

LINCOLN NATIONAL CORP  
Form 10-Q  
August 02, 2012

---

---

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

---

FORM 10-Q

---

(Mark One)

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

For the quarterly period ended June 30, 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  No

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

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

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

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

As of July 31, 2012, there were 279,173,774 shares of the registrant's common stock outstanding.

---

Lincoln National Corporation

Table of Contents

Item		Page
PART I		
1.	Financial Statements	1
2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	45
	Forward-Looking Statements – Cautionary Language	45
	Introduction	46
	Executive Summary	46
	Critical Accounting Policies and Estimates	47
	Acquisitions and Dispositions	49
	Results of Consolidated Operations	49
	Results of Annuities	51
	Results of Retirement Plan Services	57
	Results of Life Insurance	63
	Results of Group Protection	70
	Results of Other Operations	73
	Realized Gain (Loss) and Benefit Ratio Unlocking	75
	Consolidated Investments	77
	Review of Consolidated Financial Condition	92
	Liquidity and Capital Resources	92
	Other Matters	96
	Other Factors Affecting Our Business	96
	Recent Accounting Pronouncements	96
3.	Quantitative and Qualitative Disclosures About Market Risk	96
4.	Controls and Procedures	100
PART II		
1.	Legal Proceedings	100
1A.	Risk Factors	100
2.	Unregistered Sales of Equity Securities and Use of Proceeds	101
6.	Exhibits	102
	Signatures	103
	Exhibit Index for the Report on Form 10-Q	E-1



## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	As of June 30, 2012 (Unaudited)	As of December 31, 2011
<b>ASSETS</b>		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2012 - \$71,394; 2011 - \$68,988)	\$ 79,191	\$ 75,433
Variable interest entities' fixed maturity securities (amortized cost: 2012 - \$675; 2011 - \$673)	705	700
Equity securities (cost: 2012 - \$143; 2011 - \$135)	154	139
Trading securities	2,649	2,675
Mortgage loans on real estate	6,804	6,942
Real estate	116	137
Policy loans	2,829	2,884
Derivative investments	3,399	3,151
Other investments	1,041	1,069
Total investments	96,888	93,130
Cash and invested cash	5,257	4,510
Deferred acquisition costs and value of business acquired	6,505	6,776
Premiums and fees receivable	388	408
Accrued investment income	1,021	981
Reinsurance recoverables	6,601	6,526
Funds withheld reinsurance assets	863	874
Goodwill	2,273	2,273
Other assets	2,475	2,536
Separate account assets	88,839	83,477
Total assets	\$ 211,110	\$ 201,491
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Future contract benefits	\$ 19,930	\$ 19,813
Other contract holder funds	70,422	69,466
Short-term debt	300	300
Long-term debt	5,719	5,391
Reinsurance related embedded derivatives	185	168
Funds withheld reinsurance liabilities	999	1,045
Deferred gain on business sold through reinsurance	356	394
Payables for collateral on investments	5,070	3,733
Variable interest entities' liabilities	158	193
Other liabilities	4,950	4,273
Separate account liabilities	88,839	83,477
Total liabilities	196,928	188,253

Contingencies and Commitments (See Note 8)

Stockholders' Equity

Preferred stock - 10,000,000 shares authorized; Series A - 9,632 and 10,072 shares issued and outstanding as of June 30, 2012, and December 31, 2011, respectively	-	-
Common stock - 800,000,000 shares authorized; 279,168,971 and 291,319,222 shares issued and outstanding as of June 30, 2012, and December 31, 2011, respectively	7,310	7,590
Retained earnings	3,493	2,969
Accumulated other comprehensive income (loss)	3,379	2,679
Total stockholders' equity	14,182	13,238
Total liabilities and stockholders' equity	\$ 211,110	\$ 201,491

See accompanying Notes to Consolidated Financial Statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues				
Insurance premiums	\$ 630	\$ 594	\$ 1,219	\$ 1,162
Insurance fees	887	900	1,794	1,718
Net investment income	1,197	1,181	2,362	2,372
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(50)	(47)	(147)	(91)
Portion of loss recognized in other comprehensive income	17	16	67	19
Net other-than-temporary impairment losses on securities recognized in earnings	)	)	)	)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	(33)	(31)	(80)	(72)
Total realized gain (loss)	76	22	37	65
Amortization of deferred gain on business sold through reinsurance	43	(9)	(43)	(7)
Other revenues and fees	18	19	38	37
Total revenues	124	122	244	244
Expenses	2,899	2,807	5,614	5,526
Interest credited	616	625	1,241	1,239
Benefits	945	1,027	1,804	1,862
Commissions and other expenses	828	674	1,684	1,443
Interest and debt expense	68	72	135	144
Total expenses	2,457	2,398	4,864	4,688
Income (loss) from continuing operations before taxes	442	409	750	838
Federal income tax expense (benefit)	118	105	180	221
Income (loss) from continuing operations	324	304	570	617
Income (loss) from discontinued operations, net of federal income taxes	-	-	(1)	-
Net income (loss)	324	304	569	617
Other comprehensive income (loss), net of tax	757	354	700	376
Comprehensive income (loss)	\$ 1,081	\$ 658	\$ 1,269	\$ 993
Earnings (Loss) Per Common Share - Basic				
Income (loss) from continuing operations	\$ 1.15	\$ 0.98	\$ 1.99	\$ 1.97
Income (loss) from discontinued operations	-	-	-	-
Net income (loss)	\$ 1.15	\$ 0.98	\$ 1.99	\$ 1.97
Earnings (Loss) Per Common Share - Diluted				
Income (loss) from continuing operations	\$ 1.10	\$ 0.95	\$ 1.94	\$ 1.92
Income (loss) from discontinued operations	-	-	-	-
Net income (loss)	\$ 1.10	\$ 0.95	\$ 1.94	\$ 1.92





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

	For the Six Months Ended June 30,	
	2012	2011
<b>Common Stock</b>		
Balance as of beginning-of-year	\$ 7,590	\$ 8,124
Stock compensation/issued for benefit plans	20	9
Retirement of common stock/cancellation of shares	(300 )	(195 )
Balance as of end-of-period	7,310	7,938
<b>Retained Earnings</b>		
Balance as of beginning-of-year	2,969	3,934
Cumulative effect from adoption of new accounting standards	-	(1,095 )
Net income (loss)	569	617
Retirement of common stock	-	(31 )
Dividends declared: Common (2012 - \$0.160; 2011 - \$0.100)	(45 )	(32 )
Balance as of end-of-period	3,493	3,393
<b>Accumulated Other Comprehensive Income (Loss)</b>		
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	700	376
Balance as of end-of-period	3,379	1,227
Total stockholders' equity as of end-of-period	\$ 14,182	\$ 12,558

See accompanying Notes to Consolidated Financial Statements

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

	For the Six Months Ended June 30,	
	2012	2011
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 569	\$ 617
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	(114)	(215)
Trading securities purchases, sales and maturities, net	67	26
Change in premiums and fees receivable	20	(35)
Change in accrued investment income	(40)	(61)
Change in future contract benefits and other contract holder funds	120	371
Change in reinsurance related assets and liabilities	(111)	(72)
Change in federal income tax accruals	197	297
Realized (gain) loss	43	7
(Income) loss attributable to equity method investments	(81)	(75)
Amortization of deferred gain on business sold through reinsurance	(38)	(37)
(Gain) loss on disposal of discontinued operations	1	-
Other	(19)	55
Net cash provided by (used in) operating activities	614	878
<b>Cash Flows from Investing Activities</b>		
Purchases of available-for-sale securities	(5,717)	(5,901)
Sales of available-for-sale securities	369	1,042
Maturities of available-for-sale securities	2,983	2,857
Purchases of other investments	(1,398)	(1,701)
Sales or maturities of other investments	1,451	1,527
Increase (decrease) in payables for collateral on investments	1,337	146
Other	(47)	(42)
Net cash provided by (used in) investing activities	(1,022)	(2,072)
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt, net of issuance costs	298	298
Increase (decrease) in commercial paper, net	-	(100)
Deposits of fixed account values, including the fixed portion of variable	4,979	5,335
Withdrawals of fixed account values, including the fixed portion of variable	(2,611)	(2,515)
Transfers to and from separate accounts, net	(1,160)	(1,391)
Common stock issued for benefit plans and excess tax benefits	(5)	(5)
Repurchase of common stock	(300)	(226)
Dividends paid to common and preferred stockholders	(46)	(31)
Net cash provided by (used in) financing activities	1,155	1,365

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

Net increase (decrease) in cash and invested cash, including discontinued operations	747	171
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 \$	5,257	\$ 2,912

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 13 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 six month period ended June 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 June 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 12 for the quarterly period ended June 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 six months ended June 30, 2011, related to the adoption:

	For the Three Months Ended June 30, 2011	For the Six Months Ended June 30, 2011
Revenues		
Realized gain (loss)	\$ 4	\$ 8
Expenses		
Commissions and other expenses	(37)	(81)
Income (loss) from continuing operations before taxes	(33)	(73)
Federal income tax expense (benefit)	12	26
Income (loss) from continuing operations	\$ (21)	\$ (47)
Earnings (Loss) Per Common Share - Basic	\$ (0.07)	\$ (0.15)
Earnings (Loss) Per Common Share - Diluted	\$ (0.07)	\$ (0.15)

#### 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.

3. 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 June 30, 2012:

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

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

	AAA	AA	A	BBB	BB	B	CCC	Total
Industry								
Telecommunications	- %	- %	5.5 %	4.5 %	0.7 %	0.5 %	- %	11.2 %
Financial intermediaries	- %	2.1 %	7.5 %	0.9 %	- %	- %	- %	10.5 %
Oil and gas	- %	1.8 %	1.0 %	4.6 %	- %	- %	- %	7.4 %
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 food and drug)	- %	- %	2.1 %	0.9 %	0.5 %	- %	- %	3.5 %
Industrial equipment	- %	- %	3.0 %	0.3 %	- %	- %	- %	3.3 %
Sovereign	- %	0.7 %	1.6 %	1.0 %	- %	- %	- %	3.3 %
Conglomerates	- %	2.3 %	0.9 %	- %	- %	- %	- %	3.2 %
Forest products	- %	- %	- %	1.6 %	1.4 %	- %	- %	3.0 %
Other	- %	3.9 %	16.0 %	17.7 %	3.7 %	0.9 %	0.3 %	42.5 %
Total	0.3 %	13.5 %	43.2 %	34.7 %	6.6 %	1.4 %	0.3 %	100.0 %

Edgar Filing: LINCOLN NATIONAL CORP - Form 10-Q

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

	As of June 30, 2012		As of December 31, 2011			
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
<b>Assets</b>						
<b>Fixed maturity securities:</b>						
Asset-backed credit card loans	N/A	\$ -	\$ 595	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	\$ 705	1	\$ 100	\$ 700
<b>Liabilities</b>						
<b>Non-qualifying hedges:</b>						
Credit default swaps	2	\$ 600	\$ 234	2	\$ 600	\$ 295
Contingent forwards	2	-	(3)	2	-	(4)
Total non-qualifying hedges	4	600	231	4	600	291
Federal income tax	N/A	-	(73)	N/A	-	(98)
Total liabilities (2)	4	\$ 600	\$ 158	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 June 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		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
<b>Non-Qualifying Hedges</b>				
Credit default swaps	\$ (10)	\$ 6	\$ 61	\$ 13
Contingent forwards	-	(1)	(2)	(3)
Total non-qualifying hedges (1)	\$ (10)	\$ 5	\$ 59	\$ 10

(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.

## 4. Investments

## AFS Securities

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

	Amortized Cost	As of June 30, 2012			Fair Value
		Gains	Losses	OTTI	
Fixed maturity securities:					
Corporate bonds	\$ 57,342	\$ 7,068	\$ 393	\$ 103	\$ 63,914
U.S. Government bonds	449	68	-	-	517
Foreign government bonds	583	81	-	-	664
Residential mortgage-backed securities ("RMBS")	6,808	522	41	92	7,197
Commercial mortgage-backed securities ("CMBS")	1,304	71	43	25	1,307
Collateralized debt obligations ("CDOs")	135	-	15	-	120
State and municipal bonds	3,525	767	8	-	4,284
Hybrid and redeemable preferred securities	1,248	63	123	-	1,188
VIEs' fixed maturity securities	675	30	-	-	705
Total fixed maturity securities	72,069	8,670	623	220	79,896
Equity securities	143	19	8	-	154
Total AFS securities	\$ 72,212	\$ 8,689	\$ 631	\$ 220	\$ 80,050

	Amortized Cost	As of December 31, 2011			Fair Value
		Gains	Losses	OTTI	
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 June 30, 2012, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	\$ 2,931	\$ 2,989
Due after one year through five years	12,188	13,136
Due after five years through ten years	23,651	26,185
Due after ten years	25,052	28,962
Subtotal	63,822	71,272
Mortgage-backed securities ("MBS")	8,112	8,504
CDOs	135	120
Total fixed maturity AFS securities	\$ 72,069	\$ 79,896

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

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

	As of June 30, 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	\$ 2,389	\$ 175	\$ 1,293	\$ 321	\$ 3,682	\$ 496
RMBS	521	90	314	43	835	133
CMBS	110	25	146	43	256	68
CDOs	-	-	68	15	68	15
State and municipal bonds	5	-	22	8	27	8
Hybrid and redeemable preferred securities	125	4	425	119	550	123
Total fixed maturity securities	3,150	294	2,268	549	5,418	843
Equity securities	10	1	4	7	14	8
Total AFS securities	\$ 3,160	\$ 295	\$ 2,272	\$ 556	\$ 5,432	\$ 851

Total number of AFS securities in an unrealized loss position 734

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