LINCOLN NATIONAL CORP
Form 10-Q
August 01, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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	35-1140070
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
150 N. Radnor Chester Road, Suite A305, Radnor, Pennsylvania	19087
(Address of principal executive offices)	(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 July 29, 2013, there were 264,492,889 shares of the registrant’s common stock outstanding.

Lincoln National Corporation

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINCOLN NATIONAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	As of June 30, 2013 (Unaudited)	As of December 31, 2012
ASSETS		
Investments:		
Available-for-sale securities, at fair value:		
Fixed maturity securities (amortized cost: 2013 – $75,469; 2012 – $72,718)	$ 80,235	$ 82,036
Variable interest entities' fixed maturity securities (amortized cost: 2013 – $680; 2012 – $677)	698	708
Equity securities (cost: 2013 – $192; 2012 – $137)	209	157
Trading securities	2,391	2,554
Mortgage loans on real estate	7,033	7,029
Real estate	60	65
Policy loans	2,700	2,766
Derivative investments	1,683	2,652
Other investments	1,158	1,098
Total investments	96,167	99,065
Cash and invested cash	2,574	4,230
Deferred acquisition costs and value of business acquired	8,214	6,667
Premiums and fees receivable	430	380
Accrued investment income	1,052	1,015
Reinsurance recoverables	6,385	6,449
Funds withheld reinsurance assets	788	837
Goodwill	2,273	2,273
Other assets	2,655	2,580
Separate account assets	102,783	95,373
Total assets	$ 223,321	$ 218,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future contract benefits	$ 18,214	$ 19,780
Other contract holder funds	73,830	72,218
Short-term debt	506	200
Long-term debt	5,050	5,439
Reinsurance related embedded derivatives	131	215
Funds withheld reinsurance liabilities	926	940

Deferred gain on business sold through reinsurance	282	319
Payables for collateral on investments	4,252	4,181
Variable interest entities' liabilities	101	128
Other liabilities	3,929	5,103
Separate account liabilities	102,783	95,373
Total liabilities	210,004	203,896
Contingencies and Commitments (See Note 8)		
Stockholders' Equity		
Preferred stock – 10,000,000 shares authorized; Series A – 4,164 and 9,532 shares issued and outstanding as of June 30, 2013, and December 31, 2012, respectively	-	-
Common stock – 800,000,000 shares authorized; 264,316,340 and 271,402,586 shares issued and outstanding as of June 30, 2013, and December 31, 2012, respectively	6,937	7,121
Retained earnings	4,487	4,044
Accumulated other comprehensive income (loss)	1,893	3,808
Total stockholders' equity	13,317	14,973
Total liabilities and stockholders' equity	$ 223,321	$ 218,869

See accompanying Notes to Consolidated Financial Statements

1

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,	
	2013	2012	2013	2012
Revenues				
Insurance premiums	$ 674	$ 630	$ 1,328	$ 1,219
Insurance fees	983	885	1,941	1,788
Net investment income	1,213	1,197	2,363	2,362
Realized gain (loss):				
Total other-than-temporary impairment losses on securities	(20)	(50)	(39)	(147)
Portion of loss recognized in other comprehensive income	1	17	6	67
Net other-than-temporary impairment losses on securities recognized in earnings	(19)	(33)	(33)	(80)
Realized gain (loss), excluding other-than-temporary impairment losses on securities	2	76	(43)	37
Total realized gain (loss)	(17)	43	(76)	(43)
Amortization of deferred gain on business sold through reinsurance	19	19	37	37
Other revenues and fees	127	124	245	245
Total revenues	2,999	2,898	5,838	5,608
Expenses				
Interest credited	627	617	1,244	1,244
Benefits	991	943	1,950	1,795
Commissions and other expenses	898	828	1,792	1,684
Interest and debt expense	65	68	129	135
Total expenses	2,581	2,456	5,115	4,858
Income (loss) from continuing operations before taxes	418	442	723	750
Federal income tax expense (benefit)	101	121	167	185
Income (loss) from continuing operations	317	321	556	565
Income (loss) from discontinued operations, net of federal income taxes	-	-	-	(1)
Net income (loss)	317	321	556	564
Other comprehensive income (loss), net of tax	(1,688)	757	(1,915)	700
Comprehensive income (loss)	$ (1,371)	$ 1,078	$ (1,359)	$ 1,264
Earnings (Loss) Per Common Share – Basic				
Income (loss) from continuing operations	$ 1.19	$ 1.14	$ 2.07	$ 1.97
Income (loss) from discontinued operations	-	-	-	-
Net income (loss)	$ 1.19	$ 1.14	$ 2.07	$ 1.97
Earnings (Loss) Per Common Share – Diluted				
Income (loss) from continuing operations	$ 1.15	$ 1.09	$ 2.01	$ 1.93

Income (loss) from discontinued operations	-	-	-	-
Net income (loss)	$ 1.15	$ 1.09	$ 2.01	$ 1.93

See accompanying Notes to Consolidated Financial Statements

2

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited, in millions, except per share data)

	For the Six Months Ended June 30,	
	2013	2012
Common Stock		
Balance as of beginning-of-year	$ 7,121	$ 7,590
Stock compensation/issued for benefit plans	18	21
Retirement of common stock/cancellation of shares	(202)	(300)
Balance as of end-of-period	6,937	7,311
Retained Earnings		
Balance as of beginning-of-year	4,044	2,831
Net income (loss)	556	564
Retirement of common stock	(48)	-
Dividends declared: Common (2013 – $0.240; 2012 – $0.160)	(65)	(46)
Balance as of end-of-period	4,487	3,349
Accumulated Other Comprehensive Income (Loss)		
Balance as of beginning-of-year	3,808	2,680
Other comprehensive income (loss), net of tax	(1,915)	700
Balance as of end-of-period	1,893	3,380
Total stockholders' equity as of end-of-period	$ 13,317	$ 14,040

See accompanying Notes to Consolidated Financial Statements

3

LINCOLN NATIONAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in millions)

	For the Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities		
Net income (loss)	$ 556	$ 564
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization	(217)	(114)
Trading securities purchases, sales and maturities, net	63	67
Change in premiums and fees receivable	(50)	20
Change in accrued investment income	(37)	(40)
Change in future contract benefits and other contract holder funds	(293)	120
Change in reinsurance related assets and liabilities	(59)	(111)
Change in federal income tax accruals	157	202
Realized (gain) loss	76	43
(Income) loss attributable to equity method investments	(37)	(82)
Amortization of deferred gain on business sold through reinsurance	(37)	(37)
(Gain) loss on disposal of discontinued operations	-	1
Other	(67)	(19)
Net cash provided by (used in) operating activities	55	614
Cash Flows from Investing Activities		
Purchases of available-for-sale securities	(6,726)	(5,717)
Sales of available-for-sale securities	449	369
Maturities of available-for-sale securities	3,387	2,983
Purchases of other investments	(1,170)	(1,398)
Sales or maturities of other investments	1,245	1,451
Increase (decrease) in payables for collateral on investments	71	1,337
Other	(59)	(47)
Net cash provided by (used in) investing activities	(2,803)	(1,022)
Cash Flows from Financing Activities		
Issuance of long-term debt, net of issuance costs	50	298
Deposits of fixed account values, including the fixed portion of variable	5,275	4,979
Withdrawals of fixed account values, including the fixed portion of variable	(2,513)	(2,611)
Transfers to and from separate accounts, net	(1,405)	(1,160)
Common stock issued for benefit plans and excess tax benefits	-	(5)
Repurchase of common stock	(250)	(300)

Dividends paid to common and preferred stockholders	(65)	(46)
Net cash provided by (used in) financing activities	1,092	1,155
Net increase (decrease) in cash and invested cash, including discontinued operations	(1,656)	747
Cash and invested cash, including discontinued operations, as of beginning-of-year	4,230	4,510
Cash and invested cash, including discontinued operations, as of end-of-period	$ 2,574	$ 5,257

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 and solutions. These products include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit UL, indexed UL, term life insurance, employer-sponsored retirement plans and services, 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, 2012 ("2012 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 2012 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, 2013, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2013. All material inter-company accounts and transactions have been eliminated in consolidation.

2. New Accounting Standards

Adoption of New Accounting Standards

Balance Sheet Topic

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"), and in January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" ("ASU 2013-01"). For a more detailed description of ASU 2011-11 and ASU 2013-01, see "Future Adoption of New Accounting Standards – Balance Sheet Topic" in Note 2 of our 2012 Form 10-K. We adopted the disclosure requirements of ASU 2011-11, after considering the scope clarification in ASU 2013-01, as of January 1, 2013, and have included the required disclosures for all comparative periods in Note 5 of this quarterly report on Form 10-Q.

Comprehensive Income Topic

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which requires enhanced reporting of such amounts either on the face of the financial statements or in the notes to the financial statements. For a more detailed description of ASU 2013-02, see "Future Adoption of New Accounting Standards – Comprehensive Income Topic" in Note 2 of our 2012 Form 10-K. We adopted the disclosure requirements in ASU 2013-02 as of January 1, 2013, and have elected to provide the required disclosure in the notes to our consolidated financial statements. We have prospectively included the required disclosures in Note 9 of this quarterly report on Form 10-Q.

Future Adoption of New Accounting Standards

Derivatives and Hedging Topic

In July 2013, the FASB issued ASU No. 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes" ("ASU 2013-10"), which permits the Fed Funds Effective Swap Rate to be used as a benchmark interest rate for hedge accounting purposes under the FASB Accounting Standards Codification™ ("ASC") in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate swap rate. The amendments in ASU 2013-10 are effective prospectively for qualifying new or designated hedging relationships entered into, on, or after July 17, 2013. We are currently evaluating the impacts of ASU 2013-10 on our consolidated financial condition and results of operation.

5

Financial Services – Investment Companies Topic

In June 2013, the FASB issued ASU No. 2013-08, "Amendments to the Scope, Measurement, and Disclosure Requirements" ("ASU 2013-08"), which provides comprehensive accounting guidance for assessing whether an entity is an investment company. ASU 2013-08 requires an assessment of all the characteristics of an investment company through the use of a new two-tiered approach, which considers the entity's purpose and design to determine whether it is an investment company. As a result of applying the new criteria in ASU 2013-08, an entity once considered an investment company may no longer meet the new criteria to be classified as such, and conversely, an entity not classified as an investment company, under current GAAP may satisfy the criteria to be classified as such upon the adoption of ASU 2013-08. If an entity is no longer classified as an investment company it must discontinue the application of investment company accounting guidance and present the change in status through a cumulative effect adjustment to the beginning balance of retained earnings in the period of adoption. If an entity becomes classified as an investment company, ASU 2013-08 should be applied prospectively with the effect of adoption recognized as an adjustment to opening net assets for the period of adoption. The amendments in ASU 2013-08 are effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013, with early application prohibited. We will adopt the requirements in ASU 2013-08 effective January 1, 2014, and are currently evaluating the impact of adoption on our consolidated financial condition and results of operations.

Income Taxes Topic

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11") in order to explicitly define the financial statement presentation requirements in GAAP. ASU 2013-11 provides guidance on the presentation of unrecognized tax benefits when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in the ASU are effective prospectively for interim and annual reporting periods in fiscal years beginning after December 15, 2013, with early application permitted. We will adopt the requirements of ASU 2013-11 effective January 1, 2014, and will include the new disclosure requirements in the notes to our consolidated financial statements upon adoption.

3. Variable Interest Entities ("VIEs")

Consolidated VIEs

See Note 4 in our 2012 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, 2013:

	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-Caa2
Number of defaults in underlying collateral pool	2	2
Number of entities	123	99
Number of countries	20	21

6

The following summarizes the exposure of the CLN structures' underlying collateral by industry and rating as of June 30, 2013:

	AAA	AA	A	BBB	BB	B	CCC	Total
Financial intermediaries	0.0%	2.1%	7.0%	1.4%	0.0%	0.0%	0.0%	10.5%
Telecommunications	0.0%	0.0%	5.0%	5.0%	0.0%	0.5%	0.0%	10.5%
Oil and gas	0.4%	2.1%	1.0%	4.6%	0.0%	0.0%	0.0%	8.1%
Utilities	0.0%	0.0%	2.6%	2.0%	0.0%	0.0%	0.0%	4.6%
Chemicals and plastics	0.0%	0.0%	2.3%	1.2%	0.4%	0.0%	0.0%	3.9%
Drugs	0.3%	2.2%	1.2%	0.0%	0.0%	0.0%	0.0%	3.7%
Retailers (except food and drug)	0.0%	0.0%	2.1%	0.9%	0.5%	0.0%	0.0%	3.5%
Industrial equipment	0.0%	0.0%	2.6%	0.7%	0.0%	0.0%	0.0%	3.3%
Sovereign	0.0%	0.7%	1.2%	1.3%	0.0%	0.0%	0.0%	3.2%
Conglomerates	0.0%	2.3%	0.9%	0.0%	0.0%	0.0%	0.0%	3.2%
Forest products	0.0%	0.0%	0.0%	1.6%	1.4%	0.0%	0.0%	3.0%
Other	0.0%	4.1%	15.4%	17.8%	4.6%	0.3%	0.3%	42.5%
Total	0.7%	13.5%	41.3%	36.5%	6.9%	0.8%	0.3%	100.0%

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

	As of June 30, 2013			As of December 31, 2012		
	Number of Instruments	Notional Amounts	Carrying Value	Number of Instruments	Notional Amounts	Carrying Value
Assets						
Fixed maturity securities:						
Asset-backed credit card loan	N/A	$ -	$ 593	N/A	$ -	$ 598
U.S. government bonds	N/A	-	105	N/A	-	110
Excess mortality swap	1	100	-	1	100	-
Total assets (1)	1	$ 100	$ 698	1	$ 100	$ 708
Liabilities						
Non-qualifying hedges:						
Credit default swaps	2	$ 600	$ 101	2	$ 600	$ 128
Contingent forwards	2	-	-	2	-	-
Total liabilities (2)	4	$ 600	$ 101	4	$ 600	$ 128

(1) Reported in variable interest entities' fixed maturity securities on our Consolidated Balance Sheets.
(2) Reported in variable interest entities' 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 2012 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the AFS fixed maturity securities were not other-than-temporarily impaired as of June 30, 2013.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Non-Qualifying Hedges				
Credit default swaps	$ 11	$ (10)	$ 27	$ 61
Contingent forwards	-	-	-	(2)
Total non-qualifying hedges (1)	$ 11	$ (10)	$ 27	$ 59

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

Unconsolidated VIEs

See Note 4 in our 2012 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

We invest in certain limited partnerships ("LPs") that operate qualified affordable housing projects that we have concluded are VIEs. We receive returns from the LPs in the form of income tax credits that are guaranteed by creditworthy third parties, and our exposure to loss is limited to the capital we invest in the LPs. We are not the primary beneficiary of these VIEs as we do not have the power to direct the most significant activities of the LPs. Our maximum exposure to loss was \$80 million and \$92 million as of June 30, 2013, and December 31, 2012, respectively.

4. Investments

AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB ASC, we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 1 in our 2012 Form 10-K, which also includes additional disclosures regarding our fair value measurements.

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

	As of June 30, 2013				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 63,980	$ 4,978	$ 929	$ 91	$ 67,938
U.S. government bonds	378	36	6	-	408
Foreign government bonds	508	56	-	-	564
Residential mortgage-backed securities ("RMBS")	4,816	312	10	40	5,078

Commercial mortgage-backed securities ("CMBS")	857	46	3	17	883
Collateralized debt obligations ("CDOs")	174	-	2	7	165
State and municipal bonds	3,622	442	16	-	4,048
Hybrid and redeemable preferred securities	1,134	90	73	-	1,151
VIEs' fixed maturity securities	680	18	-	-	698
Total fixed maturity securities	76,149	5,978	1,039	155	80,933
Equity securities	192	18	1	-	209
Total AFS securities	$ 76,341	$ 5,996	$ 1,040	$ 155	$ 81,142

	As of December 31, 2012				
	Amortized	Gross Unrealized			Fair
	Cost	Gains	Losses	OTTI	Value
Fixed maturity securities:					
Corporate bonds	$ 60,124	$ 8,219	$ 219	$ 108	$ 68,016
U.S. government bonds	383	59	-	-	442
Foreign government bonds	562	92	-	-	654
RMBS	5,763	471	3	60	6,171
CMBS	970	68	16	19	1,003
CDOs	189	2	3	8	180
State and municipal bonds	3,546	814	7	-	4,353
Hybrid and redeemable preferred securities	1,181	106	70	-	1,217
VIEs' fixed maturity securities	677	31	-	-	708
Total fixed maturity securities	73,395	9,862	318	195	82,744
Equity securities	137	22	2	-	157
Total AFS securities	$ 73,532	$ 9,884	$ 320	$ 195	$ 82,901

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of June 30, 2013, were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 2,577	$ 2,631
Due after one year through five years	13,707	14,812
Due after five years through ten years	25,010	26,334
Due after ten years	29,008	31,030
Subtotal	70,302	74,807
Mortgage-backed securities ("MBS")	5,673	5,961
CDOs	174	165
Total fixed maturity AFS securities	$ 76,149	$ 80,933

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 other comprehensive income (loss) ("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, 2013					
	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	$ 14,856	$ 858	$ 786	$ 162	$ 15,642	$ 1,020
U.S. government bonds	149	6	-	-	149	6
RMBS	653	35	139	15	792	50
CMBS	141	18	56	2	197	20
CDOs	53	8	48	1	101	9
State and municipal bonds	229	12	24	4	253	16
Hybrid and redeemable preferred securities	99	6	226	67	325	73
Total fixed maturity securities	16,180	943	1,279	251	17,459	1,194

Equity securities		29		1		-		-		29		1
Total AFS securities	$	16,209	$	944	$	1,279	$	251	$	17,488	$	1,195
Total number of AFS securities in an unrealized loss position												1,331

9

	As of December 31, 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	$ 2,853	$ 145	$ 934	$ 182	$ 3,787	$ 327
RMBS	272	39	199	24	471	63
CMBS	66	16	113	19	179	35
CDOs	10	8	53	3	63	11
State and municipal bonds	64	1	24	6	88	7
Hybrid and redeemable preferred securities	71	3	293	67	364	70
Total fixed maturity securities	3,336	212	1,616	301	4,952	513
Equity securities	7	2	-	-	7	2
Total AFS securities	$ 3,343	$ 214	$ 1,616	$ 301	$ 4,959	$ 515
Total number of AFS securities in an unrealized loss position						626

For information regarding our investments in VIEs, see Note 3.

We perform detailed analysis on the AFS securities backed by pools of residential and commercial mortgages that are most at risk of impairment based on factors discussed in Note 1 in our 2012 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

	As of June 30, 2013		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,336	$ 1,197	$ 139
AFS securities backed by pools of commercial mortgages	240	213	27
Total	$ 1,576	$ 1,410	$ 166

Subject to Detailed Analysis

AFS securities backed by pools of residential mortgages	$ 1,098	$ 966	$ 132
AFS securities backed by pools of commercial mortgages	43	33	10
Total	$ 1,141	$ 999	$ 142

	As of December 31, 2012		
	Amortized Cost	Fair Value	Unrealized Loss
Total			
AFS securities backed by pools of residential mortgages	$ 1,181	$ 980	$ 201
AFS securities backed by pools of commercial mortgages	236	192	44
Total	$ 1,417	$ 1,172	$ 245
Subject to Detailed Analysis			
AFS securities backed by pools of residential mortgages	$ 1,173	$ 972	$ 201
AFS securities backed by pools of commercial mortgages	56	40	16
Total	$ 1,229	$ 1,012	$ 217

For the six months ended June 30, 2013 and 2012, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of $19 million and $34 million, pre-tax, respectively, and before associated amortization expense for deferred acquisition costs (“DAC”), value of business acquired (“VOBA”), deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”), of which $(3) million was recognized in OCI and $22 million and $37 million, respectively, was recognized in net income (loss).

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

	As of June 30, 2013			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities [1]
Less than six months	$ 227	$ 71	$ 7	29
Six months or greater, but less than nine months	-	-	-	5
Nine months or greater, but less than twelve months	-	-	-	1
Twelve months or greater	285	94	89	97
Total	$ 512	$ 165	$ 96	132

	As of December 31, 2012			
	Fair Value	Gross Unrealized Losses	OTTI	Number of Securities [1]
Less than six months	$ 34	$ 9	$ 1	14
Nine months or greater, but less than twelve months	15	10	-	3
Twelve months or greater	395	179	128	131
Total	$ 444	$ 198	$ 129	148

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses, including the portion of OTTI recognized in OCI, on AFS securities increased $680 million for the six months ended June 30, 2013. As discussed further below, we believe the unrealized loss position as of June 30, 2013, did not represent OTTI as (i) we did not intend to sell these fixed maturity AFS securities; (ii) it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis; (iii) the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities; and (iv) we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of June 30, 2013, management believes we have the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of June 30, 2013, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the underlying collateral and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of June 30, 2013, the unrealized losses associated with our MBS and CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model that incorporates key assumptions including default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each temporarily-impaired security.

As of June 30, 2013, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined that we expected to recover the entire amortized cost of each security.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Balance as of beginning-of-period	$ 437	$ 410	$ 424	$ 390
Increases attributable to:				
Credit losses on securities for which an OTTI was not previously recognized	19	21	20	56
Credit losses on securities for which an OTTI was previously recognized	5	19	21	42
Decreases attributable to:				
Securities sold	(48)	(35)	(52)	(73)
Balance as of end-of-period	$ 413	$ 415	$ 413	$ 415

During the six months ended June 30, 2013 and 2012, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
- Deterioration of creditworthiness of the issuer;
- Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates; and
- Deterioration of the rating of the security by a rating agency.

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

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

	As of June 30, 2013				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 280	$ 10	$ 66	$ 224	$ 112
RMBS	593	19	26	586	194
CMBS	38	3	13	28	107
Total	$ 911	$ 32	$ 105	$ 838	$ 413

	As of December 31, 2012				
		Gross Unrealized			OTTI in
	Amortized Cost	Gains	Losses and OTTI	Fair Value	Credit Losses
Corporate bonds	$ 299	$ 4	$ 98	$ 205	$ 104
RMBS	636	22	40	618	227
CMBS	41	1	16	26	93
Total	$ 976	$ 27	$ 154	$ 849	$ 424

Mortgage Loans on Real Estate

See Note 1 in our 2012 Form 10-K for information regarding our accounting policy relating to mortgage loans on real estate.

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for 32% of mortgage loans on real estate as of June 30, 2013, and December 31, 2012.

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

	As of June 30, 2013	As of December 31, 2012
Current	$ 7,021	$ 7,011
60 to 90 days past due	11	8
Greater than 90 days past due	3	24
Valuation allowance associated with impaired mortgage loans on real estate	(8)	(21)
Unamortized premium (discount)	6	7
Total carrying value	$ 7,033	$ 7,029

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

	As of June 30, 2013	As of December 31, 2012
Number of impaired mortgage loans on real estate	5	10
Principal balance of impaired mortgage loans on real estate	$ 41	$ 75
Valuation allowance associated with impaired mortgage loans on real estate	(8)	(21)
Carrying value of impaired mortgage loans on real estate	$ 33	$ 54

The changes in the valuation allowance associated with impaired mortgage loans on real estate (in millions) were as follows:

As of June 30,	As of

		December 31,
	2013	2012
Balance as of beginning-of-year	$ 21	$ 31
Additions	-	14
Charge-offs, net of recoveries	(13)	(24)
Balance as of end-of-period	$ 8	$ 21

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Average carrying value for impaired mortgage loans on real estate	$ 35	$ 49	$ 41	$ 56
Interest income recognized on impaired mortgage loans on real estate	-	-	1	-
Interest income collected on impaired mortgage loans on real estate	-	-	1	-

As described in Note 1 in our 2012 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

	As of June 30, 2013			As of December 31, 2012		
	Principal Amount	% of Total	Debt-Service Coverage Ratio	Principal Amount	% of Total	Debt-Service Coverage Ratio
Less than 65%	$ 5,827	82.9%	1.73	$ 5,677	80.6%	1.68
65% to 74%	761	10.8%	1.44	897	12.7%	1.39
75% to 100%	396	5.6%	0.83	386	5.5%	0.84

Greater than 100%		49	0.7%	0.76		83	1.2%	0.66
Total mortgage loans on real estate	$	7,033	100.0%		$	7,043	100.0%	

Alternative Investments

As of June 30, 2013, and December 31, 2012, alternative investments included investments in 102 and 98 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Fixed maturity AFS securities:				
Gross gains	$ 4	$ 3	$ 11	$ 8
Gross losses	(25)	(49)	(43)	(112)
Equity AFS securities:				
Gross gains	-	-	6	1
Gross losses	(1)	-	(1)	-
Gain (loss) on other investments	1	(5)	(1)	2
Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds	(4)	-	(11)	2
Total realized gain (loss) related to certain investments	$ (25)	$ (51)	$ (39)	$ (99)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
OTTI Recognized in Net Income (Loss)				
Corporate bonds	$ (7)	$ (10)	$ (10)	$ (29)

RMBS	(5)	(14)	(16)	(32)
CMBS	(12)	(16)	(14)	(36)
CDOs	-	-	(1)	-
Gross OTTI recognized in net income (loss)	(24)	(40)	(41)	(97)
Associated amortization of DAC, VOBA, DSI and DFEL	5	7	8	17
Net OTTI recognized in net income (loss), pre-tax	$ (19)	$ (33)	$ (33)	$ (80)
			.	
Portion of OTTI Recognized in OCI				
Gross OTTI recognized in OCI	$ 1	$ 21	$ 7	$ 79
Change in DAC, VOBA, DSI and DFEL	-	(4)	(1)	(12)
Net portion of OTTI recognized in OCI, pre-tax	$ 1	$ 17	$ 6	$ 67

Determination of Credit Losses on Corporate Bonds and CDOs

As of June 30, 2013, and December 31, 2012, we reviewed our corporate bond and CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of June 30, 2013, and December 31, 2012, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of June 30, 2013, and December 31, 2012, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of $3.1 billion and $3.0 billion, respectively, and a fair value of $3.0 billion and $2.9 billion, respectively. As of June 30, 2013, and December 31, 2012, 93% of the fair value of our CDO portfolio was rated investment grade. As of June 30, 2013, and December 31, 2012, the portion of our CDO portfolio rated below investment grade had an amortized cost of $18 million and $21 million, respectively, and fair value of $12 million and $13 million, respectively. Based upon the analysis discussed above, we believed as of June 30, 2013, and December 31, 2012, that we would recover the amortized cost of each investment grade corporate bond and CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the six months ended June 30, 2013 and 2012, the recovery as a percentage of amortized cost was 96% and 92% for corporate bonds, respectively, and 94% and 0% for CDOs, respectively.

Determination of Credit Losses on MBS

As of June 30, 2013, and December 31, 2012, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 10% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans in the pool (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) and the associated loan-level loss severities.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity, if defaulted. For first lien loans, we assume a minimum of 30% severity with higher severity assumed for investor properties and further adjusted by housing price assumptions. With the default rate timing curve and loan-level severity, we derive the future expected credit losses.

Payables for Collateral on Investments

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

	As of June 30, 2013		As of December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Collateral payable held for derivative investments (1)	$ 1,418	$ 1,418	$ 2,567	$ 2,567
Securities pledged under securities lending agreements (2)	177	171	197	189
Securities pledged under reverse repurchase agreements (3)	280	293	280	294
Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF") (4)	37	50	37	52
Investments pledged for Federal Home Loan Bank of Indianapolis ("FHLBI") (5)	2,340	3,777	1,100	1,936

Total payables for collateral on investments	$ 4,252	$ 5,709	$ 4,181	$ 5,038

(1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 5 for details about maximum collateral potentially required to post on our credit default swaps.

(2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.

(3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed maturity AFS securities.

(4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.

(5) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

For information related to balance sheet offsetting of our securities lending and reverse repurchase agreements, see Note 5.

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

	For the Six Months Ended June 30,	
	2013	2012
Collateral payable held for derivative investments	$ (1,149)	$ 461
Securities pledged under securities lending agreements	(20)	-
Securities pledged for TALF	-	(124)
Investments pledged for FHLBI	1,240	1,000
Total increase (decrease) in payables for collateral on investments	$ 71	$ 1,337

Investment Commitments

As of June 30, 2013, our investment commitments were $865 million, which included $342 million of LPs, $105 million of private placement securities and $418 million of mortgage loans on real estate.

Concentrations of Financial Instruments

As of June 30, 2013, and December 31, 2012, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of $3.4 billion and $3.8 billion, respectively, or 3% and 4% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of $2.1 billion and $2.2 billion, respectively, or 2% of our invested assets portfolio. These investments are included in corporate bonds in the tables above.

As of June 30, 2013, and December 31, 2012, our most significant investments in one industry were our investment securities in the electric industry with a fair value of $8.8 billion and $8.7 billion, respectively, or 9% of our invested assets portfolio, and our investment securities in the banking industry with a fair value of $5.0 billion, or 5% of our invested assets portfolio. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

5. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. See Note 1 in our 2012 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2012 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy, which information is incorporated herein by reference. See Note 12 for additional disclosures related to the fair value of our derivative instruments and Note 3 for derivative instruments related to our consolidated VIEs.

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

	As of June 30, 2013			As of December 31, 2012		
	Notional	Fair Value		Notional	Fair Value	
	Amounts	Asset	Liability	Amounts	Asset	Liability
Qualifying Hedges						
Cash flow hedges:						
Interest rate contracts [1]	$ 3,804	$ 535	$ 160	$ 3,214	$ 462	$ 224
Foreign currency contracts [1]	565	40	17	420	39	26
Total cash flow hedges	4,369	575	177	3,634	501	250
Fair value hedges:						
Interest rate contracts [1]	875	144	5	875	269	-
Non-Qualifying Hedges						
Interest rate contracts [1]	43,777	403	565	36,539	1,042	475
Foreign currency contracts [1]	15	-	-	48	-	-
Equity market contracts [1]	19,347	1,368	60	19,857	1,734	170
Equity collar [1]	-	-	-	9	1	-
Credit contracts [2]	148	-	8	148	-	11
Embedded derivatives:						
Indexed annuity and universal life contracts [3]	-	-	862	-	-	732
Guaranteed living benefit reserves ("GLB") [3]	-	292	-	-	-	909
Reinsurance related [4]	-	-	131	-	-	215
Total derivative instruments	$ 68,531	$ 2,782	$ 1,808	$ 61,110	$ 3,547	$ 2,762

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

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

	Remaining Life as of June 30, 2013					
	Less Than 1 Year	1 – 5 Years	6 – 10 Years	11 – 30 Years	Over 30 Years	Total
Interest rate contracts [1]	$ 3,967	$ 20,890	$ 12,793	$ 9,593	$ 1,213	$ 48,456

Foreign currency contracts (2)	48	150	243	139	-	580
Equity market contracts	10,205	3,897	5,222	21	2	19,347
Credit contracts	-	148	-	-	-	148
Total derivative instruments with notional amounts	$ 14,220	$ 25,085	$ 18,258	$ 9,753	$ 1,215	$ 68,531

(1) As of June 30, 2013, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2067.

(2) As of June 30, 2013, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2028.

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

	For the Six Months Ended June 30,	
	2013	2012
Balance as of beginning-of-year	$ 163	$ 119
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the year:		
Cash flow hedges:		
Interest rate contracts	106	38
Foreign currency contracts	12	(3)
Fair value hedges:		
Interest rate contracts	2	2
Change in foreign currency exchange rate adjustment	18	2
Change in DAC, VOBA, DSI and DFEL	4	4
Income tax benefit (expense)	(49)	(16)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss):		
Cash flow hedges:		
Interest rate contracts (1)	(10)	(11)
Foreign currency contracts (1)	2	2
Fair value hedges:		
Interest rate contracts (2)	2	2
Associated amortization of DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	2	2
Balance as of end-of-period	$ 259	$ 150

(1) The OCI offset is reported within net investment income on our Consolidated Statements of Comprehensive Income (Loss).

(2) The OCI offset is reported within interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).

The gains (losses) on derivative instruments (in millions) recorded within income (loss) from continuing operations on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Qualifying Hedges				
Cash flow hedges:				
Interest rate contracts [1]	$ (4)	$ (4)	$ (10)	$ (11)
Foreign currency contracts [1]	-	-	1	2
Total cash flow hedges	(4)	(4)	(9)	(9)
Fair value hedges:				
Interest rate contracts [2]	9	11	18	23
Non-Qualifying Hedges				
Interest rate contracts [3]	(488)	606	(662)	190
Foreign currency contracts [3]	(2)	-	(13)	(4)
Equity market contracts [3]	(44)	275	(579)	(545)
Equity market contracts [4]	3	(8)	15	6
Credit contracts [3]	2	(1)	3	5
Embedded derivatives:				
Indexed annuity and universal life contracts [3]	(19)	24	(149)	(80)
GLB reserves [3]	491	(862)	1,201	291
Reinsurance related [3]	68	(27)	83	(19)
Total derivative instruments	$ 16	$ 14	$ (92)	$ (142)

(1) Reported in net investment income on our Consolidated Statements of Comprehensive Income (Loss).
(2) Reported in interest and debt expense on our Consolidated Statements of Comprehensive Income (Loss).
(3) Reported in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
(4) Reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012

Gain (loss) recognized as a component of OCI with the offset to net investment income	$ (5)	$ (6)	$ (9)	$ (10)

As of June 30, 2013, $23 million of the deferred net losses on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to the interest rate variances related to the interest rate swap agreements.

For the six months ended June 30, 2013 and 2012, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that had not occurred by the end of the originally specified time period.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Gain (loss) recognized as a component of OCI with the offset to interest expense	$ 1	$ 1	$ 2	$ 2

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

As of June 30, 2013

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation [1]	Number of Instruments	Fair Value [2]	Maximum Potential Payout
12/20/2016 [3]	[4]	[5]	BBB-	3	$ (3)	$ 68
3/20/2017 [3]	[4]	[5]	BBB-	4	(5)	80
				7	$ (8)	$ 148

As of December 31, 2012

Maturity	Reason for Entering	Nature of Recourse	Credit Rating of Underlying Obligation [1]	Number of Instruments	Fair Value [2]	Maximum Potential Payout
12/20/2016 [3]	[4]	[5]	BBB-	3	$ (4)	$ 68
3/20/2017 [3]	[4]	[5]	BBB-	4	(7)	80
				7	$ (11)	$ 148

(1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
(2) Broker quotes are used to determine the market value of credit default swaps.
(3) These credit default swaps were sold to a counterparty of the consolidated VIEs discussed in Note 4 in our 2012 Form 10-K.
(4) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.
(5) Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

Details underlying the associated collateral of our open credit default swaps for which we are the seller, if credit risk related contingent features were triggered (in millions), are as follows:

	As of June 30, 2013	As of December 31, 2012
Maximum potential payout	$ 148	$ 148
Less: Counterparty thresholds	-	-
Maximum collateral potentially required to post	$ 148	$ 148

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post $8 million as of June 30, 2013, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

Credit Risk

We are exposed to credit loss in the event of non-performance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or non-performance risk ("NPR"). The NPR is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of June 30, 2013, the NPR adjustment was $3 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a credit support annex requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of June 30, 2013, our exposure was $105 million.

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

	As of June 30, 2013		As of December 31, 2012	
S&P Credit Rating of Counterparty	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)	Collateral Posted by Counter-Party (Held by LNC)	Collateral Posted by LNC (Held by Counter-Party)
AA	$ -	$ -	$ 41	$ -
AA-	22	(7)	58	-
A+	160	-	605	-
A	564	(40)	770	(68)
A-	931	(75)	1,214	-
BBB	19	-	4	-
	$ 1,696	$ (122)	$ 2,692	$ (68)

Balance Sheet Offsetting

Information related to our derivative instruments, securities lending transactions and reverse repurchase agreements and the effects of offsetting on our Consolidated Balance Sheets (in millions) were as follows:

	As of June 30, 2013			
	Derivative Instruments	Embedded Derivative Instruments	Securities Lending and Reverse Repurchase Agreements	Total
Financial Assets				
Gross amount of recognized assets	$ 2,490	$ 292	$ -	$ 2,782
Gross amounts offset	(807)	-	-	(807)

Net amount of assets	1,683	292	-	1,975
Gross amounts not offset:				
Cash collateral received	(1,574)	-	-	(1,574)
Net amount	$ 109	$ 292	$ -	$ 401
Financial Liabilities				
Gross amount of recognized liabilities	$ 815	$ 993	$ 2,834	$ 4,642
Gross amounts offset	(807)	-	-	(807)
Net amount of liabilities	8	993	2,834	3,835
Gross amounts not offset:				
Financial instruments	-	-	(2,834)	(2,834)
Net amount	$ 8	$ 993	$ -	$ 1,001

	As of December 31, 2012			
	Derivative Instruments	Embedded Derivative Instruments	Securities Lending and Reverse Repurchase Agreements	Total
Financial Assets				
Gross amount of recognized assets	$ 3,547	$ -	$ -	$ 3,547
Gross amounts offset	(895)	-	-	(895)
Net amount of assets	2,652	-	-	2,652
Gross amounts not offset:				
Cash collateral received	(2,624)	-	-	(2,624)
Net amount	$ 28	$ -	$ -	$ 28
Financial Liabilities				
Gross amount of recognized liabilities	$ 906	$ 1,856	$ 1,614	$ 4,376
Gross amounts offset	(895)	-	-	(895)
Net amount of liabilities	11	1,856	1,614	3,481
Gross amounts not offset:				
Financial instruments	-	-	(1,614)	(1,614)
Net amount	$ 11	$ 1,856	$ -	$ 1,867

6. Federal Income Taxes

The effective tax rate is a ratio of tax expense over pre-tax income (loss). The effective tax rate was 24% and 23% for the three and six months ended June 30, 2013, respectively. The effective tax rate was 27% and 25% for the three and six months ended June 30, 2012, respectively. The effective tax rate on pre-tax income from continuing operations was lower than the prevailing corporate federal income tax rate. Differences in the effective rates and the U.S. statutory rate of 35% were the result of certain tax preferred investment income, separate account dividends-received deduction, foreign tax credits and other tax preference items.

7. Guaranteed Benefit Features

Information on the guaranteed death benefit ("GDB") features outstanding (dollars in millions) was as follows (our variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive):

	As of June 30, 2013	As of December 31, 2012
Return of Net Deposits		
Total account value	$ 69,577	$ 63,478
Net amount at risk [(1)]	347	392
Average attained age of contract holders	60 years	60 years
Minimum Return		
Total account value	$ 145	$ 149
Net amount at risk [(1)]	32	37
Average attained age of contract holders	73 years	73 years
Guaranteed minimum return	5%	5%
Anniversary Contract Value		
Total account value	$ 23,661	$ 23,019
Net amount at risk [(1)]	879	1,133
Average attained age of contract holders	68 years	67 years

[(1)] Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing June 30, 2013, to December 31, 2012, was attributable primarily to the increase in the equity markets during the first six months of 2013.

The determination of GDB liabilities is based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility, contract surrender rates and mortality experience. The following summarizes the balances of and changes in the liabilities for GDBs (in millions), which were recorded in future contract benefits on our Consolidated Balance Sheets:

	For the Six Months Ended June 30,	
	2013	2012
Balance as of beginning-of-year	$ 104	$ 84
Changes in reserves	7	7
Benefits paid	(12)	(24)
Balance as of end-of-period	$ 99	$ 67

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

	As of June 30, 2013	As of December 31, 2012
Domestic equity	$ 41,066	$ 37,899
International equity	15,822	14,850
Bonds	22,383	21,174
Money market	8,964	7,747
Total	$ 88,235	$ 81,670
Percent of total variable annuity separate account values	98%	98%

Future contract benefits also includes reserves for our secondary guarantee products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 28% of total life insurance in-force reserves as of June 30, 2013, and 30% of total sales for these products for the six months ended June 30, 2013.

8. Contingencies and Commitments

Regulatory bodies, such as state insurance departments, the SEC, Financial Industry Regulatory Authority and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, laws governing the activities of broker-dealers, registered investment advisors and unclaimed property laws.

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

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

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of June 30, 2013. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial position.

See Note 13 to the consolidated financial statements in our 2012 Form 10-K for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

9. Shares and Stockholders' Equity

Common and Preferred Shares

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Series A Preferred Stock				
Balance as of beginning-of-period	9,532	9,632	9,532	10,072
Conversion of convertible preferred stock [1]	(5,368)	-	(5,368)	(440)
Balance as of end-of-period	4,164	9,632	4,164	9,632
Common Stock				
Balance as of beginning-of-period	268,457,558	285,412,303	271,402,586	291,319,222
Conversion of convertible preferred stock [1]	85,888	-	85,888	7,040
Stock compensation/issued for benefit plans	96,740	230,198	524,169	334,395
Retirement/cancellation of shares	(4,323,846)	(6,473,530)	(7,696,303)	(12,491,686)
Balance as of end-of-period	264,316,340	279,168,971	264,316,340	279,168,971
Common Stock as of End-of-Period				
Assuming conversion of preferred stock	264,382,964	279,323,083	264,382,964	279,323,083
Diluted basis	273,924,900	286,820,300	273,924,900	286,820,300

(1) Represents the conversion of Series A preferred stock into common stock.

Our common and Series A preferred stocks are without par value.

Average Shares

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted earnings (loss) per common share was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Weighted-average shares, as used in basic calculation	266,367,162	282,085,602	268,305,694	285,570,764
Shares to cover exercise of outstanding warrants	10,150,032	10,150,192	10,150,070	10,150,231
Shares to cover conversion of preferred stock	146,840	154,112	149,661	154,305
Shares to cover non-vested stock	1,351,093	1,110,662	1,316,907	1,060,676
Average stock options outstanding during the period	2,600,595	507,944	2,163,605	554,614
Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants	(2,903,393)	(4,887,102)	(3,266,708)	(4,760,822)
Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period)	(1,912,155)	(346,700)	(1,592,213)	(380,239)
Shares repurchaseable from measured but unrecognized stock option expense	(141,826)	(1,768)	(112,577)	(8,224)
Average deferred compensation shares	-	1,187,598	-	1,206,501
Weighted-average shares, as used in diluted calculation	275,658,348	289,960,540	277,114,439	293,547,806

In the event the average market price of LNC common stock exceeds the issue price of stock options and the options have a dilutive effect to our earnings per share ("EPS"), such options will be shown in the table above.

We have participants in our deferred compensation plans who selected LNC stock as the measure for the investment return attributable to their deferral amounts. For the three and six months ended June 30, 2012, the effect of settling this obligation in LNC stock ("equity classification") was more dilutive than the scenario of settling it in cash ("liability classification"). Therefore, for our EPS calculation for these periods, we added these shares to the denominator and adjusted the numerator to present net income as if the shares had been accounted for under equity classification by removing the mark-to-market adjustment included in net income attributable to these deferred units of LNC stock. The amount of this adjustment was $4 million and $(2) million for the three and six months ended June 30, 2012, respectively.

The income used in the calculation of our diluted EPS is our net income (loss) reduced by preferred stock dividends.

Accumulated OCI ("AOCI")

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

	For the Six Months Ended June 30,	
	2013	2012
Unrealized Gain (Loss) on AFS Securities		
Balance as of beginning-of-year	$ 4,066	$ 2,947
Unrealized holding gains (losses) arising during the year	(4,635)	1,276
Change in foreign currency exchange rate adjustment	(16)	(6)
Change in DAC, VOBA, DSI, future contract benefits and other contract holder funds	1,483	(261)
Income tax benefit (expense)	1,110	(395)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(27)	(103)
Associated amortization of DAC, VOBA, DSI and DFEL	(12)	1
Income tax benefit (expense)	14	36
Balance as of end-of-period	$ 2,033	$ 3,627
Unrealized OTTI on AFS Securities		
Balance as of beginning-of-year	$ (107)	$ (110)
(Increases) attributable to:		
Gross OTTI recognized in OCI during the year	(7)	(79)
Change in DAC, VOBA, DSI and DFEL	1	12
Income tax benefit (expense)	2	26
Decreases attributable to:		
Sales, maturities or other settlements of AFS securities	47	62
Change in DAC, VOBA, DSI and DFEL	(5)	(8)
Income tax benefit (expense)	(15)	(20)
Balance as of end-of-period	$ (84)	$ (117)
Unrealized Gain (Loss) on Derivative Instruments		
Balance as of beginning-of-year	$ 163	$ 119

Unrealized holding gains (losses) arising during the year	120	37
Change in foreign currency exchange rate adjustment	18	2
Change in DAC, VOBA, DSI and DFEL	4	4
Income tax benefit (expense)	(49)	(16)
Less:		
Reclassification adjustment for gains (losses) included in net income (loss)	(6)	(7)
Associated amortization of DAC, VOBA, DSI and DFEL	1	1
Income tax benefit (expense)	2	2
Balance as of end-of-period	$ 259	$ 150
Foreign Currency Translation Adjustment		
Balance as of beginning-of-year	$ (4)	$ 1
Foreign currency translation adjustment arising during the year	(1)	(8)
Income tax benefit (expense)	-	3
Balance as of end-of-period	$ (5)	$ (4)
Funded Status of Employee Benefit Plans		
Balance as of beginning-of-year	$ (310)	$ (278)
Adjustment arising during the year	-	1
Balance as of end-of-period	$ (310)	$ (277)

The following summarizes the reclassifications out of AOCI (in millions) for the six months ended June 30, 2013, and the associated line item in the Consolidated Statements of Comprehensive Income (Loss):

Unrealized Gain (Loss) on AFS Securities			
Gross reclassification	$	(27)	Total realized gain (loss)
Change in DAC, VOBA, DSI, and DFEL		(12)	Total realized gain (loss)
Reclassification before income tax benefit (expense)		(39)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)		14	Federal income tax expense (benefit)
Reclassification, net of income tax	$	(25)	Net income (loss)
Unrealized OTTI on AFS Securities			
Gross reclassification	$	47	Total realized gain (loss)
Change in DAC, VOBA, DSI, and DFEL		(5)	Total realized gain (loss)
Reclassification before income tax benefit (expense)		42	Income (loss) from continuing operations before taxes
Income tax benefit (expense)		(15)	Federal income tax expense (benefit)
Reclassification, net of income tax	$	27	Net income (loss)
Unrealized Gain (Loss) on Derivative Instruments			
Gross reclassifications:			
Interest rate contracts	$	(10)	Net investment income
Interest rate contracts		2	Interest and debt expense
Foreign currency contracts		2	Net investment income
Total gross reclassifications		(6)	
Change in DAC, VOBA, DSI, and DFEL		1	Commissions and other expenses
Reclassifications before income tax benefit (expense)		(5)	Income (loss) from continuing operations before taxes
Income tax benefit (expense)		2	Federal income tax expense (benefit)
Reclassification, net of income tax	$	(3)	Net income (loss)

10. Realized Gain (Loss)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Total realized gain (loss) related to certain investments [1]	$ (25)	$ (51)	$ (39)	$ (99)
Realized gain (loss) on the mark-to-market on certain instruments [2]	(9)	(19)	(1)	39
Indexed annuity and universal life net derivative results: [3]				
Gross gain (loss)	(1)	(3)	(13)	19
Associated amortization of DAC, VOBA, DSI and DFEL	-	1	2	(5)
Variable annuity net derivatives results: [4]				
Gross gain (loss)	25	148	(25)	14
Associated amortization of DAC, VOBA, DSI and DFEL	(7)	(33)	-	(11)
Total realized gain (loss)	$ (17)	$ 43	$ (76)	$ (43)

(1) See "Realized Gain (Loss) Related to Certain Investments" section in Note 4.

(2) Represents changes in the fair values of certain derivative investments (not including those associated with our variable annuity net derivatives results), reinsurance related embedded derivatives and trading securities.

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

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

11. Stock-Based Incentive Compensation Plans

We sponsor two stock-based incentive plans for our employees and directors and for the employees and agents of our subsidiaries that provide for the issuance of stock options, performance shares (performance-vested shares as opposed to service-vested shares), stock appreciation rights (“SARs”) and restricted stock units (“RSUs”). We issue new shares to satisfy option exercises.

LNC stock-based awards granted were as follows:

	For the Three Months Ended June 30, 2013	For the Six Months Ended June 30, 2013
10-year LNC stock options	-	1,019,968
Performance shares	-	260,114
SARs	-	112,990
RSUs	3,040	553,204
Non-employee:		
Agent stock options	-	82,317
Director stock options	-	58,720
Director RSUs	9,040	19,144

12. Fair Value of Financial Instruments

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

	As of June 30, 2013		As of December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
AFS securities:				
Fixed maturity securities	$ 80,235	$ 80,235	$ 82,036	$ 82,036
VIEs' fixed maturity securities	698	698	708	708
Equity securities	209	209	157	157
Trading securities	2,391	2,391	2,554	2,554
Mortgage loans on real estate	7,033	7,434	7,029	7,704
Derivative investments	1,683	1,683	2,652	2,652
Other investments	1,158	1,158	1,098	1,098
Cash and invested cash	2,574	2,574	4,230	4,230
Future contract benefits – GLB reserves embedded derivatives	292	292	-	-
Separate account assets	102,783	102,783	95,373	95,373
Liabilities				
Future contract benefits:				
Indexed annuity and universal life contracts embedded derivatives	(862)	(862)	(732)	(732)
GLB reserves embedded derivatives	-	-	(909)	(909)
Other contract holder funds:				
Remaining guaranteed interest and similar contracts	(851)	(851)	(867)	(867)
Account values of certain investment contracts	(28,819)	(30,672)	(28,540)	(32,688)
Short-term debt [1]	(506)	(512)	(200)	(204)
Long-term debt	(5,050)	(5,404)	(5,439)	(5,824)
Reinsurance related embedded derivatives	(131)	(131)	(215)	(215)
VIEs' liabilities – derivative instruments	(101)	(101)	(128)	(128)
Other liabilities – credit default swaps	(8)	(8)	(11)	(11)

(1) The difference between the carrying value and fair value of short-term debt as of June 30, 2013, and December 31, 2012, related to current maturities of long-term debt.

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

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

Mortgage Loans on Real Estate

The fair value of mortgage loans on real estate is established using a discounted cash flow method based on credit rating, maturity and future income. The ratings for mortgages in good standing are based on property type, location, market conditions, occupancy, debt-service coverage, loan-to-value, quality of tenancy, borrower and payment record. The fair value for impaired mortgage loans is based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s market price or the fair value of the collateral if the loan is collateral dependent. The inputs used to measure the fair value of our mortgage loans on real estate are classified as Level 2 within the fair value hierarchy.

Other Investments

The carrying value of our assets classified as other investments approximates fair value. Other investments include LPs and other privately held investments that are accounted for using the equity method of accounting and the carrying value is based on our proportional share of the net assets of the LPs. The inputs used to measure the fair value of our other investments are classified as Level 3 within the fair value hierarchy.

Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of June 30, 2013, and December 31, 2012, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

Short-Term and Long-Term Debt

The fair value of long-term debt is based on quoted market prices. For short-term debt, excluding current maturities of long-term debt, the carrying value approximates fair value. The inputs used to measure the fair value of our short-term and long-term debt are classified as Level 2 within the fair value hierarchy.

Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of June 30, 2013, or December 31, 2012, and we noted no changes in our valuation methodologies between these periods.

The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in "Summary of Significant Accounting Policies" in Note 1 of our 2012 Form 10-K:

	As of June 30, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 60	$ 66,086	$ 1,792	$ 67,938
U.S. government bonds	381	27	-	408
Foreign government bonds	-	489	75	564
RMBS	-	5,077	1	5,078
CMBS	-	855	28	883
CDOs	-	22	143	165
State and municipal bonds	-	4,018	30	4,048
Hybrid and redeemable preferred securities	45	1,013	93	1,151
VIEs' fixed maturity securities	104	594	-	698
Equity AFS securities	3	59	147	209
Trading securities	-	2,338	53	2,391
Derivative investments	-	(140)	1,823	1,683
Cash and invested cash	-	2,574	-	2,574
Future contract benefits – GLB reserves embedded derivatives	-	-	292	292
Separate account assets	1,591	101,192	-	102,783
Total assets	$ 2,184	$ 184,204	$ 4,477	$ 190,865
Liabilities				
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	$ -	$ -	$ (862)	$ (862)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(131)	-	(131)
VIEs' liabilities – derivative instruments	-	-	(101)	(101)
Other liabilities – credit default swaps	-	-	(8)	(8)
Total liabilities	$ -	$ (1,334)	$ (971)	$ (2,305)

	As of December 31, 2012 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets				
Investments:				
Fixed maturity AFS securities:				
Corporate bonds	$ 65	$ 66,446	$ 1,505	$ 68,016
U.S. government bonds	411	30	1	442
Foreign government bonds	-	608	46	654
RMBS	-	6,168	3	6,171
CMBS	-	976	27	1,003
CDOs	-	26	154	180
State and municipal bonds	-	4,321	32	4,353
Hybrid and redeemable preferred securities	30	1,069	118	1,217
VIEs' fixed maturity securities	110	598	-	708
Equity AFS securities	44	26	87	157
Trading securities	2	2,496	56	2,554
Derivative investments	-	626	2,026	2,652
Cash and invested cash	-	4,230	-	4,230
Separate account assets	1,519	93,854	-	95,373
Total assets	$ 2,181	$ 181,474	$ 4,055	$ 187,710
Liabilities				
Future contract benefits:				
Indexed annuity and universal life contracts embedded derivatives	$ -	$ -	$ (732)	$ (732)
GLB reserves embedded derivatives	-	-	(909)	(909)
Long-term debt	-	(1,203)	-	(1,203)
Reinsurance related embedded derivatives	-	(215)	-	(215)
VIEs' liabilities – derivative instruments	-	-	(128)	(128)
Other liabilities – credit default swaps	-	-	(11)	(11)
Total liabilities	$ -	$ (1,418)	$ (1,780)	$ (3,198)

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

	For the Three Months Ended June 30, 2013					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,825	$ (5)	$ (25)	$ 198	$ (201)	$ 1,792
Foreign government bonds	76	-	(1)	-	-	75
RMBS	1	-	-	-	-	1
CMBS	27	1	3	(3)	-	28
CDOs	149	-	-	(6)	-	143
State and municipal bonds	32	-	(2)	-	-	30
Hybrid and redeemable preferred securities	102	-	(3)	-	(6)	93
Equity AFS securities	110	-	-	37	-	147
Trading securities	54	1	(2)	(1)	1	53
Derivative investments	1,835	10	28	(50)	-	1,823
Future contract benefits: (4)						
Indexed annuity and universal life contracts embedded derivatives	(853)	(19)	-	10	-	(862)
GLB reserves embedded derivatives	(199)	491	-	-	-	292
VIEs' liabilities – derivative instruments (5)	(113)	12	-	-	-	(101)
Other liabilities – credit default swaps (6)	(10)	2	-	-	-	(8)
Total, net	$ 3,036	$ 493	$ (2)	$ 185	$ (206)	$ 3,506

31

	For the Three Months Ended June 30, 2012					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other [1]	Issuances, Sales Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net [2]	Ending Fair Value
Investments: [3]						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,932	$ (4)	$ (11)	$ 45	$ (284)	$ 1,678
U.S. government bonds	1	-	-	-	-	1
Foreign government bonds	99	-	3	-	-	102
RMBS	98	-	1	98	(13)	184
CMBS	32	(2)	2	(1)	8	39
CDOs	102	-	-	18	-	120
State and municipal bonds	-	-	-	32	-	32
Hybrid and redeemable preferred securities	116	-	(3)	-	16	129
Equity AFS securities	61	-	(1)	25	-	85
Trading securities	68	1	-	2	1	72
Derivative investments	2,037	228	155	97	-	2,517
Future contract benefits: [4]						
Indexed annuity and universal life contracts embedded derivatives	(480)	24	-	25	-	(431)
GLB reserves embedded derivatives	(1,064)	(862)	-	-	-	(1,926)
VIEs' liabilities – derivative instruments [5]	(221)	(10)	-	-	-	(231)
Other liabilities – credit default swaps [6]	(10)	(1)	-	-	-	(11)
Total, net	$ 2,771	$ (626)	$ 146	$ 341	$ (272)	$ 2,360

	For the Six Months Ended June 30, 2013					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other (1)	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net (2)	Ending Fair Value
Investments: (3)						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,505	$ (1)	$ (14)	$ 182	$ 120	$ 1,792
U.S. government bonds	1	-	-	(1)	-	-
Foreign government bonds	46	-	(1)	30	-	75
RMBS	3	-	-	(2)	-	1
CMBS	27	-	5	(4)	-	28
CDOs	154	(1)	2	(12)	-	143
State and municipal bonds	32	-	(2)	-	-	30
Hybrid and redeemable preferred securities	118	(1)	2	-	(26)	93
Equity AFS securities	87	-	2	58	-	147
Trading securities	56	1	(4)	(1)	1	53
Derivative investments	2,026	(248)	69	(24)	-	1,823
Future contract benefits: (4)						
Indexed annuity and universal life contracts embedded derivatives	(732)	(149)	-	19	-	(862)
GLB reserves embedded derivatives	(909)	1,201	-	-	-	292
VIEs' liabilities – derivative instruments (5)	(128)	27	-	-	-	(101)
Other liabilities – credit default swaps (6)	(11)	3	-	-	-	(8)
Total, net	$ 2,275	$ 832	$ 59	$ 245	$ 95	$ 3,506

	For the Six Months Ended June 30, 2012					
	Beginning Fair Value	Items Included in Net Income	Gains (Losses) in OCI and Other [1]	Purchases, Issuances, Sales, Maturities, Settlements, Calls, Net	Transfers In or Out of Level 3, Net [2]	Ending Fair Value
Investments: [3]						
Fixed maturity AFS securities:						
Corporate bonds	$ 1,888	$ (17)	$ (5)	$ 25	$ (213)	$ 1,678
U.S. government bonds	1	-	-	-	-	1
Foreign government bonds	97	-	4	-	1	102
RMBS	158	(3)	3	94	(68)	184
CMBS	34	(5)	9	(8)	9	39
CDOs	102	-	4	14	-	120
State and municipal bonds	-	-	-	32	-	32
Hybrid and redeemable preferred securities	100	-	3	-	26	129
Equity AFS securities	56	-	4	25	-	85
Trading securities	68	1	1	-	2	72
Derivative investments	2,470	(289)	67	269	-	2,517
Future contract benefits: [4]						
Indexed annuity and universal life contracts embedded derivatives	(399)	(80)	-	48	-	(431)
GLB reserves embedded derivatives	(2,217)	291	-	-	-	(1,926)
VIEs' liabilities – derivative instruments [5]	(291)	60	-	-	-	(231)
Other liabilities – credit default swaps [6]	(16)	5	-	-	-	(11)
Total, net	$ 2,051	$ (37)	$ 90	$ 499	$ (243)	$ 2,360

(1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).

(2) Transfers in or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. For AFS and trading securities, the difference between beginning-of-period amortized cost and beginning-of-period fair value was included in OCI and earnings, respectively, in prior periods.

(3) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(4) Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(5) The changes in fair value of the credit default swaps and contingency forwards are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).

(6) Gains (losses) from sales, maturities, settlements and calls are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss).

The following provides the components of the items included in issuances, sales, maturities, settlements and calls, net, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, (in millions) as reported above:

	For the Three Months Ended June 30, 2013					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 257	$ (22)	$ -	$ (11)	$ (26)	$ 198
CMBS	-	-	-	(2)	(1)	(3)
CDOs	-	-	-	(6)	-	(6)
Equity AFS securities	38	(1)	-	-	-	37
Trading securities	-	-	-	(1)	-	(1)
Derivative investments	42	(8)	(84)	-	-	(50)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(18)	-	-	28	-	10
Total, net	$ 319	$ (31)	$ (84)	$ 8	$ (27)	$ 185

	For the Three Months Ended June 30, 2012					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 80	$ (26)	$ -	$ (8)	$ (1)	$ 45
RMBS	103	-	-	(5)	-	98
CMBS	-	-	-	(1)	-	(1)
CDOs	23	-	-	(5)	-	18
State and municipal bonds	32	-	-	-	-	32
Equity AFS securities	25	-	-	-	-	25
Trading securities	2	-	-	-	-	2
Derivative investments	165	(10)	(58)	-	-	97
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(25)	-	-	50	-	25
Total, net	$ 405	$ (36)	$ (58)	$ 31	$ (1)	$ 341

	For the Six Months Ended June 30, 2013					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 268	$ (23)	$ (4)	$ (27)	$ (32)	$ 182
U.S. government bonds	-	-	-	(1)	-	(1)
Foreign government bonds	30	-	-	-	-	30
RMBS	-	-	-	(2)	-	(2)
CMBS	-	-	-	(3)	(1)	(4)
CDOs	-	-	-	(12)	-	(12)
Equity AFS securities	63	(5)	-	-	-	58
Trading securities	-	-	-	(1)	-	(1)
Derivative investments	74	44	(142)	-	-	(24)
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(37)	-	-	56	-	19
Total, net	$ 398	$ 16	$ (146)	$ 10	$ (33)	$ 245

35

	For the Six Months Ended June 30, 2012					
	Issuances	Sales	Maturities	Settlements	Calls	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 91	$ (27)	$ -	$ (35)	$ (4)	$ 25
RMBS	103	-	-	(9)	-	94
CMBS	-	-	-	(8)	-	(8)
CDOs	23	-	-	(9)	-	14
State and municipal bonds	32	-	-	-	-	32
Equity AFS securities	25	-	-	-	-	25
Trading securities	2	-	-	(2)	-	-
Derivative investments	373	3	(107)	-	-	269
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(35)	-	-	83	-	48
Total, net	$ 614	$ (24)	$ (107)	$ 20	$ (4)	$ 499

The following summarizes changes in unrealized gains (losses) included in net income, excluding any effect of amortization of DAC, VOBA, DSI and DFEL and changes in future contract benefits, related to financial instruments carried at fair value classified within Level 3 that we still held (in millions):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Investments: (1)				
Derivative investments	$ (4)	$ 240	$ (251)	$ (332)
Future contract benefits: (1)				
Indexed annuity and universal life contracts embedded derivatives	13	(3)	20	19
GLB reserves embedded derivatives	557	(814)	1,318	369
VIEs' liabilities – derivative instruments (1)	11	(10)	27	60
Other liabilities – credit default swaps (2)	2	(1)	2	5
Total, net	$ 579	$ (588)	$ 1,116	$ 121

(1) Included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
(2) Included in net investment income on our Consolidated Statements of Comprehensive Income (Loss).

The following provides the components of the transfers in and out of Level 3 (in millions) as reported above:

	For the Three Months Ended June 30, 2013			For the Three Months Ended June 30, 2012		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 41	$ (242)	$ (201)	$ 90	$ (374)	$ (284)
RMBS	-	-	-	-	(13)	(13)
CMBS	-	-	-	8	-	8
Hybrid and redeemable preferred securities	-	(6)	(6)	16	-	16
Trading securities	1	-	1	1	-	1
Total, net	$ 42	$ (248)	$ (206)	$ 115	$ (387)	$ (272)

36

	For the Six Months Ended June 30, 2013			For the Six Months Ended June 30, 2012		
	Transfers In to Level 3	Transfers Out of Level 3	Total	Transfers In to Level 3	Transfers Out of Level 3	Total
Investments:						
Fixed maturity AFS securities:						
Corporate bonds	$ 165	$ (45)	$ 120	$ 146	$ (359)	$ (213)
Foreign government bonds	-	-	-	1	-	1
RMBS	-	-	-	-	(68)	(68)
CMBS	-	-	-	9	-	9
Hybrid and redeemable preferred securities	-	(26)	(26)	35	(9)	26
Trading securities	1	-	1	2	-	2
Total, net	$ 166	$ (71)	$ 95	$ 193	$ (436)	$ (243)

Transfers in and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the six months ended June 30, 2013 and 2012, our corporate bonds and RMBS transfers in and out were attributable primarily to the securities' observable market information no longer being available or becoming available. Transfers in and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available, transfers from Level 2 to Level 1 will result. When quoted prices in active markets become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers from Level 1 to Level 2 will result. For the six months ended June 30, 2013 and 2012, the transfers between Levels 1 and 2 of the fair value hierarchy were less than $1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements as of June 30, 2013:

	Fair Value	Valuation Technique	Significant Unobservable Inputs	Assumption or Input Ranges
Assets				
Investments:				
Fixed maturity AFS and trading securities:				
Corporate bonds	$ 1,236	Discounted cash flow	Liquidity/duration adjustment [1]	0.6 % - 15.1 %
Foreign government bonds	76	Discounted cash flow	Liquidity/duration adjustment [1]	2.7 % - 4.2 %
Hybrid and redeemable preferred stock	20	Discounted cash flow	Liquidity/duration adjustment [1]	2.4 %
Equity AFS and trading securities	14	Discounted cash flow	Liquidity/duration adjustment [1]	4.3 % - 4.5 %
Future contract benefits – GLB reserves embedded derivatives	292	Monte Carlo simulation	Long-term lapse rate [2]	1.0 % - 27.0 %
			Utilization of guaranteed withdrawal [3]	90.0 % - 100.0 %
			NPR [4]	0.0 % - 0.57 %
			Mortality rate [5]	[7]
			Volatility [6]	1.0 % - 35.0 %
Liabilities				
Future contract benefits – indexed annuity and universal life contracts embedded derivatives	(862)	Discounted cash flow	Lapse rate [2]	1.0 % - 15.0 %
			Mortality rate [5]	[7]

(1) The liquidity/duration adjustment input represents an estimated market participant composite of adjustments attributable to liquidity premiums, expected durations, structures and credit quality that would be applied to the market observable information of an investment.

(2) The lapse rate input represents the estimated probability of a contract surrendering during a year, and thereby forgoing any future benefits. The range for indexed annuity and universal life contracts represents the lapse rates during the surrender charge period.

(3)

The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.

(4) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.

(5) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as gender, will die.

(6) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.

(7) Based on the "Annuity 2000 Mortality Table" developed by the Society of Actuaries Committee on Life Insurance Research that was adopted by the National Association of Insurance Commissioners in 1996 for our mortality input.

From the table above, we have excluded Level 3 fair value measurements obtained from independent, third-party pricing sources. We do not develop the significant inputs used to measure the fair value of these assets and liabilities, and the information regarding the significant inputs is not readily available to us. Independent broker-quoted fair values are non-binding quotes developed by market makers or broker-dealers obtained from third-party sources recognized as market participants. The fair value of a broker-quoted asset or liability is based solely on the receipt of an updated quote from a single market maker or a broker-dealer recognized as a market participant as we do not adjust broker quotes when used as the fair value measurement for an asset or liability. Significant increases or decreases in any of the quotes received from a third-party broker-dealer may result in a significantly higher or lower fair value measurement.

Changes in any of the significant inputs presented in the table above may result in a significant change in the fair value measurement of the asset or liability as follows:

- Investments – An increase in the liquidity/duration adjustment input would result in a decrease in the fair value measurement.
- Indexed annuity and universal life contracts – An increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.

· GLB reserves embedded derivatives – Assuming our GLB reserves embedded derivatives are in a liability position: an increase in our lapse rate, NPR or mortality rate inputs would result in a decrease in the fair value measurement; and an increase in the utilization of guarantee withdrawal or volatility inputs would result in an increase in the fair value measurement.

For each category discussed above, the unobservable inputs are not inter-related; therefore, a directional change in one input will not affect the other inputs.

As part of our on-going valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see "Summary of Significant Accounting Policies" in Note 1 of our 2012 Form 10-K.

13. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 22 of our 2012 Form 10-K for a brief description of these segments and Other Operations.

Segment operating revenues and income (loss) from operations are internal measures used by our management and Board of Directors to evaluate and assess the results of our segments. Income (loss) from operations is GAAP net income excluding the after-tax effects of the following items, as applicable:

· Realized gains and losses associated with the following ("excluded realized gain (loss)"):
§ Sales or disposals of securities;
§ Impairments of securities;
§ Changes in the fair value of derivatives, embedded derivatives within certain reinsurance arrangements and trading securities;
§ Changes in the fair value of the derivatives we own to hedge our GDB riders within our variable annuities;
§ Changes in the fair value of the embedded derivatives of our GLB riders accounted for at fair value, net of the change in the fair value of the derivatives we own to hedge them; and
§ Changes in the fair value of the embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products accounted for at fair value;
· Changes in reserves resulting from benefit ratio unlocking on our GDB and GLB riders;
· Income (loss) from reserve changes, net of related amortization, on business sold through reinsurance;
· Gains (losses) on early extinguishment of debt;

- Losses from the impairment of intangible assets;
- Income (loss) from discontinued operations; and
- Income (loss) from the initial adoption of new accounting standards.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable:

- Excluded realized gain (loss);
- Revenue adjustments from the initial adoption of new accounting standards;
- Amortization of DFEL arising from changes in GDB and GLB benefit ratio unlocking; and
- Amortization of deferred gains arising from reserve changes on business sold through reinsurance.

We use our prevailing corporate federal income tax rate of 35% while taking into account any permanent differences for events recognized differently in our financial statements and federal income tax returns when reconciling our non-GAAP measures to the most comparable GAAP measure. Operating revenues and income (loss) from operations do not replace revenues and net income as the GAAP measures of our consolidated results of operations.

Segment information (in millions) was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues				
Operating revenues:				
Annuities	$ 817	$ 734	$ 1,594	$ 1,465
Retirement Plan Services	271	258	531	510
Life Insurance	1,284	1,235	2,525	2,463
Group Protection	575	540	1,125	1,043
Other Operations	102	113	203	219
Excluded realized gain (loss), pre-tax	(51)	18	(142)	(95)
Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax	1	1	2	2
Amortization of DFEL associated with benefit ratio unlocking, pre-tax	-	(1)	-	1
Total revenues	$ 2,999	$ 2,898	$ 5,838	$ 5,608

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income (Loss)				
Income (loss) from operations:				
Annuities	$ 195	$ 158	$ 353	$ 294
Retirement Plan Services	39	38	75	73
Life Insurance	135	135	247	275
Group Protection	22	27	37	43
Other Operations	(40)	(39)	(77)	(73)
Excluded realized gain (loss), after-tax	(33)	12	(92)	(61)
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	1	-	1	1
Benefit ratio unlocking, after-tax	(2)	(10)	12	13
Income (loss) from continuing operations, after-tax	317	321	556	565
Income (loss) from discontinued operations, after-tax	-	-	-	(1)

Net income (loss)	$ 317	$ 321	$ 556	$ 564

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of June 30, 2013, compared with December 31, 2012, and the results of operations for the three and six months ended June 30, 2013, compared with the corresponding periods in 2012 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Lincoln," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2012 ("2012 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly report on Form 10-Q filed in 2013; and our current reports on Form 8-K filed in 2013.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Financial information that follows is presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"), unless otherwise indicated. See Note 1 in our 2012 Form 10-K for a discussion of GAAP.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 13. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

Certain statements made in this report and in other written or oral statements made by us or on our behalf are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("PSLRA"). A forward-looking statement is a statement that is not a historical fact and, without limitation, includes any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words like: "believe," "anticipate," "expect," "estimate," "project," "will," "shall" and other words or phrases with similar meaning i connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, trends in our businesses, prospective services or products, future performance or financial results and the outcome of contingencies, such as legal proceedings. We claim the protection afforded by the safe harbor for forward-looking statements provided by the PSLRA.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements. Risks and uncertainties that may cause actual results to vary materially, some of which are described within the forward-looking statements, include, among others:

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements related to secondary guarantee universal life and annuities; regulations regarding captive reinsurance arrangements; restrictions on revenue sharing and 12b 1 payments; and the potential for U.S. federal tax reform;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;
- Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;
- Uncertainty about the effect of rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us and the economy and the financial services sector in particular;
- The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;

- A decline in the equity markets causing a reduction in the sales of our subsidiaries' products, a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products, an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL") and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in GAAP, including convergence with International Financial Reporting Standards ("IFRS"), that may result in unanticipated changes to our net income;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
- Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items;
- The adequacy and collectibility of reinsurance that we have purchased;
- Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;
- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;
- The unknown effect on our subsidiaries' businesses resulting from changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
- Loss of key management, financial planners or wholesalers.

The risks included here are not exhaustive. Our annual report on Form 10-K, quarterly report on Form 10-Q, current reports on Form 8-K and other documents filed with the Securities and Exchange Commission ("SEC") include additional factors that could affect our businesses and financial performance. Moreover, we operate in a rapidly changing and competitive environment. New risk factors emerge from time to time, and it is not possible for management to predict all such risk factors.

Further, it is not possible to assess the effect of all risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

INTRODUCTION

Executive Summary

We are a holding company that operates multiple insurance and retirement businesses through subsidiary companies. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products and solutions. These products include fixed and indexed annuities, variable annuities, universal life insurance ("UL"), variable universal life insurance ("VUL"), linked-benefit universal life, indexed UL, term life insurance, employer-sponsored retirement plans and services, and group life, disability and dental.

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in "Part I – Item 1. Business" of our 2012 Form 10-K.

For information on how we derive our revenues, see the discussion in results of operations by segment below.

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in "Introduction – Executive Summary" of our 2012 Form 10-K.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2012 Form 10-K.

Critical Accounting Policies and Estimates

The MD&A included in our 2012 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the “Critical Accounting Policies and Estimates” provided in our 2012 Form 10-K and, accordingly, should be read in conjunction with the “Critical Accounting Policies and Estimates” discussed in our 2012 Form 10-K.

DAC, VOBA, DSI and DFEL

Unlocking

During the third quarter, we will conduct our annual comprehensive review of the assumptions and projection models underlying the amortization of DAC, VOBA, DSI, DFEL, embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees. See “DAC, VOBA, DSI and DFEL” in Note 1 of our 2012 Form 10-K for a detailed discussion of our unlocking process.

Reversion to the Mean (“RTM”)

As equity markets do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our RTM process, as discussed in our 2012 Form 10-K.

Our long-term variable fund growth rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for the variable component of our variable annuity and VUL products, is an immediate drop of approximately 12% followed by growth going forward of 7.5% to 9% depending on the block of business and reflecting differences in contract holder fund allocations between fixed income and equity-type investments. If we were to have unlocked our RTM assumption in the corridor as of June 30, 2013, we would have recorded a favorable unlocking of approximately $235 million, pre-tax, for Annuities, approximately $20 million, pre-tax, for Retirement Plan Services, and approximately $20 million, pre-tax, for Life Insurance.

Investments

Investment Valuation

The following summarizes our available-for-sale ("AFS") and trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions) as of June 30, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Priced by third-party pricing services	$ 593	$ 68,885	$ -	$ 69,478
Priced by independent broker quotations	-	-	2,839	2,839
Priced by matrices	-	11,553	-	11,553
Priced by other methods [1]	-	-	1,346	1,346
Total	$ 593	$ 80,438	$ 4,185	$ 85,216
Percent of total	1%	94%	5%	100%

[1] Represents primarily securities for which pricing models were used to compute fair value.

For more information about the valuation of our financial instruments carried at fair value, see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation" in our 2012 Form 10-K and Note 12 herein.

As of June 30, 2013, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions. We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of deposit and collateralized debt obligations ("CDOs") when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are

43

generally classified as Level 3 of the fair value hierarchy. As of June 30, 2013, we used broker quotes for 55 securities as our final price source, representing approximately 1% of total securities owned.

Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 5 of this report and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2012 Form 10-K.

Guaranteed Living Benefits (“GLB”)

Within our individual annuity business, approximately 72% of our variable annuity account values contained GLB features as of June 30, 2013. Declines in the equity markets increase our exposure to potential benefits with the GLB features, leading to an increase in our existing liability for those benefits. For example, a contract with a GLB feature is “in the money” if the contract holder’s account balance falls below the present value of guaranteed withdrawal or income benefits, assuming no lapses. As of June 30, 2013 and 2012, 6% and 14%, respectively, of all in-force contracts with a GLB feature were “in the money,” and our exposure, after reinsurance, as of June 30, 2013 and 2012, was $480 million and $755 million, respectively. However, the only way the contract holder can realize the excess of the present value of benefits over the account value of the contract is through a series of withdrawals or income payments that do not exceed a maximum amount. If, after the series of withdrawals or income payments, the account value is exhausted, the contract holder will receive a series of annuity payments. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the present value of benefits over account value.

For information on our variable annuity hedge program performance, see our discussion in “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” below.

The following table presents our estimates of the potential instantaneous effect to realized gain (loss), which could result from sudden changes that may occur in equity markets, interest rates and implied market volatilities (in millions) at the levels indicated in the table and excludes the net cost of operating the hedging program. The amounts represent the estimated difference between the change in the portion of GLB reserves that is calculated on a fair value basis and the change in the value of the underlying hedge instruments after the amortization of DAC, VOBA, DSI and DFEL and taxes. These effects do not include any estimate of unlocking that could occur, nor do they estimate any change in the NPR component of the GLB reserve or any estimate of effects to our GLB benefit ratio unlocking. These estimates are based upon the recorded reserves as of June 28, 2013, and the related hedge instruments in place as of that date. The effects presented in the table below are not representative of the aggregate impacts that could result if a combination of such changes to equity market returns, interest rates and implied volatilities occurred.

	In-Force Sensitivities			
Equity Market Return	-20%	-10%	-5%	5%
Hypothetical effect to net income	$ (77)	$ (20)	$ (5)	$ (4)
Interest Rates	-50 bps	-25 bps	+25 bps	+50 bps
Hypothetical effect to net income	$ (10)	$ (3)	$ (3)	$ (10)
Implied Volatilities	-4%	-2%	2%	4%
Hypothetical effect to net income	$ (3)	$ (2)	$ 2	$ 3

The following table shows the effect (dollars in millions) of indicated changes in instantaneous shifts in equity market returns, interest rate scenarios and market implied volatilities:

	Assumptions of Changes In			Hypothetical
	Equity Market Return	Interest Rate Yields	Market Implied Volatilities	Effect to Net Income
Scenario 1	-5%	-12.5 bps	+1%	$ (9)
Scenario 2	-10%	-25.0 bps	+2%	(35)
Scenario 3	-20%	-50.0 bps	+4%	(139)

The actual effects of the results illustrated in the two tables above could vary significantly depending on a variety of factors, many of which are out of our control, and consideration should be given to the following:

- The analysis is only valid as of June 28, 2013, due to changing market conditions, contract holder activity, hedge positions and other factors;
- The analysis assumes instantaneous shifts in the capital market factors and no ability to rebalance hedge positions prior to the market changes;
- The analysis assumes constant exchange rates and implied dividend yields;
- Assumptions regarding shifts in the market factors, such as assuming parallel shifts in interest rate and implied volatility term structures, may be overly simplistic and not indicative of actual market behavior in stress scenarios;

- It is very unlikely that one capital market sector (e.g., equity markets) will sustain such a large instantaneous movement without affecting other capital market sectors; and
- The analysis assumes that there is no tracking or basis risk between the funds and/or indices affecting the GLB reserves and the instruments utilized to hedge these exposures.

Acquisitions and Dispositions

The loss from discontinued operations for the six months ended June 30, 2012, related to a purchase price adjustment associated with the termination of a portion of the investment advisory agreement with Delaware Management Holdings, Inc., our former subsidiary.

For information about acquisitions and divestitures, see Note 3 in our 2012 Form 10-K.

RESULTS OF CONSOLIDATED OPERATIONS

Details underlying the consolidated results, deposits, net flows and account values (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Net Income (Loss)						
Income (loss) from operations:						
Annuities	$ 195	$ 158	23%	$ 353	$ 294	20%
Retirement Plan Services	39	38	3%	75	73	3%
Life Insurance	135	135	0%	247	275	-10%
Group Protection	22	27	-19%	37	43	-14%
Other Operations	(40)	(39)	-3%	(77)	(73)	-5%
Excluded realized gain (loss), after-tax	(33)	12	NM	(92)	(61)	-51%
Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax	1	-	NM	1	1	0%
Benefit ratio unlocking, after-tax	(2)	(10)	80%	12	13	-8%
Income (loss) from continuing						

operations, after-tax	317	321	-1%	556	565	-2%
Income (loss) from discontinued operations, after-tax	-	-	NM	-	(1)	100%
Net income (loss)	$ 317	$ 321	-1%	$ 556	$ 564	-1%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Deposits						
Annuities	$ 4,181	$ 2,867	46%	$ 7,400	$ 5,347	38%
Retirement Plan Services	1,617	1,291	25%	3,284	2,802	17%
Life Insurance	1,253	1,137	10%	2,494	2,297	9%
Total deposits	$ 7,051	$ 5,295	33%	$ 13,178	$ 10,446	26%
Net Flows						
Annuities	$ 1,703	$ 701	143%	$ 2,588	$ 994	160%
Retirement Plan Services	337	194	74%	681	406	68%
Life Insurance	889	713	25%	1,736	1,454	19%
Total net flows	$ 2,929	$ 1,608	82%	$ 5,005	$ 2,854	75%

	As of June 30,		
	2013	2012	Change
Account Values			
Annuities	$ 103,093	$ 90,377	14%
Retirement Plan Services	47,097	41,397	14%
Life Insurance	38,446	36,121	6%
Total account values	$ 188,636	$ 167,895	12%

Comparison of the Three and Six Months Ended June 30, 2013 to 2012

Net income decreased due primarily to the following:

- Losses on variable annuity net derivative results during 2013 (see “Realized Gain (Loss) and Benefit Ratio Unlocking” for details);
- Spread compression due to new money rates averaging below our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and
- Higher death claims.

The decrease in net income was partially offset by growth in account values, insurance in force and group earned premiums.

During the three and six months ended June 30, 2013, we experienced better than expected commercial mortgage loan prepayments and bond make-whole premiums (see “Consolidated Investments – Net Investment Income” for additional information).

RESULTS OF ANNUITIES

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Operating Revenues						
Insurance premiums [1]	$ 24	$ 18	33%	$ 57	$ 35	63%
Insurance fees	391	323	21%	760	648	17%
Net investment income	273	279	-2%	530	551	-4%
Operating realized gain (loss) [2]	33	25	32%	64	53	21%
Other revenues and fees [3]	96	89	8%	183	178	3%
Total operating revenues	817	734	11%	1,594	1,465	9%
Operating Expenses						
Interest credited	157	163	-4%	310	333	-7%
Benefits	62	49	27%	128	95	35%
Commissions and other expenses	355	326	9%	720	678	6%
Total operating expenses	574	538	7%	1,158	1,106	5%
Income (loss) from operations before taxes	243	196	24%	436	359	21%
Federal income tax expense (benefit)	48	38	26%	83	65	28%
Income (loss) from operations	$ 195	$ 158	23%	$ 353	$ 294	20%

(1) Includes primarily our single-premium immediate annuities ("SPIA"), which have a corresponding offset in benefits for changes in reserves.

(2) See "Realized Gain (Loss) and Benefit Ratio Unlocking" below.

(3) Consists primarily of fees attributable to broker-dealer services that are subject to market volatility.

Comparison of the Three and Six Months Ended June 30, 2013 to 2012

Income from operations for this segment increased due primarily to higher insurance fees driven by higher average daily variable account values (see the "Account Value Information" table within "Insurance Fees" below for drivers of changes in our account values).

The increase in income from operations was partially offset by higher commissions and other expenses due to higher account values driving higher trail commissions, partially offset by higher average equity markets than our model projections assumed resulting in a lower amortization rate.

Additional Information

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they are an important indicator of future profitability. We continue to monitor the marketplace and economic environment and make changes to our product offerings as needed to sustain the future profitability of our segment. In 2012, these changes included the introduction of risk-managed fund strategies, reductions to withdrawal rates for several guaranteed withdrawal benefit ("GWB") riders, closure of the bonus share class variable annuity contracts, and targeted commission reductions for certain fixed indexed annuity products. For example, risk-managed fund strategies drove over 75% of variable annuity deposits in the second quarter of 2013.

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity products was 8% for the three and six months ended June 30, 2013, compared to 7% and 8% for the corresponding periods in 2012.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see "Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses" herein. For information on the interest rate risk due to falling interest rates, see "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2012 Form 10-K.

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

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2012 Form 10-K.

Insurance Fees

Details underlying insurance fees, account values and net flows (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Insurance Fees						
Mortality, expense and other assessments	$ 389	$ 323	20%	$ 753	$ 643	17%
Surrender charges	4	4	0%	9	10	-10%
DFEL:						
Deferrals	(6)	(7)	14%	(11)	(13)	15%
Amortization, net of interest	4	3	33%	9	8	13%
Total insurance fees	$ 391	$ 323	21%	$ 760	$ 648	17%

	As of or For the Three Months Ended June 30,			As of or For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Account Value Information						
Variable annuity deposits [(1)]	$ 2,812	$ 1,631	72%	$ 4,969	$ 3,103	60%
Increases (decreases) in variable annuity account values:						
Net flows [(1)]	866	11	NM	1,199	(155)	NM
Change in market value [(1)]	(224)	(2,154)	90%	3,491	3,390	3%
Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products	805	696	16%	1,567	1,368	15%
Variable annuity account values [(1)]	81,764	69,615	17%	81,764	69,615	17%
Average daily variable annuity account values [(1)]	82,301	69,222	19%	80,406	69,113	16%
Average daily S&P 500	1,610.39	1,350.01	19%	1,562.91	1,348.13	16%

(1) Excludes the fixed portion of variable.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and the equity markets. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Insurance fees include charges on both our variable and fixed annuity products, but exclude the attributed fees on our GLB products; see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2012 Form 10-K for discussion of these attributed fees.

Net Investment Income and Interest Credited

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 222	$ 237	-6%	$ 449	$ 475	-5%
Commercial mortgage loan prepayment and bond make-whole premiums [1]	18	4	NM	22	6	267%
Alternative investments [2]	-	-	NM	-	1	-100%
Surplus investments [3]	33	38	-13%	59	69	-14%
Total net investment income	$ 273	$ 279	-2%	$ 530	$ 551	-4%
Interest Credited						
Amount provided to contract holders	$ 150	$ 163	-8%	$ 294	$ 329	-11%
DSI deferrals	(2)	(10)	80%	(5)	(18)	72%
Interest credited before DSI amortization	148	153	-3%	289	311	-7%
DSI amortization	9	10	-10%	21	22	-5%
Total interest credited	$ 157	$ 163	-4%	$ 310	$ 333	-7%

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.

(2) See “Consolidated Investments – Alternative Investments” below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Three Months Ended June 30,		Basis Point	For the Six Months Ended June 30,		Basis Point
	2013	2012	Change	2013	2012	Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans						

on real estate and other, net of investment expenses	4.53%	4.86%	(33)	4.59%	4.89%	(30)
Commercial mortgage loan prepayment and bond make-whole premiums	0.36%	0.07%	29	0.23%	0.06%	17
Alternative investments	0.00%	0.01%	(1)	0.00%	0.01%	(1)
Net investment income yield on reserves	4.89%	4.94%	(5)	4.82%	4.96%	(14)
Interest rate credited to contract holders	2.85%	3.03%	(18)	2.81%	3.09%	(28)
Interest rate spread	2.04%	1.91%	13	2.01%	1.87%	14

	As of or For the Three Months Ended June 30,			As of or For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Other Information						
Fixed annuity deposits [1]	$ 1,369	$ 1,236	11%	$ 2,431	$ 2,244	8%
Increases (decreases) in fixed annuity account values:						
Net flows [1]	837	690	21%	1,389	1,149	21%
Transfers from the fixed portion of variable annuity products to the variable portion of variable annuity products	(805)	(696)	-16%	(1,567)	(1,368)	-15%
Reinvested interest credited [1]	177	138	28%	455	408	12%
Fixed annuity account values [1]	21,329	20,762	3%	21,329	20,762	3%
Average fixed account values [1]	21,260	20,668	3%	21,166	20,601	3%
Average invested assets on reserves	19,609	19,554	0%	19,544	19,538	0%

[1] Includes the fixed portion of variable.

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. Changes in commercial mortgage loan prepayments and bond make-whole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Benefits for this segment include changes in reserves of immediate annuity account values driven by premiums, changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking. In addition, see footnote 1 under the "Income (Loss) from Operations" table above for a discussion of the increase in benefits.

50

Commissions and Other Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Commissions and Other Expenses						
Commissions:						
Deferrable	$ 188	$ 132	42%	$ 330	$ 243	36%
Non-deferrable	86	70	23%	173	142	22%
General and administrative expenses	106	96	10%	200	193	4%
Inter-segment reimbursement associated with reserve financing and LOC expenses [1]	-	-	NM	1	-	NM
Taxes, licenses and fees	6	6	0%	16	14	14%
Total expenses incurred, excluding broker-dealer	386	304	27%	720	592	22%
DAC deferrals	(213)	(149)	-43%	(376)	(273)	-38%
Total pre-broker-dealer expenses incurred, excluding amortization, net of interest	173	155	12%	344	319	8%
DAC and VOBA amortization, net of interest:						
Unlocking	-	-	NM	2	-	NM
Amortization, net of interest, excluding unlocking	92	86	7%	194	184	5%
Broker-dealer expenses incurred	90	85	6%	180	175	3%
Total commissions and other expenses	$ 355	$ 326	9%	$ 720	$ 678	6%
DAC Deferrals						
As a percentage of sales/deposits	5.1%	5.2%		5.1%	5.1%	

[1] Represents reimbursements to Annuities from the Life Insurance segment for reserve financing, net of expenses incurred by Annuities for its use of letters of credit (“LOCs”). The inter-segment amounts are not reported on our Consolidated Statements of Comprehensive Income (Loss).

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to

EGPs. Certain of our commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized.

Broker-dealer expenses that vary with and are related to sales are expensed as incurred and not deferred and amortized. Fluctuations in these expenses correspond with fluctuations in other revenues and fees.

RESULTS OF RETIREMENT PLAN SERVICES

Income (Loss) from Operations

Details underlying the results for Retirement Plan Services (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Operating Revenues						
Insurance fees	$ 58	$ 53	9%	$ 114	$ 105	9%
Net investment income	211	202	4%	413	399	4%
Other revenues and fees [1]	2	3	-33%	4	6	-33%
Total operating revenues	271	258	5%	531	510	4%
Operating Expenses						
Interest credited	117	112	4%	233	223	4%
Benefits	-	-	NM	1	-	NM
Commissions and other expenses	100	96	4%	195	190	3%
Total operating expenses	217	208	4%	429	413	4%
Income (loss) from operations before taxes	54	50	8%	102	97	5%
Federal income tax expense (benefit)	15	12	25%	27	24	13%
Income (loss) from operations	$ 39	$ 38	3%	$ 75	$ 73	3%

[1] Consists primarily of mutual fund account program fees for mid to large employers.

Comparison of the Three Months and Six Months Ended June 30, 2013 to 2012

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

- Higher insurance fees driven by higher average daily account values (see the “Account Value Information” table within “Insurance Fees” below for drivers of changes in our account values); and
- Higher net investment income, net of interest credited, driven by:

§

Higher average fixed account values (see the "Other Information" table within "Net Investment Income and Interest Credited" below for drivers of changes in our account values); and

§ Higher prepayment and bond make-whole premiums (see "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for more information).

partially offset by:

§ Spread compression due to new money rates averaging below our current portfolio yields, partially offset by actions implemented to reduce interest crediting rates.

The increase in income from operations was partially offset by higher commissions and other expenses due to higher account values driving higher trail commissions.

Additional Information

We expect to continue making strategic investments during 2013 to improve our infrastructure and expand distribution that will result in higher expenses.

Net flows in this business fluctuate based on the timing of larger plans being implemented on our platform and terminating over the course of the year, and we expect this trend will continue during 2013.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they are an important indicator of future profitability. The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity and mutual fund products was 11% for the three and six months ended June 30, 2013, compared to 11% and 12% for the corresponding periods in 2012.

Our lapse rate is negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Account Value Roll Forward table below as "Total Multi-Fund® and Other Variable Annuities"), which are also our higher margin product lines in this segment, due to the fact that they are mature blocks with much of the account values out of their surrender charge period. The proportion of these products to our total account values was 34% and 38% as of June 30, 2013 and 2012, respectively. Due to this expected overall shift in business mix toward products with lower returns, a significant increase in new deposit production continues to be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on a quarterly basis. Our ability to retain quarterly reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. For information on interest rate spreads and interest rate risk, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses” herein. For information on the interest rate risk due to falling interest rates, see “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2012 Form 10-K.

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

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2012 Form 10-K.

Insurance Fees

Details underlying insurance fees, account values and net flows (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Insurance Fees						
Annuity expense assessments	$ 47	$ 44	7%	$ 93	$ 88	6%
Mutual fund fees	11	9	22%	20	16	25%
Total expense assessments	58	53	9%	113	104	9%

Surrender charges	-	-	NM	1	1	0%
Total insurance fees	$ 58	$ 53	9%	$ 114	$ 105	9%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Account Value Roll Forward – By Product						
Total Micro – Small Segment:						
Balance as of beginning-of-period	$ 7,373	$ 6,641	11%	$ 7,001	$ 6,167	14%
Gross deposits	366	372	-2%	773	790	-2%
Withdrawals and deaths	(369)	(368)	0%	(779)	(780)	0%
Net flows	(3)	4	NM	(6)	10	NM
Transfers between fixed and variable accounts	1	-	NM	(13)	(11)	-18%
Investment increase and change in market value	6	(175)	103%	395	304	30%
Balance as of end-of-period	$ 7,377	$ 6,470	14%	$ 7,377	$ 6,470	14%
Total Mid – Large Segment:						
Balance as of beginning-of-period	$ 22,776	$ 19,199	19%	$ 21,050	$ 17,435	21%
Gross deposits	1,093	746	47%	2,193	1,666	32%
Withdrawals and deaths	(542)	(395)	-37%	(1,075)	(900)	-19%
Net flows	551	351	57%	1,118	766	46%
Transfers between fixed and variable accounts	7	(5)	240%	19	(7)	NM
Investment increase and change in market value	152	(406)	137%	1,299	945	37%
Balance as of end-of-period	$ 23,486	$ 19,139	23%	$ 23,486	$ 19,139	23%
Total Multi-Fund® and Other Variable Annuities:						
Balance as of beginning-of-period	$ 16,293	$ 16,180	1%	$ 15,880	$ 15,531	2%
Gross deposits	158	173	-9%	318	346	-8%
Withdrawals and deaths	(369)	(334)	-10%	(749)	(716)	-5%
Net flows	(211)	(161)	-31%	(431)	(370)	-16%
Investment increase and change in market value	152	(231)	166%	785	627	25%
Balance as of end-of-period	$ 16,234	$ 15,788	3%	$ 16,234	$ 15,788	3%
Total Annuities and Mutual Funds:						
Balance as of beginning-of-period	$ 46,442	$ 42,020	11%	$ 43,931	$ 39,133	12%
Gross deposits	1,617	1,291	25%	3,284	2,802	17%
Withdrawals and deaths	(1,280)	(1,097)	-17%	(2,603)	(2,396)	-9%
Net flows	337	194	74%	681	406	68%
Transfers between fixed and variable accounts	8	(5)	260%	6	(18)	133%
Investment increase and change in market value	310	(812)	138%	2,479	1,876	32%

Balance as of end-of-period [1]	$ 47,097	$ 41,397	14%	$ 47,097	$ 41,397	14%

[1] Includes mutual fund account values and other third-party trustee-held assets. These items are not included in the separate accounts reported on our Consolidated Balance Sheets as we do not have any ownership interest in them.

	As of or For the Three Months Ended June 30,			As of or For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Account Value Information						
Variable annuity deposits [1]	$ 325	$ 409	-21%	$ 763	$ 877	-13%
Increases (decreases) in variable annuity account values:						
Net flows [1]	(157)	(83)	-89%	(242)	(188)	-29%
Change in market value [1]	78	(484)	116%	1,008	773	30%
Transfers from the variable portion of variable annuity products to to the fixed portion of variable annuity products	(69)	(53)	-30%	(147)	(114)	-29%
Variable annuity account values [1]	14,084	13,338	6%	14,084	13,338	6%
Average daily variable annuity account values [1]	14,311	13,373	7%	14,141	13,481	5%
Average daily S&P 500	1,610.39	1,350.01	19%	1,562.91	1,348.13	16%

(1) Excludes the fixed portion of variable.

We charge expense assessments to cover insurance and administrative expenses. Expense assessments are generally equal to a percentage of the daily variable account values. Average daily account values are driven by net flows and the equity markets. Our expense assessments include fees we earn for the services that we provide to our mutual fund programs. In addition, for both our fixed and variable annuity contracts, we collect surrender charges when contract holders surrender their contracts during the surrender charge periods to protect us from premature withdrawals.

Net Investment Income and Interest Credited

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change

Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 185	$ 182	2%	$ 370	$ 364	2%
Commercial mortgage loan prepayment and bond make-whole premiums [1]	9	1	NM	12	2	NM
Alternative investments [2]	-	1	-100%	-	1	-100%
Surplus investments [3]	17	18	-6%	31	32	-3%
Total net investment income	$ 211	$ 202	4%	$ 413	$ 399	4%
Interest Credited	$ 117	$ 112	4%	$ 233	$ 223	4%

(1) See “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums” below for additional information.

(2) See “Consolidated Investments – Alternative Investments” below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Three Months Ended June 30, 2013	2012	Basis Point Change	For the Six Months Ended June 30, 2013	2012	Basis Point Change
Interest Rate Spread						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.01%	5.28%	(27)	5.01%	5.30%	(29)
Commercial mortgage loan prepayment and bond make-whole premiums	0.24%	0.02%	22	0.17%	0.03%	14
Alternative investments	0.00%	0.02%	(2)	0.00%	0.02%	(2)
Net investment income yield on reserves	5.25%	5.32%	(7)	5.18%	5.35%	(17)
Interest rate credited to contract holders	3.11%	3.22%	(11)	3.13%	3.22%	(9)
Interest rate spread	2.14%	2.10%	4	2.05%	2.13%	(8)

	As of or For the Three Months Ended June 30, 2013	2012	Change	As of or For the Six Months Ended June 30, 2013	2012	Change
Other Information						
Fixed annuity deposits [1]	$ 365	$ 346	5%	$ 808	$ 716	13%
Increases (decreases) in fixed annuity account values:						
Net flows [1]	(98)	(23)	NM	(111)	(58)	-91%
Transfers to the fixed portion of variable annuity products from the variable portion of variable annuity products	69	53	30%	147	114	29%
Reinvested interest credited [1]	118	112	5%	231	222	4%
Fixed annuity account values [1]	15,035	14,003	7%	15,035	14,003	7%
Average fixed account values [1]	14,970	13,903	8%	14,889	13,812	8%
Average invested assets on reserves	14,721	13,800	7%	14,738	13,695	8%

[1] Includes the fixed portion of variable.

A portion of our investment income earned is credited to the contract holders of our fixed annuity products, including the fixed portion of variable annuity contracts. We expect to earn a spread between what we earn on the underlying general account investments supporting the fixed annuity product line, including the fixed portion of variable annuity contracts, and what we credit to our fixed annuity contract holders' accounts, including the fixed portion of variable annuity contracts. Commercial mortgage loan prepayments and bond make-whole premiums, investment income on alternative investments and surplus investment income can vary significantly from period to period due to a number of factors and, therefore, may contribute to investment income results that are not indicative of the underlying trends.

Benefits

Benefits for this segment include changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

Commissions and Other Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Commissions and Other Expenses						
Commissions:						
Deferrable	$ 4	$ 5	-20%	$ 8	$ 10	-20%
Non-deferrable	14	12	17%	28	25	12%
General and administrative expenses	75	75	0%	146	147	-1%
Taxes, licenses and fees	4	3	33%	9	8	13%
Total expenses incurred	97	95	2%	191	190	1%
DAC deferrals	(7)	(9)	22%	(16)	(19)	16%
Total expenses recognized before amortization	90	86	5%	175	171	2%
DAC and VOBA amortization, net of interest	10	10	0%	20	19	5%
Total commissions and other expenses	$ 100	$ 96	4%	$ 195	$ 190	3%
DAC Deferrals						
As a percentage of annuity sales/deposits	1.0%	1.2%		1.0%	1.2%	

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain of our commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. Distribution expenses associated with the sale of mutual fund products are expensed as incurred. When comparing DAC and VOBA deferrals as a percentage of sales for the three and six months ended June 30, 2013, to the corresponding periods in 2012, the decrease is primarily a result of incurred deferrable commissions declining at a rate higher than sales due to changes in sales mix to products with lower commission rates.

RESULTS OF LIFE INSURANCE

Income (Loss) from Operations

Details underlying the results for Life Insurance (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Operating Revenues						
Insurance premiums	$ 119	$ 114	4%	$ 232	$ 222	5%
Insurance fees	534	510	5%	1,066	1,034	3%
Net investment income	625	606	3%	1,211	1,195	1%
Operating realized gain (loss) [1]	-	(1)	100%	2	-	NM
Other revenues and fees	6	6	0%	14	12	17%
Total operating revenues	1,284	1,235	4%	2,525	2,463	3%
Operating Expenses						
Interest credited	325	312	4%	644	624	3%
Benefits	500	474	5%	1,005	943	7%
Commissions and other expenses	258	248	4%	508	487	4%
Total operating expenses	1,083	1,034	5%	2,157	2,054	5%
Income (loss) from operations before taxes	201	201	0%	368	409	-10%
Federal income tax expense (benefit)	66	66	0%	121	134	-10%
Income (loss) from operations	$ 135	$ 135	0%	$ 247	$ 275	-10%

[1] See “Realized Gain (Loss) and Benefit Ratio Unlocking” below.

57

Comparison of the Three Months Ended June 30, 2013 to 2012

Income from operations for this segment remained flat as higher insurance fees due to growth in business in force were entirely offset by higher benefits due to higher death claims.

Comparison of the Six Months Ended June 30, 2013 to 2012

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

- Higher benefits due to higher death claims; and
- Higher commissions and other expenses attributable to the effect of favorable unlocking during 2012.

The decrease in income from operations was partially offset by higher insurance fees due to growth in business in force.

Strategies to Address Statutory Reserve Strain

Our insurance subsidiaries have statutory surplus and risk-based capital ("RBC") levels above current regulatory required levels. Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation ("XXX") and Actuarial Guideline 38 ("AG38"), respectively. On September 12, 2012, the National Association of Insurance Commissioners ("NAIC") adopted revisions to AG38. Effective as of December 31, 2012, reserves on in-force business written between July 1, 2005, and December 31, 2012, are subject to a minimum floor calculation. This floor calculation is based on assumptions that are generally consistent with the principles-based reserving framework developed by the NAIC. The AG38 revisions did not have a material impact on our total in-force reserves as of adoption. Reserves on new business written after December 31, 2012, are calculated using a modified formulaic approach. This approach results in higher reserves that exceed expected economic levels, which increases the surplus strain related to new sales. However, our insurance subsidiaries are employing strategies to reduce the surplus strain of holding the higher statutory reserves associated with term products and UL products containing secondary guarantees. As noted below, we have been successful in executing reinsurance solutions to release surplus to Other Operations. We will continue to manage our present reinsurance solutions and enter into new solutions to minimize the strain on our surplus.

Included in the LOCs issued as of June 30, 2013, was approximately $2.8 billion of long-dated LOCs issued to support inter-company reinsurance arrangements. Approximately $1.7 billion of such LOCs that will expire in 2031 were issued for UL products containing secondary guarantees. Approximately $1.1 billion of such LOCs were issued for term business solutions (approximately $175 million will expire in 2018 and approximately $885 million will expire in 2023). We have also used the proceeds from senior note issuances of approximately $875 million to execute long-term structured solutions supporting UL products containing secondary guarantees. LOCs and related capital market alternatives lower the capital effect of term and UL products containing secondary guarantees. An inability to obtain the necessary LOC capacity or other capital market alternatives could affect our returns on our in-force term and UL products containing secondary guarantees. However, we believe that our insurance subsidiaries have sufficient capital to support the increase in statutory reserves, based on our current reserve projections, if such structures are not available. See “Part I – Item 1A. Risk Factors – Legislative, Regulatory and Tax – Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations” in our 2012 Form 10-K for further information on XXX and AG38 reserves. See the table in “Commissions and Other Expenses” below for the presentation of our expenses associated with reserve financing.

Additional Information

We expect to manage the effects of spreads on near-term income from operations through portfolio management, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations.

For information on interest rate spreads and interest rate risk, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses” herein. For information on the interest rate risk due to falling interest rates, see “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2012 Form 10-K.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant effect on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the second half of the year with the fourth quarter being our strongest.

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

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2012 Form 10-K.

58

Insurance Premiums

Insurance premiums relate to traditional products and are a function of the rates priced into the product and the level of insurance in force. Insurance in force, in turn, is driven by sales, persistency and mortality experience.

Insurance Fees

Details underlying insurance fees, sales, net flows, account values and in-force face amount (in millions) were as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Insurance Fees						
Mortality assessments	$ 336	$ 329	2%	$ 667	$ 663	1%
Expense assessments	218	204	7%	431	409	5%
Surrender charges	15	20	-25%	31	43	-28%
DFEL:						
Deferrals	(75)	(82)	9%	(152)	(165)	8%
Amortization, net of interest:						
Unlocking	-	-	NM	-	(6)	100%
Amortization, net of interest, excluding unlocking	40	39	3%	89	90	-1%
Total insurance fees	$ 534	$ 510	5%	$ 1,066	$ 1,034	3%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Sales by Product						
UL:						

Excluding MoneyGuard® and indexed UL	$ 30	$ 41	-27%	$ 60	$ 81	-26%
MoneyGuard®	48	41	17%	94	82	15%
Indexed UL	11	10	10%	20	17	18%
Total UL	89	92	-3%	174	180	-3%
VUL	32	12	167%	55	21	162%
COLI and BOLI	39	11	255%	65	22	195%
Term	23	13	77%	39	26	50%
Total sales	$ 183	$ 128	43%	$ 333	$ 249	34%
Net Flows						
Deposits	$ 1,253	$ 1,137	10%	$ 2,494	$ 2,297	9%
Withdrawals and deaths	(364)	(424)	14%	(758)	(843)	10%
Net flows	$ 889	$ 713	25%	$ 1,736	$ 1,454	19%
Contract Holder Assessments	$ 861	$ 800	8%	$ 1,689	$ 1,605	5%

	As of June 30,		
	2013	2012	Change
Account Values			
UL	$ 30,025	$ 28,607	5%
VUL	6,157	5,230	18%
Interest-sensitive whole life	2,264	2,284	-1%
Total account values	$ 38,446	$ 36,121	6%
In-Force Face Amount			
UL and other	$ 314,093	$ 308,763	2%
Term insurance	286,939	273,305	5%
Total in-force face amount	$ 601,032	$ 582,068	3%

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Insurance in force, in turn, is driven by sales, persistency and mortality experience.

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

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

UL products with secondary guarantees represented approximately 15% and 16% of sales for the three and six months ended June 30, 2013, respectively, as compared to approximately 30% for the corresponding periods in 2012. Changes in the marketplace and continuing efforts to increase sales of higher return products (i.e., pivot products) in a low interest rate environment are resulting in a shift in our business mix to products like VUL, indexed UL and term that are not primarily focused upon secondary guarantees.

Net Investment Income and Interest Credited

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Net Investment Income						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	$ 558	$ 547	2%	$ 1,112	$ 1,089	2%
Commercial mortgage loan prepayment and bond make-whole premiums (1)	15	6	150%	18	8	125%

Alternative investments (2)	16	13	23%	16	27	-41%
Surplus investments (3)	36	40	-10%	65	71	-8%
Total net investment income	$ 625	$ 606	3%	$ 1,211	$ 1,195	1%
Interest Credited	$ 325	$ 312	4%	$ 644	$ 624	3%

(1) See "Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums" below for additional information.

(2) See "Consolidated Investments – Alternative Investments" below for additional information.

(3) Represents net investment income on the required statutory surplus for this segment and includes the effect of investment income on alternative investments for such assets that are held in the portfolios supporting statutory surplus versus the portfolios supporting product liabilities.

	For the Three Months Ended June 30, 2013	2012	Basis Point Change	For the Six Months Ended June 30, 2013	2012	Basis Point Change
Interest Rate Yields and Spread						
Attributable to interest-sensitive products:						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.57%	5.80%	(23)	5.59%	5.80%	(21)
Commercial mortgage loan prepayment and bond make-whole premiums	0.15%	0.07%	8	0.09%	0.05%	4
Alternative investments	0.18%	0.15%	3	0.09%	0.16%	(7)
Net investment income yield on reserves	5.90%	6.02%	(12)	5.77%	6.01%	(24)
Interest rate credited to contract holders	3.92%	3.93%	(1)	3.92%	3.95%	(3)
Interest rate spread	1.98%	2.09%	(11)	1.85%	2.06%	(21)
Attributable to traditional products:						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.61%	5.79%	(17)	5.66%	5.76%	(10)
Commercial mortgage loan prepayment and bond make-whole premiums	0.12%	0.04%	7	0.09%	0.02%	6
Alternative investments	0.00%	0.02%	(2)	0.00%	0.01%	(1)
Net investment income yield on reserves	5.73%	5.85%	(12)	5.75%	5.79%	(5)

	For the Three Months Ended June 30, 2013	2012	Change	For the Six Months Ended June 30, 2013	2012	Change
Averages						
Attributable to interest-sensitive products:						
Invested assets on reserves	$ 35,678	$ 33,529	6%	$ 35,385	$ 33,279	6%
Account values - universal and whole life	32,738	31,450	4%	32,565	31,330	4%
Attributable to traditional products:						
Invested assets on reserves	4,399	4,273	3%	4,376	4,278	2%

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

Benefits

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Benefits						
Death claims direct and assumed	$ 769	$ 777	-1%	$ 1,634	$ 1,580	3%
Death claims ceded	(348)	(370)	6%	(753)	(785)	4%
Reserves released on death	(128)	(136)	6%	(267)	(242)	-10%
Net death benefits	293	271	8%	614	553	11%
Change in secondary guarantee life insurance product reserves:						
Unlocking	-	-	NM	-	9	-100%
Change in reserves, excluding unlocking	116	126	-8%	248	245	1%
Other benefits [1]	91	77	18%	143	136	5%
Total benefits	$ 500	$ 474	5%	$ 1,005	$ 943	7%
Death claims per $1,000 of in-force	1.96	1.87	5%	2.06	1.91	8%

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

Benefits for this segment includes claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits includes the change in secondary guarantee life insurance product reserves. The reserve for secondary guarantees is affected by changes in expected future trends of expense assessments causing unlocking adjustments to this liability similar to DAC, VOBA and DFEL. See “Future Contract Benefits and Other Contract Holder Funds” in Note 1 of our 2012 Form 10-K for additional information.

Commissions and Other Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Commissions and Other Expenses						
Commissions	$ 146	$ 126	16%	$ 285	$ 256	11%
General and administrative expenses	117	116	1%	231	240	-4%
Expenses associated with reserve financing	18	16	13%	36	32	13%
Taxes, licenses and fees	32	35	-9%	68	69	-1%
Total expenses incurred	313	293	7%	620	597	4%
DAC and VOBA deferrals	(166)	(143)	-16%	(322)	(289)	-11%
Total expenses recognized before amortization	147	150	-2%	298	308	-3%
DAC and VOBA amortization, net of interest:						
Unlocking	-	-	NM	-	(33)	100%
Amortization, net of interest, excluding unlocking	110	97	13%	208	210	-1%
Other intangible amortization	1	1	0%	2	2	0%
Total commissions and other expenses	$ 258	$ 248	4%	$ 508	$ 487	4%

DAC and VOBA Deferrals				
As a percentage of sales	90.7%	111.7%	96.7%	116.1%

62

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business. When comparing DAC and VOBA deferrals as a percentage of sales for the three and six months ended June 30, 2013, to the corresponding periods in 2012, the decrease is primarily a result of incurred deferrable commissions declining at a rate higher than sales due to changes in sales mix to products with lower commission rates.

RESULTS OF GROUP PROTECTION

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Operating Revenues						
Insurance premiums	$ 531	$ 495	7%	$ 1,039	$ 958	8%
Net investment income	42	42	0%	81	81	0%
Other revenues and fees	2	3	-33%	5	4	25%
Total operating revenues	575	540	6%	1,125	1,043	8%
Operating Expenses						
Interest credited	1	1	0%	1	2	-50%
Benefits	397	368	8%	781	718	9%
Commissions and other expenses	143	129	11%	286	257	11%
Total operating expenses	541	498	9%	1,068	977	9%
Income (loss) from operations before taxes	34	42	-19%	57	66	-14%
Federal income tax expense (benefit)	12	15	-20%	20	23	-13%
Income (loss) from operations	$ 22	$ 27	-19%	$ 37	$ 43	-14%

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Income (Loss) from Operations by Product Line						
Life	$ 6	$ 10	-40%	$ 5	$ 13	-62%
Disability	16	17	-6%	30	30	0%
Dental	(1)	(1)	0%	(1)	(2)	50%
Total non-medical	21	26	-19%	34	41	-17%
Medical	1	1	0%	3	2	50%
Income (loss) from operations	$ 22	$ 27	-19%	$ 37	$ 43	-14%

Comparison of the Three and Six Months Ended June 30, 2013 to 2012

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

- Unfavorable mortality experience within our group life business; and
- Higher commissions and other expenses attributable to an increase in business and strategic investments in sales and distribution processes and technology platforms.

The decrease in income from operations was partially offset by growth in insurance premiums driven by normal, organic business growth in our non-medical products.

Additional Information

Management compares trends in actual loss ratios to pricing expectations because group-underwriting risks change over time. We expect normal fluctuations in our composite non-medical loss ratios of this segment, as claims experience is inherently uncertain. For every one percent increase in the loss ratio above our expectation, we would expect an approximate annual $11 million to $13 million decrease to income from operations.

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

For information on the effects of current interest rates on our long-term disability claim reserves, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" in our 2012 Form 10-K.

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

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

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2012 Form 10-K.

Insurance Premiums

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

	For the Three Months Ended	For the Six Months Ended

	June 30,			June 30,		
	2013	2012	Change	2013	2012	Change
Insurance Premiums by Product Line						
Life	$ 210	$ 191	10%	$ 415	$ 377	10%
Disability	222	203	9%	441	402	10%
Dental	50	47	6%	101	93	9%
Total non-medical	482	441	9%	957	872	10%
Medical	49	54	-9%	82	86	-5%
Total insurance premiums	$ 531	$ 495	7%	$ 1,039	$ 958	8%
Sales	$ 95	$ 89	7%	$ 167	$ 156	7%

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

Net Investment Income

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

Benefits and Interest Credited

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Benefits and Interest Credited by Product Line						
Life	$ 162	$ 143	13%	$ 326	$ 289	13%
Disability	156	142	10%	307	281	9%
Dental	37	36	3%	77	74	4%
Total non-medical	355	321	11%	710	644	10%
Medical	43	48	-10%	72	76	-5%
Total benefits and interest credited	$ 398	$ 369	8%	$ 782	$ 720	9%
Loss Ratios by Product Line						
Life	77.1%	75.0%		78.6%	76.6%	
Disability	70.1%	69.6%		69.6%	69.8%	
Dental	74.1%	76.5%		75.7%	79.2%	
Total non-medical	73.5%	72.7%		74.1%	73.8%	
Medical	88.8%	89.7%		89.0%	88.9%	

Commissions and Other Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change

Commissions and Other Expenses						
Commissions	$ 62	$ 53	17%	$ 125	$ 107	17%
General and administrative expenses	77	69	12%	144	130	11%
Taxes, licenses and fees	13	13	0%	26	25	4%
Total expenses incurred	152	135	13%	295	262	13%
DAC deferrals	(18)	(17)	-6%	(33)	(28)	-18%
Total expenses recognized before amortization	134	118	14%	262	234	12%
DAC and VOBA amortization, net of interest	9	11	-18%	24	23	4%
Total commissions and other expenses	$ 143	$ 129	11%	$ 286	$ 257	11%
DAC Deferrals						
As a percentage of insurance premiums	3.4%	3.4%		3.2%	2.9%	

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized in relation to the revenue of the related contracts. Certain broker commissions that vary with and are related to paid premiums are expensed as incurred. The level of expenses is an important driver of profitability for this segment as group insurance contracts are offered within an environment that competes on the basis of price and service.

RESULTS OF OTHER OPERATIONS

Income (Loss) from Operations

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Operating Revenues						
Insurance premiums	$ -	$ 3	-100%	$ 1	$ 4	-75%
Net investment income	63	68	-7%	129	137	-6%
Amortization of deferred gain on business sold through reinsurance	18	18	0%	36	36	0%
Media revenues (net)	19	21	-10%	35	38	-8%
Other revenues and fees	2	3	-33%	2	4	-50%
Total operating revenues	102	113	-10%	203	219	-7%
Operating Expenses						
Interest credited	28	30	-7%	55	61	-10%
Benefits	29	35	-17%	56	63	-11%
Media expenses	15	16	-6%	29	32	-9%
Other expenses	26	15	73%	52	36	44%
Interest and debt expense	65	68	-4%	129	135	-4%
Total operating expenses	163	164	-1%	321	327	-2%
Income (loss) from operations before taxes	(61)	(51)	-20%	(118)	(108)	-9%
Federal income tax expense (benefit)	(21)	(12)	-75%	(41)	(35)	-17%
Income (loss) from operations	$ (40)	$ (39)	-3%	$ (77)	$ (73)	-5%

Comparison of the Three and Six Months Ended June 30, 2013 to 2012

Loss from operations for Other Operations increased due primarily to growth in other expenses driven by an increase in our stock price and its effect on our deferred compensation plans (see “Other Expenses” below for more information), partially offset by lower interest and debt expense driven by a decline in both average balances of outstanding debt and rates.

Additional Information

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

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2012 Form 10-K.

Net Investment Income and Interest Credited

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

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

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

Benefits

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

Other Expenses

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
General and administrative expenses:						
Legal	$ -	$ -	NM	$ 1	$ 1	0%
Branding	10	9	11%	13	17	-24%
Other [1]	23	13	77%	46	27	70%
Total general and administrative expenses	33	22	50%	60	45	33%
Taxes, licenses and fees	(4)	(4)	0%	(3)	(3)	0%
Inter-segment reimbursement associated with reserve financing and LOC expenses [2]	(3)	(3)	0%	(5)	(6)	17%
Total other expenses	$ 26	$ 15	73%	$ 52	$ 36	44%

[1] Includes expenses that are corporate in nature including charitable contributions, the portion of our deferred compensation plan expense attributable to participants' selection of LNC stock as the measure for their investment return and other expenses not allocated to our business segments.

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

Interest and Debt Expense

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

REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Components of Realized Gain (Loss), Pre-Tax						
Total operating realized gain (loss)	$ 34	$ 25	36%	$ 66	$ 52	27%
Total excluded realized gain (loss)	(51)	18	NM	(142)	(95)	-49%
Total realized gain (loss), pre-tax	$ (17)	$ 43	NM	$ (76)	$ (43)	-77%
Reconciliation of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax						
Total excluded realized gain (loss)	$ (33)	$ 12	NM	$ (92)	$ (61)	-51%
Benefit ratio unlocking	(2)	(10)	80%	12	13	-8%
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (35)	$ 2	NM	$ (80)	$ (48)	-67%
Components of Excluded Realized Gain (Loss) Net of Benefit Ratio Unlocking, After-Tax						
Realized gain (loss) related to certain investments	$ (16)	$ (33)	52%	$ (26)	$ (64)	59%
Gain (loss) on the mark-to-market on certain instruments	(6)	(12)	50%	-	25	-100%
Variable annuity net derivatives results:						
Hedge program performance, including unlocking for GLB reserves hedged	5	(38)	113%	7	(20)	135%
GLB NPR component	(16)	86	NM	(51)	2	NM
Total variable annuity net derivatives results	(11)	48	NM	(44)	(18)	NM
Indexed annuity forward-starting option	(2)	(1)	-100%	(10)	9	NM
Excluded realized gain (loss) net of benefit ratio unlocking, after-tax	$ (35)	$ 2	NM	$ (80)	$ (48)	-67%

(1)

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

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2012 Form 10-K.

For information on our counterparty exposure, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk.”

Comparison of the Three Months Ended June 30, 2013 to 2012

We had realized losses during 2013 as compared to gains during 2012 driven primarily by the following components of excluded realized gain (loss), which we have described net of benefit ratio unlocking, after-tax:

- Losses on variable annuity net derivatives results during 2013 attributable primarily to an unfavorable GLB NPR component due to our associated reserves declining (see “Variable Annuity Net Derivative Results” below for more discussion) along with the widening of our spreads, partially offset by less volatile capital markets resulting in favorable hedge program performance.

The realized losses were partially offset by the following:

- Lower gross realized losses related to certain investments during 2013 originating from asset sales to reposition the investment portfolio; and
- General improvement in the credit markets during 2013 leading to a decline in OTTI.

Comparison of the Six Months Ended June 30, 2013 to 2012

We had higher realized losses during 2013 as compared to 2012 driven primarily by the following components of excluded realized gain (loss), which we have described net of benefit ratio unlocking, after-tax:

- Higher losses on variable annuity net derivatives results during 2013 attributable to a narrowing of our credit spreads during 2013 resulting in an unfavorable GLB NPR component, partially offset by less volatile capital markets during 2013 resulting in favorable hedge program performance; and
- Losses on the mark-to-market on certain instruments during 2013 attributable primarily to an increase in interest rates leading to a decrease in the value of our trading securities.

The higher realized losses were partially offset by the following:

- Lower gross realized losses related to certain investments during 2013 originating from asset sales to reposition the investment portfolio; and
- General improvement in the credit markets during 2013 leading to a decline in OTTI.

Operating Realized Gain (Loss)

See "Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)" in our 2012 Form 10-K for a discussion of our operating realized gain (loss).

Realized Gain (Loss) Related to Certain Investments

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

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

See "Realized Gain (Loss) and Benefit Ratio Unlocking – Gain (Loss) on the Mark-to-Market on Certain Instruments" in our 2012 Form 10-K for a discussion of the mark-to-market on certain instruments and Note 3 for information about consolidated variable interest entities ("VIEs").

Variable Annuity Net Derivatives Results

See "Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results" in our 2012 Form 10-K for a discussion of our variable annuity net derivatives results.

Details underlying our variable annuity hedging program (dollars in millions) were as follows:

	As of June 30, 2013	As of March 31, 2013	As of December 31, 2012	As of September 30, 2012	As of June 30, 2012
Variable annuity hedge program assets	$ 811	$ 1,240	$ 1,944	$ 2,280	$ 2,710
Variable annuity reserves - asset (liability):					
Embedded derivative reserves, pre-NPR	$ 318	$ (200)	$ (975)	$ (1,432)	$ (2,126)
NPR	(26)	1	66	81	200
Embedded derivative reserves	292	(199)	(909)	(1,351)	(1,926)
Insurance benefit reserves	(226)	(204)	(209)	(201)	(138)
Total variable annuity reserves - asset (liability)	$ 66	$ (403)	$ (1,118)	$ (1,552)	$ (2,064)
10-year credit default swap ("CDS") spread	1.89%	1.86%	2.34%	2.40%	3.48%
NPR factor related to 10-year CDS spread	0.21%	0.19%	0.26%	0.29%	0.45%

Our embedded derivative reserves were in an asset position as of June 30, 2013, as we estimated the present value of future benefits to be less than the future net valuation premiums.

The following shows the approximate hypothetical effect to net income, pre-DAC [1], pre-tax (in millions) for changes in the NPR factor along all points on the spread curve as of June 30, 2013:

	Hypothetical Effect
NPR factor:	
Down 21 basis points	$ (150)
Up 20 basis points	55

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

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

Indexed Annuity Forward-Starting Option

See "Realized Gain (Loss) and Benefit Ratio Unlocking – Indexed Annuity Forward-Starting Option" in our 2012 Form 10-K for a discussion of our indexed annuity forward-starting option.

CONSOLIDATED INVESTMENTS

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

		Percentage of Total Investments	
As of June 30,	As of December 31,	As of June 30,	As of December 31,

	2013	2012	2013	2012
Investments				
AFS securities:				
Fixed maturity	$ 80,235	$ 82,036	83.4%	82.8%
VIEs' fixed maturity	698	708	0.7%	0.7%
Total fixed maturity	80,933	82,744	84.1%	83.5%
Equity	209	157	0.2%	0.1%
Trading securities	2,391	2,554	2.5%	2.6%
Mortgage loans on real estate	7,033	7,029	7.3%	7.1%
Real estate	60	65	0.1%	0.1%
Policy loans	2,700	2,766	2.8%	2.8%
Derivative investments	1,683	2,652	1.8%	2.7%
Alternative investments	975	869	1.0%	0.9%
Other investments	183	229	0.2%	0.2%
Total investments	$ 96,167	$ 99,065	100.0%	100.0%

Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current investment income considerations affecting assets and liabilities. For a discussion of our risk management process, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2012 Form 10-K.

Investment Portfolio Composition and Diversification

Fundamental to our investment policy is diversification across asset classes. Our investment portfolio, excluding cash and invested cash, is composed of fixed maturity securities, mortgage loans on real estate, real estate (either wholly-owned or in joint ventures) and other long-term investments. We purchase investments for our segmented portfolios that have yield, duration and other characteristics that take into account the liabilities of the products being supported.

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

Fixed Maturity and Equity Securities Portfolios

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

Details underlying our fixed maturity and equity securities portfolios by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of AFS securities in Note 4; however, the categories below represent a more detailed breakout of the AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 4.

	As of June 30, 2013				
		Gross Unrealized			%
	Amortized		Losses and	Fair	Fair
	Cost	Gains	OTTI	Value	Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 9,258	$ 729	$ 120	$ 9,867	12.2%
Basic industry	4,506	229	134	4,601	5.7%
Capital goods	4,639	345	62	4,922	6.1%
Communications	3,986	319	59	4,246	5.2%
Consumer cyclical	4,248	297	94	4,451	5.5%
Consumer non-cyclical	9,741	844	98	10,487	13.0%
Energy	6,382	524	108	6,798	8.4%
Technology	2,584	139	55	2,668	3.3%
Transportation	1,780	124	8	1,896	2.3%
Industrial other	915	63	6	972	1.2%
Utilities	12,592	1,101	162	13,531	16.6%
Collateralized mortgage and other obligations ("CMOs"):					
Agency backed	2,039	197	-	2,236	2.8%
Non-agency backed	1,090	34	42	1,082	1.3%
Mortgage pass through securities ("MPTS"):					
Agency backed	1,686	81	8	1,759	2.2%
Non-agency backed	1	-	-	1	0.0%
Commercial mortgage-backed securities ("CMBS"):					
Non-agency backed	857	46	20	883	1.1%
Asset-backed securities ("ABS"):					
CDOs	149	-	2	147	0.2%
Commercial real estate ("CRE") CDOs	25	-	7	18	0.0%
Credit card	670	30	-	700	0.9%
Home equity	731	18	90	659	0.8%

Manufactured housing	64	6	-	70	0.1%
Auto loan	2	-	-	2	0.0%
Other	381	25	5	401	0.5%
Municipals:					
Taxable	3,586	441	16	4,011	5.0%
Tax-exempt	36	1	-	37	0.0%
Government and government agencies:					
United States	1,367	153	9	1,511	1.9%
Foreign	1,700	142	16	1,826	2.3%
Hybrid and redeemable preferred securities	1,134	90	73	1,151	1.4%
Total fixed maturity AFS securities	76,149	5,978	1,194	80,933	100.0%
Equity AFS Securities	192	18	1	209	
Total AFS securities	76,341	5,996	1,195	81,142	
Trading Securities [(1)]	2,088	314	11	2,391	
Total AFS and trading securities	$ 78,429	$ 6,310	$ 1,206	$ 83,533	

	As of December 31, 2012				
		Gross Unrealized			%
	Amortized		Losses and	Fair	Fair
	Cost	Gains	OTTI	Value	Value
Fixed Maturity AFS Securities					
Industry corporate bonds:					
Financial services	$ 9,216	$ 1,102	$ 77	$ 10,241	12.3%
Basic industry	3,910	459	14	4,355	5.3%
Capital goods	4,650	573	19	5,204	6.3%
Communications	3,695	550	12	4,233	5.1%
Consumer cyclical	3,817	481	30	4,268	5.2%
Consumer non-cyclical	9,250	1,474	3	10,721	13.0%
Energy	5,726	884	4	6,606	8.0%
Technology	2,172	227	7	2,392	2.9%
Transportation	1,540	194	1	1,733	2.1%
Industrial other	1,000	98	1	1,097	1.3%
Utilities	11,874	1,762	19	13,617	16.4%
CMOs:					
Agency backed	2,427	274	-	2,701	3.3%
Non-agency backed	1,199	42	63	1,178	1.4%
MPTS:					
Agency backed	2,136	155	-	2,291	2.8%
Non-agency backed	1	-	-	1	0.0%
CMBS:					
Non-agency backed	970	68	35	1,003	1.2%
ABS:					
CDOs	161	2	2	161	0.2%
CRE CDOs	28	-	9	19	0.0%
Credit card	668	45	-	713	0.9%
Home equity	775	8	138	645	0.8%
Manufactured housing	70	6	-	76	0.1%
Auto loan	4	-	-	4	0.0%
Other	322	30	-	352	0.4%
Municipals:					
Taxable	3,510	810	7	4,313	5.2%
Tax-exempt	36	4	-	40	0.0%
Government and government agencies:					
United States	1,408	238	-	1,646	2.0%
Foreign	1,649	270	2	1,917	2.3%
Hybrid and redeemable preferred securities	1,181	106	70	1,217	1.5%
Total fixed maturity AFS securities	73,395	9,862	513	82,744	100.0%
Equity AFS Securities	137	22	2	157	
Total AFS securities	73,532	9,884	515	82,901	
Trading Securities (1)	2,127	439	12	2,554	

Total AFS and trading securities	$ 75,659	$ 10,323	$ 527	$ 85,455

(1) Certain of our trading securities support our modified coinsurance arrangements ("Modco"), and the investment results are passed directly to the reinsurers. Refer to "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Fixed Maturity and Equity Securities Portfolios – Trading Securities" in our 2012 Form 10-K for further details.

AFS Securities

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

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

NAIC Designation [(1)]	Rating Agency Equivalent Designation [(1)]	As of June 30, 2013 Amortized Cost	Fair Value	% of Total	As of December 31, 2012 Amortized Cost	Fair Value	% of Total
Investment Grade Securities							
1	Aaa / Aa / A	$ 42,166	$ 45,736	56.5%	$ 41,477	$ 47,913	57.9%
2	Baa	29,956	31,325	38.7%	27,914	30,995	37.5%
Total investment grade securities		72,122	77,061	95.2%	69,391	78,908	95.4%
Below Investment Grade Securities							
3	Ba	2,559	2,549	3.2%	2,425	2,468	2.9%
4	B	1,078	999	1.2%	1,171	1,070	1.3%
5	Caa and lower	302	255	0.3%	331	246	0.3%
6	In or near default	88	69	0.1%	77	52	0.1%
Total below investment grade securities		4,027	3,872	4.8%	4,004	3,836	4.6%
Total fixed maturity AFS securities		$ 76,149	$ 80,933	100.0%	$ 73,395	$ 82,744	100.0%
Total securities below investment grade as a percentage of total fixed maturity AFS securities		5.3%	4.8%		5.5%	4.6%	

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

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

We have identified select countries in Europe that are currently experiencing stress in the credit markets, notably Greece, Ireland, Italy, Portugal, Spain, Hungary, Cyprus and Slovenia. These countries were identified due to high credit spreads and political and economic uncertainty. Our exposure was determined by country of risk, defined as the country where the issuer primarily conducts business, unless another company is deemed to have control. Our investments by country as of June 30, 2013, are presented below (in millions):

	Amortized Cost				Fair Value			
	Sovereign	Financial	Other	Total	Sovereign	Financial	Other	Total
Spain	$ -	$ -	$ 294	$ 294	$ -	$ -	$ 319	$ 319
Ireland	-	7	209	216	-	11	207	218
Italy	3	-	140	143	3	-	153	156
Portugal	-	-	40	40	-	-	39	39
Total	$ 3	$ 7	$ 683	$ 693	$ 3	$ 11	$ 718	$ 732

We have no exposure to any issuers in Greece, Hungary, Cyprus or Slovenia.

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

As of June 30, 2013, and December 31, 2012, 89.2% and 68.7%, respectively, of the total publicly traded and private securities in an unrealized loss status were rated as investment grade. See Note 4 for maturity date information for our fixed maturity investment portfolio. Our gross unrealized losses, including the portion of OTTI recognized in other comprehensive income (loss) (“OCI”), on AFS securities as of June 30, 2013, increased $680 million. As more fully described in Note 1 in our 2012 Form 10-K, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of June 30, 2013, does not represent OTTI as: (i) we do not intend to sell these debt securities; (ii) it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis; (iii) the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities; and (iv) we have the ability and intent to hold the equity securities for a period of time sufficient for recovery. For further information on our unrealized losses on AFS securities, see "Composition by Industry Categories of our Unrealized Losses on AFS Securities" below.

Selected information for certain AFS securities in a gross unrealized loss position (dollars in millions) as of June 30, 2013, was as follows:

	Fair Value	Gross Unrealized Losses and OTTI	Estimated Years Until Call or Maturity	Estimated Average Years Until Recovery	Subordination Level Current	Subordination Level Origination
CMBS	$ 197	$ 20	1 to 40	20	13.3%	8.7%
Hybrid and redeemable preferred securities	325	73	1 to 53	26	N/A	N/A

As provided in the table above, many of the securities in these categories are long-dated with some of the preferred securities being perpetual. This is purposeful as it matches the long-term nature of our liabilities associated with our life insurance and annuity products. See "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our 2012 Form 10-K where we present information related to maturities of securities and the expected cash flows for rate sensitive liabilities and maturities of our holding company debt, which also demonstrates the long-term nature of the cash flows associated with these items. Because of this relationship, we do not believe it will be necessary to sell these securities before they recover or mature. For these securities, the estimated range and average period until recovery is the call or maturity period. It is difficult to predict or project when the securities will recover as it is dependent upon a number of factors including the overall economic climate. We do not believe it is necessary to impair these securities as long as the expected future cash flows are projected to be sufficient to recover the amortized cost of these securities.

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

We concluded that it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, that the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities, and that we have the ability to hold the equity AFS securities for a period of time sufficient for recovery. This conclusion is consistent with our asset-liability management process. Management considers the following as part of the evaluation:

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

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

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

As reported on our Consolidated Balance Sheets, we had $98.7 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled $85.7 billion as of June 30, 2013. If it were necessary to liquidate securities prior to maturity or call to meet cash flow needs, we would first look to those securities that are in an unrealized gain position, which had a fair value of $63.0 billion, excluding consolidated VIEs in the amount of $698 million, as of June 30, 2013, rather than selling securities in an unrealized loss position. The amount of cash that we have on hand at any point of time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the on-going cash flows from new and existing business.

See "AFS Securities – Evaluation for Recovery of Amortized Cost" in Note 1 in our 2012 Form 10-K and Note 4 for additional discussion.

As of June 30, 2013, and December 31, 2012, the estimated fair value for all private placement securities was $12.5 billion and $12.0 billion, respectively, representing 13% of total invested assets.

For information regarding our VIEs' fixed maturity securities, see Note 3 in this report and Note 4 in our 2012 Form 10-K.

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

See "Consolidated Investments – Mortgage-Backed Securities" in our 2012 Form 10-K for a discussion of our MBS.

Our RMBS had a market value of $5.3 billion and an unrealized gain of $272 million, or 5%, as of June 30, 2013.

The market value of AFS securities and trading securities backed by subprime loans was $462 million and represented less than 1% of our total investment portfolio as of June 30, 2013. AFS securities represented $448 million, or 97%, and trading securities represented $14 million, or 3%, of the subprime exposure as of June 30, 2013. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions) as of June 30, 2013:

	Prime Agency		Prime/ Non-Agency		Alt-A		Subprime		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type										
RMBS	$ 3,996	$ 3,726	$ 660	$ 652	$ 420	$ 436	$ 2	$ 2	$ 5,078	$ 4,816
ABS home equity	3	3	-	-	210	225	446	503	659	731
Total by type [(1)(2)]	$ 3,999	$ 3,729	$ 660	$ 652	$ 630	$ 661	$ 448	$ 505	$ 5,737	$ 5,547
Rating										
AAA	$ 3,962	$ 3,695	$ 1	$ 1	$ -	$ -	$ 17	$ 17	$ 3,980	$ 3,713
AA	25	23	7	7	8	8	22	22	62	60
A	12	11	15	14	29	29	70	71	126	125
BBB	-	-	61	60	63	63	24	24	148	147
BB and below	-	-	576	570	530	561	315	371	1,421	1,502
Total by rating [(1)(2)(3)]	$ 3,999	$ 3,729	$ 660	$ 652	$ 630	$ 661	$ 448	$ 505	$ 5,737	$ 5,547
Origination Year										
2004 and prior	$ 753	$ 688	$ 119	$ 117	$ 198	$ 204	$ 182	$ 200	$ 1,252	$ 1,209
2005	585	533	117	123	215	221	188	209	1,105	1,086
2006	141	129	132	124	171	187	74	91	518	531
2007	761	694	292	288	46	49	3	3	1,102	1,034
2008	116	106	-	-	-	-	-	-	116	106
2009	638	601	-	-	-	-	1	2	639	603
2010	588	562	-	-	-	-	-	-	588	562
2011	270	263	-	-	-	-	-	-	270	263
2012	92	96							92	96
2013	55	57	-	-	-	-	-	-	55	57
Total by origination year [(1)(2)]	$ 3,999	$ 3,729	$ 660	$ 652	$ 630	$ 661	$ 448	$ 505	$ 5,737	$ 5,547
Total AFS RMBS as a percentage of total AFS securities									7.1%	7.3%
Total prime/non-agency, Alt-A and subprime										

as a percentage of total AFS securities	2.1%	2.4%

(1) Does not include the fair value of trading securities totaling $196 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $196 million in trading securities consisted of $173 million prime, $10 million Alt-A and $13 million subprime.
(2) Does not include the amortized cost of trading securities totaling $187 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $187 million in trading securities consisted of $163 million prime, $10 million Alt-A and $14 million subprime.
(3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

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

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions) as of June 30, 2013:

	Multiple Property		Single Property		CRE CDOs		Total	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Type								
CMBS	$ 840	$ 805	$ 43	$ 52	$ -	$ -	$ 883	$ 857
CRE CDOs	-	-	-	-	18	25	18	25
Total by type [(1)(2)]	$ 840	$ 805	$ 43	$ 52	$ 18	$ 25	$ 901	$ 882
Rating								
AAA	$ 534	$ 507	$ 13	$ 13	$ -	$ -	$ 547	$ 520
AA	47	45	10	10	-	-	57	55
A	103	96	7	6	-	-	110	102
BBB	78	76	6	6	6	7	90	89
BB and below	78	81	7	17	12	18	97	116
Total by rating [(1)(2)(3)]	$ 840	$ 805	$ 43	$ 52	$ 18	$ 25	$ 901	$ 882
Origination Year								
2004 and prior	$ 232	$ 227	$ 23	$ 23	$ 3	$ 3	$ 258	$ 253
2005	265	248	20	29	6	7	291	284
2006	132	125	-	-	9	15	141	140
2007	57	51	-	-	-	-	57	51
2010	58	54	-	-	-	-	58	54
2013	96	100	-	-	-	-	96	100
Total by origination year [(1)(2)]	$ 840	$ 805	$ 43	$ 52	$ 18	$ 25	$ 901	$ 882
Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities							1.1%	1.2%

[(1)] Does not include the fair value of trading securities totaling $12 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $12 million in trading securities consisted of $9 million CMBS and $3 million CRE CDOs.

[(2)] Does not include the amortized cost of trading securities totaling $12 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The $12 million in trading securities consisted of $9 million CMBS and $3 million CRE CDOs.

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

As of June 30, 2013, the amortized cost and fair value of our AFS exposure to Monoline insurers was $583 million and $597 million, respectively.

Composition by Industry Categories of our Unrealized Losses on AFS Securities

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

The composition by industry categories of all securities in unrealized loss status (in millions) as of June 30, 2013, was as follows:

	Fair Value	% Fair Value	Amortized Cost	% Amortized Cost	Gross Unrealized Losses and OTTI	% Gross Unrealized Losses and OTTI
Banking	$ 883	5.0%	$ 1,013	5.4%	$ 130	10.8%
Electric	1,802	10.3%	1,912	10.2%	110	9.2%
ABS	641	3.7%	745	4.0%	104	8.7%
Metals and mining	973	5.6%	1,054	5.6%	81	6.8%
Technology	1,069	6.1%	1,124	6.0%	55	4.6%
Independent	822	4.7%	873	4.7%	51	4.3%
CMO	698	4.0%	748	4.0%	50	4.2%
Food and beverage	852	4.9%	895	4.8%	43	3.6%
Chemicals	770	4.4%	808	4.3%	38	3.2%
Pipelines	487	2.8%	520	2.8%	33	2.8%
Retailers	318	1.8%	351	1.9%	33	2.8%
Diversified manufacturing	464	2.7%	494	2.6%	30	2.5%
Oil field services	541	3.1%	570	3.1%	29	2.4%
Media - non-cable	455	2.6%	482	2.6%	27	2.3%
Healthcare	546	3.1%	572	3.1%	26	2.2%
Property and casualty	190	1.1%	213	1.1%	23	1.9%
Integrated	337	1.9%	359	1.9%	22	1.8%
Consumer cyclical services	325	1.9%	346	1.9%	21	1.8%
CMBS	219	1.3%	239	1.3%	20	1.7%
Local authorities	305	1.7%	325	1.7%	20	1.7%
Entertainment	301	1.7%	320	1.7%	19	1.6%
Owned no guarantee	233	1.3%	252	1.3%	19	1.6%
Media - cable	299	1.7%	317	1.7%	18	1.5%
Health insurance	205	1.2%	221	1.2%	16	1.3%
Pharmaceuticals	292	1.7%	307	1.6%	15	1.3%
Paper	173	1.0%	187	1.0%	14	1.2%
Distributors	333	1.9%	346	1.9%	13	1.1%
Consumer products	185	1.1%	197	1.1%	12	1.0%
Aerospace/defense	147	0.8%	158	0.8%	11	0.9%
Industries with unrealized losses less than $10 million	2,622	14.9%	2,734	14.7%	112	9.2%
Total by industry	$ 17,487	100.0%	$ 18,682	100.0%	$ 1,195	100.0%
Total by industry as a percentage of total AFS securities	21.6%		24.5%		100.0%	

As of June 30, 2013, the amortized cost and fair value of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss status was $509 million and $381 million, respectively.

Mortgage Loans on Real Estate

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

	As of June 30, 2013		As of December 31, 2012	
	Carrying Value	%	Carrying Value	%
Credit Quality Indicator				
Current	$ 7,021	99.8%	$ 7,009	99.7%
Delinquent and in foreclosure [1]	12	0.2%	20	0.3%
Total mortgage loans on real estate	$ 7,033	100.0%	$ 7,029	100.0%

[1] As of June 30, 2013, and December 31, 2012, there were 4 and 6 mortgage loans on real estate that were delinquent and in foreclosure, respectively.

78

	As of June 30, 2013	As of December 31, 2012
By Segment		
Annuities	$ 1,423	$ 1,390
Retirement Plan Services	1,294	1,243
Life Insurance	3,693	3,737
Group Protection	274	275
Other Operations	349	384
Total mortgage loans on real estate	$ 7,033	$ 7,029

	As of June 30, 2013 Carrying Value	%		As of June 30, 2013 Carrying Value	%
Property Type			State Exposure		
Office building	$ 2,051	29.1%	CA	$ 1,627	22.9%
Industrial	1,674	23.8%	TX	621	8.8%
Retail	1,579	22.5%	MD	489	7.0%
Apartment	1,352	19.2%	VA	313	4.5%
Mixed use	169	2.4%	NC	308	4.4%
Other commercial	120	1.7%	NY	304	4.3%
Hotel/Motel	88	1.3%	GA	257	3.7%
Total	$ 7,033	100.0%	FL	237	3.4%
			TN	236	3.4%
Geographic Region			WA	236	3.4%
Pacific	$ 2,021	28.8%	PA	215	3.1%
South Atlantic	1,705	24.2%	AZ	209	3.0%
East North Central	703	10.0%	OH	195	2.8%
West South Central	638	9.1%	IN	191	2.7%
Middle Atlantic	606	8.6%	NV	163	2.3%
Mountain	533	7.6%	IL	158	2.2%
East South Central	392	5.6%	OR	158	2.2%
West North Central	319	4.5%	MN	147	2.1%
New England	116	1.6%	Other states under 2%	969	13.8%

Total	$ 7,033	100.0%	Total	$ 7,033	100.0%

	As of June 30, 2013			As of June 30, 2013	
	Principal Amount	%		Principal Amount	%
Origination Year			Future Principal Payments		
2004 and prior	$ 1,654	23.5%	2013	$ 112	1.6%
2005	662	9.3%	2014	333	4.7%
2006	597	8.5%	2015	510	7.3%
2007	788	11.2%	2016	478	6.8%
2008	729	10.4%	2017	698	9.9%
2009	143	2.0%	2018 and thereafter	4,902	69.7%
2010	300	4.3%	Total	$ 7,033	100.0%
2011	848	12.1%			
2012	891	12.7%			
2013	421	6.0%			
Total	$ 7,033	100.0%			

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

See Note 4 for information regarding our loan-to-value and debt-service coverage ratios and our allowance for loan losses.

As of June 30, 2013, and December 31, 2012, there were 5 and 10 impaired mortgage loans on real estate, respectively, or less than 1% of the total dollar amount of mortgage loans on real estate. The carrying value on the mortgage loans on real estate that were two or more payments delinquent as of June 30, 2013, was $11 million, or less than 1% of total mortgage loans on real estate. The total principal and interest past due on the mortgage loans on real estate that were two or more payments delinquent as of June 30, 2013, was $1 million. The carrying value on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2012, was $20 million, or less than 1% of total mortgage loans on real estate. The total principal and interest past due on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2012, was $7 million. See Note 1 in our 2012 Form 10-K for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

Alternative Investments

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Annuities	$ 6	$ 13	-54%	$ 8	$ 19	-58%
Retirement Plan Services	3	7	-57%	4	10	-60%
Life Insurance	21	25	-16%	22	46	-52%
Group Protection	2	4	-50%	3	5	-40%
Other Operations	-	1	-100%	-	1	-100%
Total [1]	$ 32	$ 50	-36%	$ 37	$ 81	-54%

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

As of June 30, 2013, and December 31, 2012, alternative investments included investments in 102 and 98 different partnerships, respectively, and the portfolio represented 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.

As discussed in “Critical Accounting Policies and Estimates – Investments – Valuation of Alternative Investments” in our 2012 Form 10-K, we update the carrying value of our alternative investment portfolio whenever audited financial statements of the investees for the preceding year become available. Net investment income (loss) derived from our consolidated alternative investments by segment (in millions) related to the effect of preceding year audit adjustments recorded during the indicated year at the investee was as follows:

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Annuities	$ 1	$ 1	0%	$ 2	$ 5	-60%
Retirement Plan Services	-	-	NM	1	2	-50%
Life Insurance	4	10	-60%	6	23	-74%
Group Protection	-	-	NM	-	2	-100%
Total	$ 5	$ 11	-55%	$ 9	$ 32	-72%

Non-Income Producing Investments

As of June 30, 2013, and December 31, 2012, the carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing was $15 million and $14 million, respectively.

Net Investment Income

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Fixed maturity AFS securities	$ 991	$ 980	1%	$ 1,978	$ 1,949	1%
Equity AFS securities	1	1	0%	3	3	0%
Trading securities	35	37	-5%	70	75	-7%
Mortgage loans on real estate	97	100	-3%	195	201	-3%
Real estate	4	4	0%	7	8	-13%
Policy loans	39	42	-7%	77	87	-11%
Invested cash	1	1	0%	2	2	0%
Commercial mortgage loan prepayment and bond make-whole premiums (1)	45	12	275%	58	18	222%
Alternative investments (2)	32	50	-36%	37	81	-54%
Consent fees	-	1	-100%	1	1	0%
Other investments	(1)	(6)	83%	(4)	(11)	64%
Investment income	1,244	1,222	2%	2,424	2,414	0%
Investment expense	(31)	(25)	-24%	(61)	(52)	-17%
Net investment income	$ 1,213	$ 1,197	1%	$ 2,363	$ 2,362	0%

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

	For the Three Months Ended June 30,		Basis Point	For the Six Months Ended June 30,		Basis Point
	2013	2012	Change	2013	2012	Change
Interest Rate Yield						
Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses	5.14%	5.34%	(20)	5.14%	5.37%	(23)
Commercial mortgage loan prepayment and bond make-whole premiums	0.21%	0.06%	15	0.13%	0.04%	9

Alternative investments	0.14%	0.24%	(10)	0.08%	0.19%	(11)
Net investment income yield on invested assets	5.49%	5.64%	(15)	5.35%	5.60%	(25)

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Average invested assets at amortized cost	$ 88,363	$ 84,958	4%	$ 88,363	$ 84,420	5%

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

Commercial Mortgage Loan Prepayment and Bond Make-Whole Premiums

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

The increase in prepayment and make-whole premiums when comparing 2013 to 2012 was attributable primarily to increased refinancing activity.

Realized Gain (Loss) Related to Certain Investments

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Fixed maturity AFS securities:						
Gross gains	$ 4	$ 3	33%	$ 11	$ 8	38%
Gross losses	(25)	(49)	49%	(43)	(112)	62%
Equity AFS securities:						
Gross gains	-	-	NM	6	1	NM
Gross losses	(1)	-	NM	(1)	-	NM
Gain (loss) on other investments	1	(5)	120%	(1)	2	NM
Associated amortization of DAC, VOBA, DSI, and DFEL and changes in other contract holder funds	(4)	-	NM	(11)	2	NM
Total realized gain (loss) related to certain investments, pre-tax	$ (25)	$ (51)	51%	$ (39)	$ (99)	61%

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

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During the first six months of 2013 and 2012, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with the AFS classification.

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

When the detailed analysis by our external asset managers and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Critical Accounting Policies and Estimates" in our 2012 Form 10-K for additional information on our portfolio management strategy.

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
OTTI Recognized in Net Income (Loss)						
Corporate bonds	$ (7)	$ (10)	30%	$ (10)	$ (29)	66%
RMBS	(5)	(14)	64%	(16)	(32)	50%
CMBS	(12)	(16)	25%	(14)	(36)	61%
CDOs	-	-	NM	(1)	-	NM
Gross OTTI recognized in net income (loss) income (loss)	(24)	(40)	40%	(41)	(97)	58%
Associated amortization of DAC, VOBA, DSI and DFEL	5	7	-29%	8	17	-53%
Net OTTI recognized in net income (loss), pre-tax	$ (19)	$ (33)	42%	$ (33)	$ (80)	59%
Portion of OTTI Recognized in OCI						
Gross OTTI recognized in OCI	$ 1	$ 21	-95%	$ 7	$ 79	-91%
Change in DAC, VOBA, DSI and DFEL	-	(4)	100%	(1)	(12)	92%
Net portion of OTTI recognized in OCI, pre-tax	$ 1	$ 17	-94%	$ 6	$ 67	-91%

The decrease in write-downs for OTTI when comparing the first six months of 2013 to the same period in 2012 was attributable to declines in write-downs for OTTI on corporate bonds and structured holdings. The improvements of the write-downs for OTTI on our RMBS and CMBS holdings were primarily attributable to gradual recovery in both residential and commercial real estate markets. The write-downs of our structured holdings were due primarily to idiosyncratic risk that affected individual securities rather than overall market weakness.

The $48 million of impairments taken during the first six months of 2013 were split between $41 million of credit-related impairments and $7 million of noncredit-related impairments. The credit-related impairments were largely attributable to our RMBS and CMBS holdings primarily as a result of continued weakness within the residential and commercial real estate market that affected select holdings. The noncredit-related impairments were due to declines in values of securities for which we do not have an intent to sell or it is not more likely than not that we will be required to sell the securities before recovery.

REVIEW OF CONSOLIDATED FINANCIAL CONDITION

Liquidity and Capital Resources

Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided cash of $55 million and $614 million for the first six months of 2013 and 2012, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

The sources of liquidity of the holding company are principally comprised of dividends and interest payments from subsidiaries, augmented by holding company short-term investments, bank lines of credit and the ongoing availability of long-term public financing under an SEC-filed shelf registration statement. These sources of liquidity and cash flow support the general corporate needs of the holding company, including its common and preferred stock dividends, interest and debt service, funding of callable securities, securities repurchases, acquisitions and investment in core businesses. Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset declines (or increases), the collateral required to be posted by our counterparties would also decline (or increase). Likewise, when the value of a derivative liability declines (or increases), the collateral we are required to post for our counterparties' benefit would also decline (or increase). During the first six months of 2013, our payables for collateral on derivative investments decreased by $1.1 billion as rising interest rates and equity markets and less volatility lowered the fair values of the associated derivative investments. For additional information, see "Credit Risk" in Note 5.

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Dividends from Subsidiaries						
The Lincoln National Life Insurance Company ("LNL")	$ 150	$ 200	-25%	$ 300	$ 350	-14%
First Penn-Pacific	40	-	NM	40	-	NM
Loan Repayments and Interest from Subsidiaries						
Interest on inter-company notes	30	31	-3%	43	64	-33%
	$ 220	$ 231	-5%	$ 383	$ 414	-7%
Other Cash Flow and Liquidity Items						
Net capital received from (paid for taxes on) stock option exercises and restricted stock	$ 1	$ (3)	133%	$ (3)	$ (3)	0%

The table above focuses on significant and recurring cash flow items and excludes the effects of certain financing activities, namely the periodic issuance and retirement of debt and cash flows related to our inter-company cash management program (discussed below). Taxes have been eliminated from the analysis due to a tax sharing agreement among our primary subsidiaries resulting in a modest effect on net cash flows at the holding company. Also excluded from this analysis is the modest amount of investment income on short-term investments of the holding company.

Subsidiaries' Statutory Reserving and Surplus

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

Financing Activities

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

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

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

	For the Six Months Ended June 30, 2013					
	Beginning Balance	Issuance	Maturities, Repayments and Refinancing	Change in Fair Value Hedges	Other Changes [(1)]	Ending Balance
Short-Term Debt						
Current maturities of long-term debt [(2)]	$ 200	$ -	$ (200)	$ -	$ 506	$ 506
Long-Term Debt						
Senior notes	$ 3,978	$ -	$ -	$ (129)	$ (510)	$ 3,339
Bank borrowing [(3)]	-	-	250	-	-	250
Federal Home Loan Bank of Indianapolis advance	250	-	-	-	-	250
Capital securities	1,211	-	-	-	-	1,211
Total long-term debt	$ 5,439	$ -	$ 250	$ (129)	$ (510)	$ 5,050

(1) Includes non-cash reclassification of long-term debt to current maturities of long-term debt, accretion of discounts and (amortization) of premiums, as applicable.
(2) As of June 30, 2013, consisted of a $300 million 4.75% fixed rate senior note maturing on January 30, 2014, and a $200 million 4.75% fixed rate senior note maturing on February 15, 2014. We expect to pre-fund up to $350 million of the maturing debt prior to the end of 2013.
(3) On June 6, 2013, we refinanced a $200 million floating rate loan that was scheduled to mature on July 18, 2013, into a $250 million floating rate loan maturing on June 6, 2018.

The specific resources or combination of resources that we will use to meet the maturities mentioned above will depend upon, among other things, the financial market conditions present at the time of maturity. As of June 30, 2013, the holding company had available liquidity of $693 million. Available liquidity consists of cash and cash equivalents, excluding cash held as collateral, investments maturing in one year or less at origination and receivables under the inter-company cash management program, less payables under the inter-company cash management program, payables from purchases of securities not settled as of the balance sheet date and commercial paper outstanding.

Effective as of May 29, 2013, we entered into a credit agreement with a syndicate of banks. This agreement (the "credit facility") allows for the issuance of LOCs of up to $2.5 billion and borrowing of up to $2.5 billion, $1.75 billion of which is available only to reimburse the banks for drawn LOCs. The credit facility is unsecured and has a commitment termination date of May 29, 2018. The LOCs support inter-company reinsurance transactions and specific treaties associated with our business sold through reinsurance. LOCs are used primarily to satisfy the U.S. regulatory requirements of our domestic insurance companies for which reserve credit is provided by our affiliated reinsurance companies, as discussed above in "Results of Life Insurance – Income (Loss) from Operations – Strategies to Address Statutory Reserve Strain," and our domestic clients of the business sold through reinsurance.

The credit facility contains or includes:

- Customary terms and conditions, including covenants restricting our ability to incur liens, merge or consolidate with another entity where we are not the surviving entity and dispose of all or substantially all of our assets;
- Financial covenants including maintenance of a minimum consolidated net worth (as defined in the facility) equal to the sum of $9.4 billion plus fifty percent (50%) of the aggregate net proceeds of equity issuances received by us in accordance with the terms of the credit facility; and a debt-to-capital ratio as defined in accordance with the credit facility not to exceed 0.35 to 1.00; and
- Customary events of default, subject to certain materiality thresholds and grace periods for certain of those events of default.

Upon an event of default, the credit facility provides that, among other things, the commitments may be terminated and the loans then outstanding may be declared due and payable. As of June 30, 2013, we were in compliance with all such covenants.

This credit facility replaced our previous four-year credit facility dated as of June 10, 2011, that was scheduled to expire on June 10, 2015.

For more information about our short-term and long-term debt and our credit facilities and LOCs, see Note 12 in our 2012 Form 10-K.

We have not accounted for repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets as sales and do not have any other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets. For information about our collateralized financing transactions on our investments, see "Payables for Collateral on Investments" in Note 4.

If current credit ratings and claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event should the long-term senior debt ratings of LNC drop below BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa1

(S&P/Moody's) as of June 30, 2013. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. During the second quarter of 2013, Moody's upgraded the financial strength ratings of our principal insurance subsidiaries from A2 to A1. See "Part I – Item 1A. Risk Factors – Liquidity and Capital Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings" and "Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors" in our 2012 Form 10-K for more information. See "Part I – Item 1. Business – Financial Strength Ratings" in our 2012 Form 10-K for additional information on our financial strength ratings.

See "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities" in our 2012 Form 10-K for information on our credit ratings.

Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is essentially a series of demand loans among LNC and its affiliates that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. The holding company had an outstanding payable of $54 million to certain subsidiaries resulting from amounts placed by the subsidiaries in the inter-company cash management account in excess of funds borrowed by those subsidiaries as of June 30, 2013. Any change in holding company cash management program balances is offset by the immediate and equal change in holding company cash and cash equivalents. Loans under the cash management program are permitted under applicable insurance laws subject to certain restrictions. For our Indiana-domiciled insurance subsidiaries, the borrowing and lending limit is currently 3% of the insurance company's admitted assets as of its most recent year end. For our New York-domiciled insurance subsidiary, it may borrow from LNC less than 2% of its admitted assets as of the last year end but may not lend any amounts to LNC.

Our insurance subsidiaries, by virtue of their general account fixed income investment holdings, can access liquidity through securities lending programs and repurchase agreements. As of June 30, 2013, our insurance subsidiaries had investments with a carrying value of $2.8 billion out on loan or subject to reverse-repurchase agreements. The cash received in our securities lending programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 4.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2012 Form 10-K.

Divestitures

For a discussion of our divestitures, see Note 3 in our 2012 Form 10-K.

Uses of Capital

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

Return of Capital to Common Stockholders

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

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Common dividends to stockholders	$ 32	$ 23	39%	$ 65	$ 46	41%
Repurchase of common stock	150	150	0%	250	300	-17%
Total cash returned to stockholders	$ 182	$ 173	5%	$ 315	$ 346	-9%
Number of shares repurchased	4.324	6.474	-33%	7.696	12.492	-38%
Average price per share	$ 34.71	$ 23.19	50%	$ 32.50	$ 24.04	35%

On November 8, 2012, our Board of Directors approved an increase of the quarterly dividend on our common stock from $0.08 to $0.12 per share. Additionally, we expect to repurchase additional shares of common stock during the remainder of 2013 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see "Part II – Item 2(c)" below.

Other Uses of Capital

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Change	2013	2012	Change
Debt service (interest paid)	$ 77	$ 77	0%	$ 137	$ 140	-2%

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

Significant Trends in Sources and Uses of Cash Flow

As stated above, LNC's cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries' RBC and statutory earnings performance. We currently expect to be able to meet the holding company's ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience another period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries' statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries' dividends to the holding company, which may lead us to take steps to preserve or raise additional capital. For factors that could affect our expectations for liquidity and capital, see "Part I – Item 1A. Risk Factors" in our 2012 Form 10-K.

OTHER MATTERS

Other Factors Affecting Our Business

In general, our businesses are subject to a changing social, economic, legal, legislative and regulatory environment. Some of the changes include initiatives to require more reserves to be carried by our insurance subsidiaries. Although the eventual effect on us of the changing environment in which we operate remains uncertain, these factors and others could have a material effect on our results of operations, liquidity and capital resources. For factors that could cause actual results to differ materially from those set forth in this section, see "Part I – Item 1A. Risk Factors" in our 2012 Form 10-K and "Forward-Looking Statements – Cautionary Language" above.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that takes diversification into account. By aggregating the potential effect of market and other risks on the entire enterprise, we estimate, review and in some cases manage the risk to our earnings and shareholder value. We have exposures to

87

several market risks including interest rate risk, equity market risk, default risk, credit related derivatives risk, credit risk and, to a lesser extent, foreign currency exchange risk. The exposures of financial instruments to market risks, and the related risk management processes, are most important to our business where most of the invested assets support accumulation and investment-oriented insurance products. As an important element of our integrated asset-liability management processes, we use derivatives to minimize the effects of changes in interest levels, the shape of the yield curve, currency movements and volatility. In this context, derivatives are designated as a hedge and serve to minimize interest rate risk by mitigating the effect of significant increases in interest rates on our earnings. Additional market exposures exist in our other general account insurance products and in our debt structure and derivatives positions. Our primary sources of market risk are: substantial, relatively rapid and sustained increases or decreases in interest rates or a sharp drop in equity market values. These market risks are discussed in detail in the following pages and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Item 1. Financial Statements," as well as "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A").

Interest Rate Risk

Interest Rate Risk on Fixed Insurance Businesses

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

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

If we were to assume a hypothetical stress scenario where the 10-year U.S. Treasury rate remains at 250 basis points through the end of 2014, the impact relative to 2013 would result in an approximate unfavorable earnings effect of $35 million in 2014. The earnings drag from this scenario related to the effect of continued low new money rates is largely concentrated in our Life Insurance and Retirement Plan Services segments.

The estimates above are based upon hypothetical scenarios and are only representative of the effects of assumptions around rates through 2014 keeping all else equal and does not give consideration to the aggregate effect of other factors, including but not limited to: contract holder activity; sales; hedge positions; changing equity markets; shifts in implied volatilities; and changes in other capital market sectors as well as actions we might take to mitigate the effect of the low rate environment. In addition, the scenarios only illustrated the effect to spreads and certain unlocking and reserve changes. Other potential effects of the scenarios were not considered in the analysis. See "Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals" in our 2012 Form 10-K for additional information on interest rates.

The following provides detail on the percentage differences between the June 30, 2013, interest rates being credited to contract holders based on the second quarter of 2013 declared rates and the respective minimum guaranteed policy rate (in millions), broken out by contract holder account values reported within our segments:

	Account Values				
	Annuities	Retirement Plan Services	Life Insurance [1]	Total	% Account Values
Excess of Crediting Rates over Contract Minimums					
Discretionary rate setting products: [2]					
Occurring within the next twelve months: [3]					
No difference	$ 8,703	$ 9,991	$ 30,448	$ 49,142	71.9%
Up to 0.50%	2,482	451	377	3,310	4.8%
0.51% to 1.00%	679	137	128	944	1.4%
1.01% to 1.50%	431	15	-	446	0.7%
1.51% to 2.00%	342	-	282	624	0.9%
2.01% to 2.50%	111	-	-	111	0.2%
2.51% to 3.00%	159	-	-	159	0.2%
Occurring after the next twelve months [4]	6,779	-	-	6,779	9.9%
Total discretionary rate setting products	19,686	10,594	31,235	61,515	90.0%
Other contracts [5]	2,439	4,441	-	6,880	10.0%
Total account values	$ 22,125	$ 15,035	$ 31,235	$ 68,395	100.0%
Percentage of discretionary rate setting product account values at minimum guaranteed rates	44.2%	94.3%	97.5%	79.9%	

(1) Excludes policy loans.

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

(3) The average crediting rates were 26 basis points, 3 basis points and 3 basis points in excess of average minimum guaranteed rates for our Annuities, Retirement Plan Services and Life Insurance segments, respectively.

(4) The average crediting rates were 151 basis points in excess of average minimum guaranteed rates. Of our account values for these products, 11% are scheduled to reset in more than one year but not more than two years; 22% are scheduled to reset in more than two years but not more than three years; and 67% are scheduled to reset in more than three years.

(5) For Annuities, this amount relates primarily to immediate annuity and short-term dollar cost averaging business. For Retirement Plan Services, this amount relates to indexed-based rate setting products in which the average crediting rates were 2 basis points in excess of average minimum guaranteed rates, and 97% of account values were already at their minimum guaranteed rates.

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

Derivatives

See Note 5 for information on our derivatives used to hedge our exposure to changes in interest rates.

Equity Market Risk

Our revenues, assets, liabilities and derivatives are exposed to equity market risk. Due to the use of our reversion to the mean (“RTM”) process and our hedging strategies, we expect that, in general, short-term fluctuations in the equity markets should not have a significant effect on our quarterly earnings from unlocking of assumptions for deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads. However, earnings are affected by equity market movements on account values and assets under management and the related fees we earn on those assets. Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” in our 2012 Form 10-K for further discussion of the effects of equity markets on our RTM.

Effect of Equity Market Sensitivity

If the level of the Standard & Poor's ("S&P") 500 Index® ("S&P 500") were to instantaneously increase or decrease by 1% immediately after June 30, 2013, we estimate the effect on income (loss) from operations (in millions) for the next 12 month period from the change in asset-based fees and related expenses would be approximately $7 million. For purposes of this sensitivity, we used the S&P 500 as a proxy for equity market performance. This estimate excludes any effect related to sales, unlocking, persistency, hedge program performance or customer behavior caused by the equity market change.

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

Credit-Related Derivatives

We use credit-related derivatives to minimize our exposure to credit-related events and we also sell credit default swaps to offer credit protection to our contract holders and investors. See Note 5 for additional information.

Credit Risk

See Note 5 for information on our credit risk.

In addition to the information provided about our counterparty exposure in Note 5, the fair value of our exposure by rating (in millions) was as follows:

	As of June 30, 2013	As of December 31, 2012
AA	$ 3	$ 1
A	102	14
Total	$ 105	$ 15

Item 4. Controls and Procedures

Conclusions Regarding Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period required by this report, we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us and our consolidated subsidiaries required to be disclosed in our periodic reports under the Exchange Act.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

A control system, no matter how well designed and operated, can provide only reasonable assurance that the control system's objectives will be met. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Note 8 to the consolidated financial statements in "Part I – Item 1."

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table summarizes purchases of equity securities by the issuer during the quarter ended June 30, 2013 (dollars in millions, except per share data):

Period	(a) Total Number of Shares (or Units) Purchased [1]	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [2]	(d) Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [2][3]
4/1/13 - 4/30/13	691	$ 30.80	-	$ 708
5/1/13 - 5/31/13	4,332,612	34.71	4,323,846	558
6/1/13 - 6/30/13	1,516	34.77	-	558

[1] Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes and 10,973 shares were withheld for taxes on the vesting of restricted stock units. For the quarter ended June 30, 2013, there were 4,323,846 shares purchased as part of publicly announced plans or programs.

(2) On August 8, 2012, our Board authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to $1.0 billion. As of June 30, 2013, our remaining security repurchase authorization was $558 million. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. The shares repurchased in connection with the awards described in Note 19 to the consolidated financial statements of our 2012 Form 10-K are not included in our security repurchase.

(3) As of the last day of the applicable month.

Item 6. Exhibits

The Exhibits included in this report are listed in the Exhibit Index beginning on page E-1, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN NATIONAL CORPORATION

By:	/s/ RANDAL J. FREITAG
	Randal J. Freitag
	Executive Vice President and Chief Financial Officer
By:	/s/ DOUGLAS N. MILLER
	Douglas N. Miller
	Senior Vice President and Chief Accounting Officer

Dated: August 1, 2013

92

LINCOLN NATIONAL CORPORATION

Exhibit Index for the Report on Form 10-Q

For the Quarter Ended June 30, 2013

3.1	Restated Articles of Incorporation of LNC are incorporated by reference to Exhibit 3.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on July 8, 2013.
3.2	Amended and Restated Bylaws of LNC (effective May 23, 2013) are filed herewith.
10.1	Credit Agreement, dated as of May 29, 2013, among Lincoln National Corporation, as an Account Party and Guarantor, the Subsidiary Account Parties, as additional Account Parties, JPMorgan Chase Bank, N.A. as administrative agent, and the other lenders named therein is incorporated by reference to Exhibit 10.1 to LNC's Form 8-K (File No. 1-6028) filed with the SEC on May 29, 2013.
12	Historical Ratio of Earnings to Fixed Charges.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.