	2,548	2,333
Mortgage loans on real estate	7,277	7,715
Real estate	154	125
Policy loans	2,893	2,921
Derivative investments	1,282	3,397
Other investments	1,080	1,624
Total investments	76,183	66,510
Cash and invested cash	3,161	5,589
Deferred acquisition costs and value of business acquired	9,182	11,402
Premiums and fees receivable	323	449
Accrued investment income	943	814
Reinsurance recoverables	7,664	8,396
Reinsurance related embedded derivatives	-	31
Goodwill	3,096	3,696
Other assets	10,827	10,594
Separate account assets	70,111	55,655
Total assets	$ 181,490	$ 163,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 15,970	$ 18,431
Other contract holder funds	63,956	60,570
Short-term debt	400	815
Long-term debt	4,789	4,731
Reinsurance related embedded derivatives	39	-
Funds withheld reinsurance liabilities	1,220	2,042
Deferred gain on business sold through reinsurance	511	619
Payables for collateral on investments	2,240	3,706
Other liabilities	10,598	8,590
Separate account liabilities	70,111	55,655
Total liabilities	169,834	155,159
Contingencies and Commitments (See Note 11)		

Stockholders' Equity		
Series A preferred stock – 10,000,000 shares authorized; 11,547 and 11,562 shares issued and outstanding as of September 30, 2009, and December 31, 2008, respectively	-	-
Series B preferred stock – 950,000 shares authorized and outstanding as of September 30, 2009	800	-
Common stock – 800,000,000 shares authorized; 302,073,869 and 255,869,859 shares issued and outstanding as of September 30, 2009, and December 31, 2008, respectively	7,842	7,035
Retained earnings	3,234	3,745
Accumulated other comprehensive loss	(220)	(2,803)
Total stockholders' equity	11,656	7,977
Total liabilities and stockholders' equity	$ 181,490	$ 163,136

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues				
Insurance premiums	$491	$514	$1,541	$1,507
Insurance fees	766	754	2,158	2,314
Net investment income	1,071	1,068	3,055	3,170
Realized loss:				
Total other-than-temporary impairment losses on securities	(148)	(237)	(578)	(395)
Portion of loss recognized in other comprehensive income	68	-	259	-
Net other-than-temporary impairment losses on securities recognized in earnings	(80)	(237)	(319)	(395)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(288)	30	(684)	49
Total realized loss	(368)	(207)	(1,003)	(346)
Amortization of deferred gain on business sold through reinsurance	18	19	56	57
Other revenues and fees	103	122	293	369
Total revenues	2,081	2,270	6,100	7,071
Benefits and Expenses				
Interest credited	623	625	1,848	1,849
Benefits	569	813	2,072	2,118
Underwriting, acquisition, insurance and other expenses	760	642	2,103	2,065
Interest and debt expense	68	69	130	209
Impairment of intangibles	(1)	-	601	175
Total benefits and expenses	2,019	2,149	6,754	6,416
Income (loss) from continuing operations before taxes	62	121	(654)	655
Federal income tax expense (benefit)	(19)	(8)	(141)	162
Income (loss) from continuing operations	81	129	(513)	493
Income (loss) from discontinued operations, net of federal income taxes	72	19	(74)	69
Net income (loss)	153	148	(587)	562
Preferred stock dividends and accretion of discount	(16)	-	(16)	-
Net income (loss) available to common stockholders	$137	$148	$(603)	$562
Earnings (Loss) Per Common Share – Basic				
Income (loss) from continuing operations	$0.21	$0.51	$(1.94)	$1.91
Income (loss) from discontinued operations	0.24	0.07	(0.27)	0.27
Net income (loss)	$0.45	$0.58	$(2.21)	$2.18
Earnings (Loss) Per Common Share – Diluted				
Income (loss) from continuing operations	$0.21	$0.51	$(1.94)	$1.90
Income (loss) from discontinued operations	0.23	0.07	(0.27)	0.26

Net income (loss)	$0.44	$0.58	$(2.21)	$2.16

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,	
	2009	2008
Preferred Stock		
Balance as of beginning-of-year	$-	$-
Issuance of Series B preferred stock	794	-
Accretion of discount on Series B preferred stock	6	-
Balance as of end-of-period	800	-
Common Stock		
Balance as of beginning-of-year	7,035	7,200
Issuance of common stock	652	-
Issuance of common stock warrant	156	-
Stock compensation/issued for benefit plans	(6)	51
Deferred compensation payable in stock	5	4
Retirement of common stock/cancellation of shares	-	(249)
Balance as of end-of-period	7,842	7,006
Retained Earnings		
Balance as of beginning-of-year	3,745	4,293
Cumulative effect from adoption of new accounting standards	102	(4)
Comprehensive income (loss)	2,098	(1,473)
Other comprehensive income (loss), net of tax	(2,685)	2,035
Net income (loss)	(587)	562
Retirement of common stock	-	(227)
Dividends declared: Common (2009 - $0.03; 2008 - $1.245)	(10)	(320)
Dividends on preferred stock	(10)	-
Accretion of discount on Series B preferred stock	(6)	-
Balance as of end-of-period	3,234	4,304
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	(2,803)	225
Cumulative effect from adoption of new accounting standards	(102)	-
Other comprehensive income (loss), net of tax	2,685	(2,035)
Balance as of end-of-period	(220)	(1,810)
Total stockholders' equity as of end-of-period	$11,656	$9,500

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,	
	2009	2008
Cash Flows from Operating Activities		
Net income (loss)	$(587)	$562
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	(217)	(492)
Trading securities purchases, sales and maturities, net	(36)	141
Change in premiums and fees receivable	244	47
Change in accrued investment income	(129)	(78)
Change in future contract benefits	(694)	159
Change in other contract holder funds	205	202
Change in funds withheld reinsurance liabilities and reinsurance recoverables	167	(57)
Change in federal income tax accruals	(27)	(228)
Realized loss	1,003	346
Loss on disposal of discontinued operations	220	13
Gain on early extinguishment of debt	(64)	-
Impairment of intangibles	601	175
Amortization of deferred gain on business sold through reinsurance	(56)	(57)
Other	(78)	78
Net cash provided by operating activities	552	811
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(11,468)	(5,578)
Sales of available-for-sale securities	2,850	1,803
Maturities of available-for-sale securities	2,533	2,978
Purchases of other investments	(3,232)	(1,848)
Sales or maturities of other investments	3,521	1,383
Increase (decrease) in payables for collateral on investments	(1,466)	533
Proceeds from sale of subsidiaries/businesses and from disposal of discontinued operations	13	645
Other	(51)	(90)
Net cash used in investing activities	(7,300)	(174)
Cash Flows from Financing Activities		
Payment of long-term debt, including current maturities	(522)	(285)
Issuance of long-term debt, net of issuance costs	491	450
Decrease in commercial paper, net	(166)	(145)
Deposits of fixed account values, including the fixed portion of variable	8,805	7,366
Withdrawals of fixed account values, including the fixed portion of variable	(4,282)	(4,373)
Transfers to and from separate accounts, net	(1,566)	(1,838)
Payment of funding agreements	-	(550)
Common stock issued for benefit plans and excess tax benefits	-	32

Issuance of Series B preferred stock and associated common stock warrant	950	-
Issuance of common stock	652	-
Repurchase of common stock	-	(476)
Dividends paid to common and preferred stockholders	(64)	(323)
Net cash provided by (used in) financing activities	4,298	(142)
Net increase (decrease) in cash and invested cash, including discontinued operations	(2,450)	495
Cash and invested cash, including discontinued operations, as of beginning-of-year	5,926	1,665
Cash and invested cash, including discontinued operations, as of end-of-period	$3,476	$2,160

See accompanying Notes to Consolidated Financial Statements

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LINCOLN NATIONAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") operate multiple insurance businesses through four business segments. See Note 17 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 ("UL") insurance, variable universal life ("VUL") insurance, term life insurance and mutual funds.

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, 2008 ("2008 Form 10-K") should be read in connection with the reading of these interim unaudited consolidated financial statements.

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, 2009, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009. All material intercompany accounts and transactions have been eliminated in consolidation.

We have evaluated our subsequent events through the time of filing this Form 10-Q with the SEC, on November 6, 2009.

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

2. New Accounting Standards

Adoption of New Accounting Standards

Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162" ("SFAS 168"). The FASB Accounting Standards CodificationTM ("ASC") is now the single source of authoritative GAAP recognized by the FASB. Although the FASB ASC does not change current GAAP, it supersedes all existing non-SEC accounting and reporting standards as of the

effective date. The accounting guidance in the FASB ASC is organized by topical reference, with all the contents having the same level of authority. In accordance with Accounting Standards Update ("ASU") No. 2009-01, "Topic 105 – Generally Accepted Accounting Principles – amendments based on – Statement of Financial Accounting Standards No. 168 – The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles" ("ASU 2009-01") the guidance in SFAS 168 will remain authoritative until it has been integrated into the FASB ASC. We adopted SFAS 168 as of September 30, 2009, and have revised all of the referencing of GAAP accounting standards in this filing to reflect the appropriate references in the new FASB ASC.

Business Combinations Topic

In December 2007, the FASB revised the accounting guidance related to the Business Combinations Topic of the FASB ASC. This revised accounting guidance retains the fundamental requirements of the business combination accounting standard, but establishes revised principles and requirements for the acquirer in a business combination to recognize and measure the identifiable assets acquired, liabilities assumed and any noncontrolling interests in the acquiree and the goodwill acquired or the gain from a bargain purchase. For a more detailed description of this accounting guidance see "SFAS No. 141(R) – Business Combinations" in Note 2 of our 2008 Form 10-K. We adopted these revisions for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

In April 2009, the FASB further amended the guidance in the Business Combinations Topic related to the recognition and measurement of contingencies acquired in a business combination. Contingent assets acquired and liabilities assumed (jointly referred to as "pre-acquisition contingencies") in a business combination are measured as of the acquisition-date fair value only if fair value can be determined during the measurement period. If the fair value cannot be determined during the measurement period, but information is available as of the end of the measurement period indicating the pre-acquisition contingency is both probable and can be reasonably estimated, then the pre-acquisition contingency is recognized as of the acquisition date based on the estimated amount. Subsequent to the acquisition date, the measurement of pre-acquisition contingencies is dependent on the nature of the contingency. We adopted these amendments for acquisitions occurring after January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

Consolidations Topic

In December 2007, the FASB amended the Consolidations Topic of the FASB ASC in order to establish accounting and reporting standards surrounding noncontrolling interests, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. For a more detailed description of these amendments see "SFAS No. 160 – Noncontrolling Interests in Consolidated Financial Statements – an Amendment of Accounting Research Bulletin No. 51" in Note 2 of our 2008 Form 10-K. We adopted these amendments effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Derivatives and Hedging Topic

In March 2008, the FASB amended the Derivatives and Hedging Topic of the FASB ASC to expand the qualitative and quantitative disclosure requirements for derivative instruments and hedging activities. For a more detailed description of the new disclosure requirements, see "SFAS No. 161 – Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133" in Note 2 of our 2008 Form 10-K. The amended and expanded disclosure requirements apply to all derivative instruments within the scope of the Derivatives and Hedging Topic, nonderivative hedging instruments and all hedged items designated and qualifying as hedges. We adopted these amendments effective January 1, 2009, and have prospectively included the enhanced disclosures related to derivative instruments and hedging activities in Note 6.

In addition, in June 2008, the FASB amended the Derivatives and Hedging Topic regarding the evaluation of an instrument (or embedded feature) indexed to an entity's own stock. The amendments to the accounting guidance require a two-step process to determine whether an equity-linked instrument (or embedded feature) is indexed to an entity's own stock first by evaluating the instrument's contingent exercise provisions, if any, and second, by evaluating the instrument's settlement provisions. We adopted this updated accounting guidance on January 1, 2009, for all outstanding instruments as of that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Fair Value Measurements and Disclosures Topic

In February 2008, the FASB amended the Fair Value Measurements and Disclosures Topic of the FASB ASC in order to delay the effective date of fair value measurement for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We applied fair value measurement to nonfinancial assets and nonfinancial liabilities beginning on January 1, 2009. The application did not have a material impact on our consolidated financial condition and results of operations.

In addition, in April 2009, the FASB amended the Fair Value Measurements and Disclosures Topic to provide additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability and additional guidance on circumstances that may indicate a transaction is not orderly. The FASB provided illustrative examples of key considerations when applying fair value measurement principles to estimate fair value in nonactive markets when there has been a significant decrease in the volume and level of activity for the asset. Additional financial statement disclosures are also required about an entity's fair value measurements in annual and interim reporting periods. Any changes in valuation techniques resulting from the adoption of this amended guidance are accounted for as a change in accounting estimate in accordance with the FASB ASC guidance related to accounting changes and error corrections. As permitted under the transition guidance, we elected to early adopt these amendments to the Fair Value Measurements and Disclosures Topic effective January 1, 2009. The adoption did not have a material impact on our consolidated financial condition or results of operations.

Financial Instruments Topic

In April 2009, the FASB extended the financial statement disclosures under the Financial Instruments Topic of the FASB ASC to require that the fair value of financial instrument disclosures be included in the notes to the interim financial statements. In addition, entities must disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in the financial statements on an interim basis and to highlight any change in the method(s) and significant assumptions used from prior periods. We included the disclosures related to the fair value of financial instruments as of June 30, 2009, and have included these enhanced disclosures in Note 16.

Financial Services – Insurance Industry Topic

In May 2008, the FASB updated the Financial Services – Insurance Industry Topic of the FASB ASC with accounting guidance applicable to financial guarantee insurance and reinsurance contracts not accounted for as derivative instruments. For a more detailed description of these amendments, see "SFAS No. 163 – Accounting for Financial Guarantee Insurance Contracts – an Interpretation of FASB Statement No. 60" in Note 2 of our 2008 Form 10-K. We do not hold a significant amount of financial guarantee insurance and reinsurance contracts, and as such, the adoption on January 1, 2009, did not have a material impact on our consolidated financial condition and results of operations.

Intangibles – Goodwill and Other Topic

In April 2008, the FASB amended the Intangibles – Goodwill and Other Topic of the FASB ASC related to the determination of the useful life of intangible assets. For a more detailed description of these amendments, see "FSP FAS No. 142-3 – Determination of the Useful Life of Intangible Assets" in Note 2 of our 2008 Form 10-K. We adopted these amendments effective January 1, 2009, and applied the guidance prospectively to recognized intangible assets acquired after the effective date and applied the disclosure requirements to all intangible assets recognized as of, and subsequent to, the effective date. The adoption did not have a material impact 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 other-than-temporary impairments ("OTTI"). Under this new accounting guidance, management's assertion that it has the intent and ability to hold an impaired debt security until recovery is replaced by the requirement for management to assert if it either has the intent to sell the debt security or if it is more likely than not the entity will be required to sell the debt security before recovery of its amortized cost basis. If management intends to sell the debt security or it is more likely than not the entity will be required to sell the debt security before recovery

of its amortized cost basis, an OTTI shall be recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value as of the balance sheet date. After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings.

If management does not intend to sell the debt security and it is not more likely than not the entity will be required to sell the 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 basis of the debt security (referred to as the credit loss), an OTTI is considered to have occurred. In this instance, the total OTTI must be bifurcated into the amount related to the credit loss, which is recognized in earnings, with the remaining amount of the total OTTI attributed to other factors (referred to as the noncredit portion) recognized as a separate component in other comprehensive income (loss) ("OCI"). After the recognition of an OTTI, the debt security is accounted for as if it had been purchased on the measurement date of the OTTI, with an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. In addition, the amendments to this topic expand and increase the frequency of existing disclosures about OTTIs for debt and equity securities regarding expected cash flows, credit losses and the aging of securities with unrealized losses.

As permitted by the transition guidance, we elected to early adopt the amendments to the Investments – Debt and Equity Securities Topic effective January 1, 2009, by recording 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 following summarizes the components (in millions) for this cumulative effect adjustment:

	Unrealized OTTI on AFS Securities	Net Unrealized Loss on AFS Securities	Total
Increase in amortized cost of fixed maturity available-for-sale ("AFS") securities	$ 34	$ 165	$ 199
Change in DAC, VOBA, DSI and DFEL	(7)	(35)	(42)
Income tax	(9)	(46)	(55)
Net cumulative effect adjustment	$ 18	$ 84	$ 102

The cumulative effect adjustment was calculated for all debt securities held as of January 1, 2009, for which an OTTI was previously recognized, but as of January 1, 2009, 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. The discount rate used to calculate the present value of the cash flows expected to be collected was the rate for each respective debt security in effect before recognizing any OTTI. In addition, because the carrying amounts of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("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 following summarizes the increase to the amortized cost of our fixed maturity AFS securities (in millions) as of January 1, 2009, resulting from the recognition of the cumulative effect adjustment:

Corporate bonds	$ 131
Residential collateralized mortgage obligations ("CMOs")	65
Collateralized debt obligations ("CDOs")	3
Total fixed maturity AFS securities	$ 199

The impact of this adoption to basic and diluted per share amounts for the three months ended September 30, 2009, was an increase of $0.23 and $0.22 per share, respectively. The impact of this adoption to both basic and diluted per share amounts for the nine months ended September 30, 2009, was an increase of $0.95 per share.

In addition, we have enhanced our financial statement presentation to present the total OTTI recognized in realized loss, with an offset for the amount of noncredit impairments recognized in accumulated OCI, on the face of our Consolidated Statements of Income (Loss). We disclose the amount of OTTI recognized in accumulated OCI in Note 12, and the enhanced disclosures related to OTTI are included in Note 5.

Investments – Equity Method and Joint Ventures Topic

In November 2008, the FASB amended the guidance in the Investments – Equity Method and Joint Ventures Topic of the FASB ASC to addresses the impact of recent amendments to the Business Combinations and Consolidations

Topics on the accounting for equity method investments. For a more detailed description of these amendments, see "EITF No. 07-5 – Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" in Note 2 of our 2008 Form 10-K. We adopted these amendments on January 1, 2009, prospectively for all investments accounted for under the equity method. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Subsequent Events Topic

In May 2009, the FASB updated the Subsequent Events Topic of the FASB ASC in order to establish standards of accounting for the disclosure of events that take place after the balance sheet date, but before the financial statements are issued. The effect of all subsequent events must be recognized in the financial statements that provide information about conditions that existed as of the balance sheet date. For those events that did not exist as of the balance sheet date, but arose after the balance sheet date and before the financial statements are issued, recognition is not required, but depending on the nature of the unrecognized subsequent event, disclosure of the event may be required in order to keep the financial statements from being misleading. In addition, entities must disclose in the financial statements the date through which subsequent events have been evaluated. We adopted these provisions, prospectively, as of the interim reporting period ended June 30, 2009, and have include the enhanced disclosures in Note 1. The adoption of these amendments to the Subsequent Event Topic did not have a material impact on our consolidated financial condition or results of operations.

Transfers and Servicing Topic

In February 2008, the FASB updated the Transfers and Servicing Topic of the FASB ASC regarding transfers of financial assets and the guidance for when a repurchase financing should be considered a linked transaction. For a more detailed description of these amendments see “FSP FAS No. 140-3 – Accounting for Transfers of Financial Assets and Repurchase Financing Transactions” in Note 2 of our 2008 Form 10-K. We adopted this update effective January 1, 2009, and applied the guidance prospectively to initial transfers and repurchase financings executed after that date. The adoption did not have a material impact on our consolidated financial condition and results of operations.

Future Adoption of New Accounting Standards

Compensation – Retirement Benefits Topic

In December 2008, the FASB amended the disclosure requirements for the Compensation – Retirement Benefits Topic of the FASB ASC, which will require enhanced disclosures regarding the plan assets of an employer’s defined benefit pension or other postretirement benefit plans. The new disclosures will include information regarding the investment allocation decisions made for plan assets, the fair value of each major category of plan assets disclosed separately for pension plans and other postretirement benefit plans and the inputs and valuation techniques used to measure the fair value of plan assets, including the level within the fair value hierarchy as defined by the Fair Value Measurements and Disclosures Topic of the FASB ASC. In addition, disclosures will now be required for fair value measurements of plan assets using Level 3 inputs. These new disclosures are effective for fiscal years ending after December 15, 2009, and are not required for earlier periods presented for comparative purposes. We will include the disclosures required by the Compensation – Retirement Benefits Topic in the notes to our consolidated financial statements for the year ending December 31, 2009.

Fair Value Measurements and Disclosures Topic

In August 2009, the FASB issued ASU No. 2009-05, “Measuring Liabilities at Fair Value” (“ASU 2009-05”) which amends the Fair Value Measurements and Disclosures Topic of the FASB ASC to provide further guidance on the application of fair value measurements, due to the general lack of observable market information available for liabilities. These amendments to the Fair Value Measurements and Disclosures Topic identify valuation techniques which can be used to measure the fair value of a liability when a quoted price in an active market is not available. In addition, the amendments clarify that an entity is not required to include a separate input or adjustment to other inputs related to a restriction that prevents the transfer of the liability and clarifies when a quoted price for a liability would be considered a Level 1 input. ASU 2009-05 is effective for the reporting period ending December 31, 2009. Any

revisions resulting from a change in a valuation technique, or its application, must be accounted for as a change in accounting estimate and the specified disclosure for a change in accounting estimate must be included in the notes to the financial statements. We will adopt these amendments to the Fair Value Measurements and Disclosures Topic in the fourth quarter of 2009, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

In September 2009, the FASB issued ASU No. 2009-12, "Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" ("ASU 2009-12"), which amends the Fair Value Measurements and Disclosures Topic of the FASB ASC to permit the use of net asset value per share, without further adjustment, to estimate the fair value of investments in investment companies that do not have readily determinable fair values. The net asset value per share must be calculated in a manner consistent with the measurement principles of the Financial Services – Investment Companies Topic of the FASB ASC and can be used by investors in investments such as hedge funds, private equity funds, venture capital funds and real estate funds. If it is probable the investment will be sold for an amount other than net asset value, the investor would be required to estimate the fair value of the investment considering all of the rights and obligations of the investment and any other market available data. In addition, the amendments will require enhanced disclosure for the investments within the scope of this accounting update. The accounting guidance in ASU 2009-12 is effective for periods ending after December 15, 2009, and entities will be permitted to early adopt this accounting guidance without providing the enhanced disclosures. Upon the effective date of ASU 2009-12, the enhanced disclosures must be provided in the notes to the financial statements. We will adopt these amendments in the fourth quarter of 2009, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

SFAS No. 166 – Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" ("SFAS 166"). In accordance with ASU 2009-01, the guidance in SFAS 166 will remain authoritative until it has been integrated into the FASB ASC. SFAS 166 will, among other things, eliminate the concept of a qualifying special-purpose entity ("SPE") and remove the scope exception for a qualifying SPE from the Consolidations Topic of the FASB ASC. As a result, previously unconsolidated qualifying SPEs must be re-evaluated for consolidation by the sponsor or transferor. In addition, this standard amends the accounting guidance related to transfers of financial assets in order to address practice issues that have been highlighted by the events of the recent economic decline. SFAS 166 is effective as of the beginning of the annual reporting period that begins after November 15, 2009. The recognition and measurement provisions will be applied to transfers that occur on or after the effective date and all qualifying SPEs that exist on and after the effective date must be evaluated for consolidation. We will adopt the provisions of SFAS 166 effective January 1, 2010, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

SFAS No. 167 – Amendments to FASB Interpretation No. 46(R)

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). In accordance with ASU 2009-01, the guidance in SFAS 167 will remain authoritative until it has been integrated into the FASB ASC. SFAS 167 amends the consolidation guidance related to variable interest entities ("VIEs") to require entities to perform an analysis of their respective variable interests to determine if a controlling financial interest exists in the VIE. The current quantitative analysis used under the Consolidations Topic of the FASB ASC will be eliminated and replaced with a qualitative approach that is focused on identifying the variable interest that has the power to direct the activities that most significantly impact the performance of the VIE and absorb losses or receive returns that could potentially be significant to the VIE. In addition, this new accounting standard will require an ongoing reassessment of the primary beneficiary of the VIE, rather than reassessing the primary beneficiary only upon the occurrence of certain events defined in the FASB ASC. SFAS 167 will be effective as of the beginning of the annual reporting period that begins after November 15, 2009, and requires that on the effective date all VIEs in which an entity has a variable interest be reconsidered for consolidation based on this amended accounting guidance. The investments we hold that we are evaluating are certain of our partnership investments in our alternative investment portfolio and the credit linked notes ("CLNs"). See Notes 4 and 5 for details on the CLNs. If we were required to consolidate our CLNs, it would also result in requiring us to record changes in fair value through the income statement with the initial mark-to-market recorded as a cumulative effect adjustment to retained earnings. We will adopt the

provisions of SFAS 167 effective January 1, 2010, and are currently evaluating the impact of the adoption on our consolidated financial condition and results of operations.

3. Acquisitions and Dispositions

Acquisitions

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. We contributed $10 million to the capital of NCLS. We closed on our purchase of NCLS on January 15, 2009, which did not have a material impact on our consolidated financial condition or results of operations.

Dispositions

Discontinued Investment Management Operations

On August 18, 2009, we entered into a purchase and sale agreement with Macquarie Bank Limited ("MBL"), pursuant to which we agreed to sell to MBL all of the outstanding capital stock of Delaware Management Holdings, Inc. ("Delaware"), our subsidiary, which provides investment products and services to individuals and institutions.

In addition, certain of our subsidiaries, including The Lincoln National Life Insurance Company ("LNL"), our primary insurance subsidiary, will enter 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 will have ten-year terms, and we may terminate them without cause by paying an aggregate termination fee of up to $84 million in the event that all of the agreements with our subsidiaries are terminated that will decline on a pro rata basis over the ten-year term of the advisory agreements.

Accordingly, the assets and liabilities of this business have been reclassified as held-for-sale for all periods presented and are reported within other assets and other liabilities on our Consolidated Balance Sheets. The major classes of assets and liabilities held-for-sale (in millions) were as follows:

	As of September 30, 2009	As of December 31, 2008
Assets		
Cash and invested cash	$152	$165
Premiums and fees receivable	34	32
Goodwill	248	248
Other assets	84	77
Total assets held-for-sale	$518	$522
Liabilities		
Other liabilities	$162	$166
Total liabilities held-for-sale	$162	$166

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Discontinued Operations Before Disposal				
Revenues:				
Investment advisory fees – external	$55	$67	$146	$220
Investment advisory fees – internal	22	21	62	61
Other revenues and fees	23	22	66	75
Gain on sale of business	2	2	6	6
Total revenues	$102	$112	$280	$362

Income from discontinued operations before disposal, before federal income tax expense	$12	$10	$29	$57
Federal income tax expense	5	3	13	21
Income from discontinued operations before disposal	$7	$7	$16	$36

We expect this transaction to close on or around December 31, 2009. The completion of the transaction contemplated by the purchase and sale agreement is subject to regulatory approvals and the satisfaction of other customary conditions, some of which are beyond our control, and no assurance can be given that such completion will occur. The transaction is expected to be neutral to earnings per share assuming reinvestment of net proceeds back into core insurance businesses. We expect a modest gain on disposal, which will be recorded as of the close of the transaction; however, the actual gain (loss) may differ from our expected result depending upon, among other things, the actual purchase price after closing adjustments.

Discontinued U.K. Operations

On June 15, 2009, we entered into a share purchase agreement with SLF of Canada UK Limited ("SLF") and Sun Life Assurance Company of Canada, as the guarantor, pursuant to which we agreed to sell to SLF all of the outstanding capital stock of Lincoln National (UK) plc ("Lincoln UK"), our subsidiary, which is focused primarily on providing life and retirement income products in the United Kingdom. This transaction closed on October 1, 2009, and we retained Lincoln UK's pension plan assets and liabilities.

Accordingly, the assets and liabilities of this business have been reclassified as held-for-sale for all periods presented and are reported within other assets and other liabilities on our Consolidated Balance Sheets. The major classes of assets and liabilities held-for-sale (in millions) were as follows:

	As of September 30, 2009	As of December 31, 2008
Assets		
Investments	$998	$831
Cash and invested cash	163	172
DAC and VOBA	562	534
Accrued investment income	21	18
Reinsurance recoverables	60	54
Other assets	45	44
Separate account assets	6,193	4,978
Total assets held-for-sale	$8,042	$6,631
Liabilities		
Future contract benefits	$896	$829
Other contract holder funds	287	277
Other liabilities	159	129
Separate account liabilities	6,193	4,978
Total liabilities held-for-sale	$7,535	$6,213

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Discontinued Operations Before Disposal				
Revenues:				
Insurance premiums	$17	$19	$41	$64
Insurance fees	42	40	99	138
Net investment income	15	21	43	61
Realized gain (loss)	-	1	(1)	(7)
Total revenues	$74	$81	$182	$256
Income from discontinued operations before disposal, before federal income tax expense	$16	$20	$38	$58
Federal income tax expense	6	7	13	20
Income from discontinued operations before disposal	10	13	25	38
Disposal				
Gain (loss) on disposal, before federal income tax benefit	17	-	(220)	-
Federal income tax benefit	38	-	105	-
Gain (loss) on disposal	55	-	(115)	-
Income (loss) from discontinued operations	$65	$13	$(90)	$38

There will be 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.

Discontinued Media Operations

During the fourth quarter of 2007, we entered into definitive agreements to sell our television broadcasting, Charlotte radio and sports programming businesses. These businesses were acquired as part of the Jefferson-Pilot merger on April 3, 2006. The sports programming sale closed on November 30, 2007, the Charlotte radio broadcasting sale closed on January 31, 2008, and the television broadcasting sale closed on March 31, 2008.

The results of operations of these businesses were reclassified into income (loss) from discontinued operations on our Consolidated Statements of Income (Loss), and selected amounts (in millions) were as follows:

	For the Three Months Ended September 30, 2008	For the Nine Months Ended September 30, 2008
Discontinued Operations Before Disposal		
Media revenues, net of agency commissions	$-	$22
Income from discontinued operations before disposal, before federal income expense	$-	$8
Federal income tax expense	-	3
Income from discontinued operations before disposal	-	5
Disposal		
Loss on disposal, before federal income tax expense (benefit)	-	(13)
Federal income tax expense (benefit)	1	(3)
Loss on disposal	(1)	(10)
Loss from discontinued operations	$(1)	$(5)

4. Variable Interest Entities

Our involvement with VIEs is primarily to obtain financing and to invest in assets that allow us to gain exposure to a broadly diversified portfolio of asset classes. We have carefully analyzed each VIE to determine whether we are the primary beneficiary. Based on our analysis of the expected losses and residual returns of the VIEs in which we have a variable interest, we have concluded that there are no VIEs for which we are the primary beneficiary, and, as such, we have not consolidated the VIEs in our consolidated financial statements. However, for those VIEs in which we are not the primary beneficiary, but hold a variable interest, we recognize the fair value of our variable interest on our consolidated financial statements.

Information (in millions) included on our Consolidated Balance Sheets for those VIEs where we had significant variable interest and where we were a sponsor was as follows:

	As of September 30, 2009			As of December 31, 2008		
	Total Assets	Total Liabilities	Maximum Loss Exposure	Total Assets	Total Liabilities	Maximum Loss Exposure
Affiliated trust	$5	$-	$-	$5	$-	$-
Credit-linked notes	318	-	600	50	-	600

Affiliated Trust

We are the sponsor of an affiliated trust, Lincoln National Capital Trust VI, which was formed solely for the purpose of issuing trust preferred securities and lending the proceeds to us. We own the common securities of this trust, approximately a 3% ownership, and the only assets of the trust are the junior subordinated debentures issued by us. Our common stock investment in this trust was financed by the trust and is reported in other investments on our

Consolidated Balance Sheets. Distributions are paid by the trust to the preferred security holders on a quarterly basis and the principal obligations of the trust are irrevocably guaranteed by us. Upon liquidation of the trust, the holders of the preferred securities are entitled to a fixed amount per share plus accumulated and unpaid distributions. We reserve the right to redeem the preferred securities at a fixed price plus accumulated and unpaid distributions and defer the interest payments due on the subordinated debentures for up to 20 consecutive quarters, but not beyond the maturity date of the subordinated debenture.

Our common stock investment does not represent a significant variable interest in the trust, as we do not receive any distributions or absorb any losses from the trust. In addition, our guarantee of the principal obligations of the trust does not represent a variable interest, as we are guaranteeing our own performance. Therefore, we are not the primary beneficiary and do not consolidate the trust. Since our investment in the common stock of the trust was financed directly by the trust, we do not have any equity investment at risk, and, therefore, do not have exposure to loss from the trust.

Credit-Linked Notes

We invested in two CLNs where the note holders do not have voting rights or decision-making capabilities. 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' investment does not permit them to make decisions about the entities' activities that would have a significant effect on the success of the entities, we have determined that these entities are VIEs. We are not the primary beneficiary of the VIEs as the multi-tiered class structure of the CLNs requires the subordinated classes of the investment pool to absorb credit losses prior to our class of notes. As a result, we will not absorb the majority of the expected losses and the coupon we receive on the CLNs limits our participation in the residual returns. For information regarding our exposure to loss in our CLNs, see "Credit-Linked Notes" in 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 16, 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, 2009				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI (1)	Value
Fixed Maturity Securities					
Corporate bonds	$44,579	$2,612	$1,265	$78	$45,848
U.S. Government bonds	203	20	2	-	221
Foreign government bonds	473	31	11	-	493
Mortgage-backed securities ("MBS"):					
CMOs	6,237	306	342	172	6,029
Residential mortgage pass-through securities ("MPTS")	2,594	85	14	-	2,665
Commercial MBS ("CMBS")	2,592	52	391	-	2,253
Asset-backed securities ("ABS"):					
CDOs	191	5	47	9	140
CLNs	600	-	282	-	318
State and municipal bonds	1,425	54	15	-	1,464
Hybrid and redeemable preferred securities	1,548	21	334	-	1,235
Total fixed maturity securities	60,442	3,186	2,703	259	60,666
Equity Securities					
Banking securities	274	-	118	-	156
Insurance securities	43	1	-	-	44
Other financial services securities	23	11	7	-	27
Other securities	53	4	1	-	56
Total equity securities	393	16	126	-	283

Total AFS securities	$60,835	$3,202	$2,829	$259	$60,949

(1) This amount is comprised of the gross unrealized OTTI cumulative effect adjustment as discussed in Note 2 and the amount reflected on our Consolidated Statements of Income (Loss) during the first nine months of 2009 adjusted for other changes, including but not limited to, sales of fixed maturity AFS securities.

	As of December 31, 2008				
	Amortized		Gross Unrealized		Fair
	Cost	Gains	Losses	OTTI	Value
Fixed Maturity Securities					
Corporate bonds	$39,773	$638	$4,463	$-	$35,948
U.S. Government bonds	204	42	-	-	246
Foreign government bonds	532	37	49	-	520
MBS:					
CMOs	6,918	174	780	-	6,312
MPTS	1,875	62	38	-	1,899
CMBS	2,535	9	625	-	1,919
ABS:					
CDOs	256	7	103	-	160
CLNs	600	-	550	-	50
State and municipal bonds	125	2	2	-	125
Hybrid and redeemable preferred securities	1,563	6	607	-	962
Total fixed maturity securities	54,381	977	7,217	-	48,141
Equity Securities					
Banking securities	274	-	146	-	128
Insurance securities	71	1	19	-	53
Other financial services securities	29	4	8	-	25
Other securities	54	4	10	-	48
Total equity securities	428	9	183	-	254
Total AFS securities	$54,809	$986	$7,400	$-	$48,395

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

	As of September 30, 2009	
	Amortized Cost	Fair Value
Due in one year or less	$1,717	$1,734
Due after one year through five years	13,444	13,930
Due after five years through ten years	16,609	17,327
Due after ten years	16,458	16,270
Subtotal	48,228	49,261
MBS	11,423	10,947
CDOs	191	140
CLNs	600	318
Total fixed maturity AFS securities	$60,442	$60,666

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 (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, 2009					
	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	$1,905	$190	$7,399	$1,153	$9,304	$1,343
U.S. Government bonds	41	2	-	-	41	2
Foreign government bonds	24	-	50	11	74	11
MBS:						
CMOs	261	172	1,018	342	1,279	514
MPTS	223	2	103	12	326	14
CMBS	103	17	782	374	885	391
ABS:						
CDOs	9	7	117	49	126	56
CLNs	-	-	318	282	318	282
State and municipal bonds	285	7	60	8	345	15
Hybrid and redeemable preferred securities	128	45	912	289	1,040	334
Total fixed maturity securities	2,979	442	10,759	2,520	13,738	2,962
Equity Securities						
Banking securities	138	103	18	15	156	118
Insurance securities	6	-	-	-	6	-
Other financial services securities	8	7	-	-	8	7
Other securities	2	1	-	-	2	1
Total equity securities	154	111	18	15	172	126
Total AFS securities	$3,133	$553	$10,777	$2,535	$13,910	$3,088
Total number of securities in an unrealized loss position						1,680

	As of December 31, 2008					
	Less Than or Equal to Twelve Months		Greater Than Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed Maturity Securities						
Corporate bonds	$18,864	$2,341	$5,893	$2,122	$24,757	$4,463
U.S. Government bonds	3	-	-	-	3	-
Foreign government bonds	147	17	50	32	197	49
MBS:						
CMOs	853	299	720	481	1,573	780
MPTS	96	26	52	12	148	38
CMBS	1,133	175	498	450	1,631	625
ABS:						
CDOs	76	20	68	83	144	103
CLNs	-	-	50	550	50	550
State and municipal bonds	29	2	2	-	31	2
Hybrid and redeemable preferred securities	461	267	418	340	879	607
Total fixed maturity securities	21,662	3,147	7,751	4,070	29,413	7,217
Equity Securities						
Banking securities	128	146	-	-	128	146
Insurance securities	30	19	-	-	30	19
Other financial services securities	16	8	-	-	16	8
Other securities	23	9	2	1	25	10
Total equity securities	197	182	2	1	199	183
Total AFS securities	$21,859	$3,329	$7,753	$4,071	$29,612	$7,400
Total number of securities in an unrealized loss position						3,563

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. We use the process described below to evaluate the level of the expected cash flows.

When evaluating MBS and mortgage-related 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/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 other-than-temporary impairment 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.

We perform detailed analysis on the AFS securities backed by pools that are most at risk of impairment based on factors noted above. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of September 30, 2009		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$3,285	$2,267	$1,018
AFS securities backed by pools of commercial mortgages	1,347	930	417
Total	$4,632	$3,197	$1,435
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$2,985	$1,971	$1,014
AFS securities backed by pools of commercial mortgages	363	204	159
Total	$3,348	$2,175	$1,173

For the nine months ended September 30, 2009, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $499 million, pre-tax, and before associated amortization expense for DAC, VOBA, DSI and DFEL, of which $247 million was recognized in OCI and $252 million 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, 2009			
	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$277	$120	$-	71
Six months or greater, but less than nine months	301	114	89	69
Nine months or greater, but less than twelve months	989	509	14	169
Twelve months or greater	1,668	1,376	137	277
Total AFS securities	$3,235	$2,119	$240	586

As of December 31, 2008

	Fair	Gross Unrealized		Number of Securities
	Value	Losses	OTTI	(1)
Less than six months	$6,711	$3,497	$-	982
Six months or greater, but less than nine months	496	505	-	102
Nine months or greater, but less than twelve months	485	646	-	147
Twelve months or greater	173	869	-	90
Total AFS securities	$7,865	$5,517	$-	1,321

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

As described more fully below, we regularly review our investment holdings for OTTIs. Based upon this review, the cause of the $4.3 billion decrease in our gross AFS securities unrealized losses for the nine months ended September 30, 2009, was attributable primarily to increased liquidity in several market segments and improved credit fundamentals (i.e., market improvement and narrowing credit spreads), partially offset by the cumulative adjustment resulting from the adoption of new accounting guidance related to the recognition of OTTI, which resulted in the $165 million increase in amortized cost in AFS securities as discussed in Note 2. We believe that the securities in an unrealized loss position as of September 30, 2009, were not other-than-temporarily impaired as we do not intend to sell these debt securities or it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, and we have the ability and intent to hold the equity securities for a period of time sufficient for recovery.

Changes in the amount of credit loss of OTTIs 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, 2009	For the Nine Months Ended September 30, 2009
Balance as of beginning-of-period	$ 132	$ 31
Increases attributable to:		
Credit losses on securities for which an OTTI was not previously recognized	32	127
Credit losses on securities for which an OTTI was previously recognized	64	100
Decreases attributable to:		
Securities sold	(6)	(6)
Amounts recognized in net income (loss)	-	(30)
Balance as of end-of-period	$ 222	$ 222

During the three and nine months ended September 30, 2009, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined that it is no longer likely that we would receive cash flows sufficient to recover the entire amortized cost basis of the 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. See Note 12 for details.

Details of the amount of credit loss of OTTIs recognized in net income (loss) where the portion related to other factors was recognized in OCI (in millions) as of September 30, 2009, were as follows:

	Amortized Cost	Gross Unrealized OTTI	Fair Value	OTTI in Credit Losses
Corporate bonds	$160	$72	$88	$58
MBS CMOs	383	172	211	164
	$543	$244	$299	$222

Realized Loss Related to Investments

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Fixed maturity AFS securities:				
Gross gains	$23	$19	$110	$44
Gross losses	(166)	(372)	(579)	(592)
Equity AFS securities:				
Gross gains	-	1	4	1
Gross losses	(8)	(25)	(16)	(32)
Gain (loss) on other investments	2	1	(58)	29
Associated amortization expense of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities	25	91	128	139
Total realized loss on investments, excluding trading securities	(124)	(285)	(411)	(411)
Loss on certain derivative instruments	(12)	(30)	(33)	(62)
Total realized loss on investments and certain derivative instruments, excluding trading securities	$(136)	$(315)	$(444)	$(473)

Details underlying write-downs taken as a result of OTTI (in millions) that was recognized in net income (loss) and included in realized 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,	
	2009	2008	2009	2008
OTTI Recognized in Net Income (Loss)				
Fixed maturity securities:				
Corporate bonds	$29	$ 205	$ 187	$ 331
MBS:				
CMOs	70	76	213	153
ABS:				
CDOs	10	-	39	1
Hybrid and redeemable preferred securities	17	1	18	1
Total fixed maturity securities	126	282	457	486
Equity securities:				
Insurance securities	-	1	-	1
Other financial services securities	8	24	10	24
Other securities	-	-	6	7
Total equity securities	8	25	16	32
Gross OTTI recognized in net income (loss)	134	307	473	518
Associated amortization expense of DAC, VOBA, DSI and DFEL	(54)	(70)	(154)	(123)
Net OTTI recognized in net income (loss), pre-tax	$80	$ 237	$ 319	$ 395
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$97	$ -	$ 338	$ -
Associated amortization expense of DAC, VOBA, DSI and DFEL	(29)	-	(79)	-
Net portion of OTTI recognized in OCI, pre-tax	$68	$ -	$ 259	$ -

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 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, business prospects and overall financial condition of the issuer.

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.

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.

Determination of Credit Losses on Corporate Bonds

To determine recovery value of a corporate bond, we perform 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).

As of September 30, 2009, we reviewed our corporate bond portfolio for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. Due to the number and variety of securities in an unrealized loss position, as well as the variety of factors for each individual corporate bond, which are used in the determination of the potential shortfall in contractual principal and interest, including, but 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, we can not quantify the significant inputs used to measure the amounts of credit losses.

Determination of Credit Losses on MBS

To determine recovery value of a MBS, we perform 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 that back a CMO, residential mortgages that back a MPTS 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 and our expectations of sale of such a security; and
- Susceptibility to variability of prepayments.

As of September 30, 2009,