STATE OF INDIANA) BEFORE THE INDIANA
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:

The Lincoln National Life Insurance Company
1300 South Clinton Street
Fort Wayne, Indiana 46802

Examination of: The Lincoln National Life Insurance Company

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of The Lincoln National Life Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on March 24, 2014, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of The Lincoln National Life Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 5, 2014
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0033 4242 44

STATE OF INDIANA	)	BEFORE THE INDIANA
	) SS:	
COUNTY OF MARION	)	COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
The Lincoln National Life Insurance Company)
1300 South Clinton Street)
Fort Wayne, Indiana)

Examination of: The Lincoln National Life Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the The Lincoln National Life Insurance Company (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on March 3, 2014.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on March 24, 2014 and was received by the Company on March 28, 2014.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS:**

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the The Lincoln National Life Insurance Company as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the The Lincoln National Life Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.

2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.

3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 5 day of June, 2014.

Stephen W. Robertson
Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

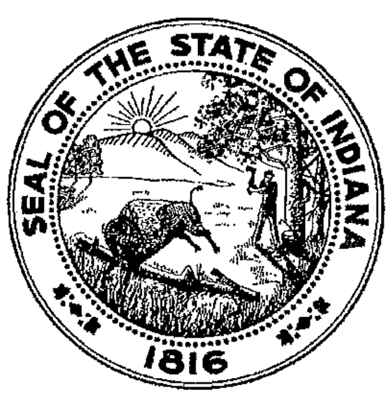
OF

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

NAIC CO. CODE 65676
NAIC GROUP CODE 0020

As of

December 31, 2012



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STATE OF INDIANA IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787
Telephone: (317) 232-2385
Fax: (317) 232-5251
Stephen W. Robertson, Commissioner

March 6, 2014

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3730, an examination has been made of the affairs and financial condition of:

The Lincoln National Life Insurance Company
1300 South Clinton Street
Fort Wayne, Indiana 46802

hereinafter referred to as the "Company", or "LNL", an Indiana domestic, stock, life and annuity insurance company. The examination was conducted at the corporate offices of Lincoln Financial Group in Fort Wayne, Indiana, and Greensboro, North Carolina.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2007. The present risk-focused examination was conducted by Noble Consulting Services, Inc., (Noble) and covered the period from January 1, 2008 through December 31, 2012, and included any material transactions and/or events occurring subsequent to the examination dated and noted during the course of this examination.

Noble conducted the examination in accordance with the NAIC *Financial Conditions Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial conditions and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions, when applicable to domestic state regulations.

The examination of the Indiana domestic insurance companies of Lincoln Financial Group (LFG) was called by the INDOI in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking Systems. The INDOI served as the lead state on the examination; the New York Department of Financial Services, the South Carolina Department of Insurance, and the Vermont Department of Financial Regulation served as participants.

Jeffrey Beckley, FSA, MAAA, of Actuarial Options, LLC., was appointed by the INDOI and conducted a review of the Company's statutory reserves as of December 31, 2012. There were no actuarial adjustments resulting from the review performed by Actuarial Options, LLC.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was incorporated June 12, 1905, and commenced business on September 1, 1905. The Company is a wholly owned subsidiary of Lincoln National Corporation (LNC), which operates multiple insurance and investment management businesses through subsidiary companies. LNC is a publicly traded holding company domiciled in the state of Indiana, and maintains its principal executive offices in Radnor, Pennsylvania. Principal operating sites are located in Fort Wayne, Indiana, and Greensboro, North Carolina, with additional operations in Omaha, Nebraska, and Concord, New Hampshire.

First Penn-Pacific Life Insurance Company (FPP) and Lincoln Life & Annuity Company of New York (LLANY) are insurance affiliates of the Company and all are marketed together as LFG. LFG operates multiple insurance and retirement businesses as well as being a leading innovative life and annuity product developer. LFG ranks among the industry's leading writers of ordinary life insurance with focus on term, universal life insurance (UL), variable universal life insurance (VUL), and is active in the retirement savings sector as a leading provider of both qualified and non-qualified fixed and variable annuities. The Company and LLANY are currently the main writing companies.

On April 3, 2006, LNC completed its merger with Jefferson-Pilot Corporation (JP Corp), the parent of Jefferson Pilot Financial Insurance Company (JPFIC) and Jefferson-Pilot Life Insurance Company (JPL). JP Corp was merged into LNC, with LNC being the surviving entity. JPFIC and JPL were merged into the Company, with the Company being the surviving entity. To avoid a concentration of risk under federal banking regulations, it was determined that LNL would dividend the ownership of FPP back to LNC. All outstanding shares of FPP were owned by LNC during the current examinations period.

CAPITAL AND SURPLUS

LNC owned 100% of the Company's issued and outstanding stock during the examination period. The Company has 10,000,000 authorized shares of common stock with a par value of $2.50 per share. All 10,000,000 shares were issued and outstanding throughout the examination period.

As of December 31, 2012, the Company had three (3) surplus debentures or similar items issued and outstanding. The three (3) notes have a total par value of $1.3 billion and interest rates ranging from 6.03% to 9.76%. Any payment of interest and repayment of principal may be paid only out of the Company's earnings, subject to approval by the INDOI. During the exam period, no principal repayments were made and $414.5 million was paid in interest.

DIVIDENDS TO SHAREHOLDER

The Company paid the following dividends to LNC during the examination period:

Year	Total	Ordinary Dividends	Extraordinary Dividends
2012	$ 605,000,000	$ 55,000,000	$ 550,000,000
2011	800,000,000	-	800,000,000
2010	684,000,000	684,000,000	-
2009	405,000,000	405,000,000	-
2008	400,000,000	200,000,000	200,000,000
Total	$2,894,000,000	$1,344,000,000	$1,550,000,000

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net gain from operations of the prior year. The Company paid eight (8) quarterly extraordinary dividends during the examination period with the prior approval of the INDOI. Other dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

TERRITORY AND PLAN OF OPERATION

LFG is a national leading provider of the life insurance products, as well as, a national leader in both the individual and employer-sponsored annuity markets. Through its business segments, LFG sells a wide range of wealth accumulation, protection, and retirement income products and solutions, including institutional and/or retail fixed and indexed annuities, mutual funds, managed accounts, term life insurance, UL, variable annuities, and VUL. During the examination period, LFG reported operating results through Insurance Solutions, which includes the Life Insurance (excluding Executive Benefits) and Group Protection, and Retirement Solutions, which includes Annuities and Retirement Plan Services.

The Company is licensed to write business in all states, except New York, as well as the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands, with its primary markets being California, Florida, Indiana, North Carolina, Pennsylvania, and Texas. LNL's primary line of business is separate account annuities.

Insurance Solutions – Life Insurance
The Life Insurance segment offers wealth protection and transfer opportunities through term insurance, a linked-benefit product (which is a UL policy linked with riders that provide for long-term care costs), indexed UL, and both single, including company-owned life insurance (COLI) and bank-owned life insurance (BOLI), and survivorship versions of UL and VUL products.

Insurance Solutions – Group Protection
The Group Protection segment offers group non-medical insurance products, principally dental, disability, and term life, to the employer marketplace through various forms of contributory and noncontributory plans. Most of the products are sold to employers with fewer than 500 employees. This segment also provides group accident, group critical illness, and group medical coverages.

Retirement Solutions – Annuities
The Annuities segment provides tax-deferred investment growth and lifetime income opportunities for its clients by offering fixed and variable annuities. The "fixed" and "variable" classifications describe whether LFG or the policyholders bear the investment risk of the assets supporting the contract. This also determines the manner in which LFG earns investment margin profits from these products, either as investment spreads for fixed products or as asset-based fees charged to variable products.

Retirement Solutions – Retirement Plan Services
The Retirement Plan Services segment provides employers with retirement plan products and services, primarily in the defined contribution plan (DCP) marketplace. In addition to serving defined benefit plan and individual retirement account markets, the segment offers a variety of plan investment vehicles, including group fixed annuities, individual and group variable annuities, and mutual fund-based programs. Other plan services are offered, such as compliance testing, education, and recordkeeping for plan participants.

Distribution Channel
Lincoln Financial Distributors (LFD) and Lincoln Financial Network (LFN) are wholesale and retail distributors, respectively. LFD distributes BOLI UL and VUL, COLI UL and VUL, DCP, and individual products and services. LFD utilizes agents, brokers, consultants, financial advisors, planners, third-party administrators, and other intermediaries. As of December 31, 2012, LFD had approximately 500 internal and external wholesalers. As of December 31, 2012, LFN offered LFG products and non-proprietary products and advisory services through a national network of approximately 8,300 active producers.

During October 2012, LFG announced a realignment of its distribution organization. Under the new structure, LFN and LFD will remain separate and distinct businesses, but will operate under one (1) organizational unit, Lincoln Financial Group Distribution.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus	Premiums and Annuity Considerations	Net Income
2012	$180,025,470,878	$173,625,890,034	$6,399,580,844	$18,518,169,113	$602,803,508
2011	165,221,598,104	158,466,816,214	6,754,781,890	18,316,858,347	207,003,758
2010	158,433,198,169	151,967,630,703	6,465,567,466	18,052,689,164	497,188,207
2009	143,345,609,264	137,100,545,426	6,245,063,838	16,101,550,664	(116,194,807)
2008	119,849,816,757	115,264,381,572	4,585,435,185	18,432,091,460	(144,792,789)

Assets have increased throughout the examination period, related to higher invested assets, primarily bonds, as well as positive market appreciation in the variable annuity products due to the improved equity markets.

Liabilities have also increased throughout the examination period, primarily due to growth in individual life and annuity business and an increase in separate account liabilities which correspond to the increase in separate accounts.

The increase in surplus between 2008 and 2009 was due to a $1.0 billion cash contribution from LNC. In addition, the Company entered into a Quota Share Coinsurance Agreement with Commonwealth Annuity and Life Insurance Company (Commonwealth). The Company recognized a deferred gain of $155.0 million as a result of this transaction which favorably impacted surplus.

Premium income fluctuated throughout the examination period. The decrease from 2008 to 2009 was due to a decline in annuity premiums. Annuity premiums for 2009 decreased due to a decline in sales of individual variable annuity products with Guaranteed Minimum Death Benefits (GMDBs) and Guaranteed Minimum Withdrawal Benefits (GMWBs). This decrease was primarily driven by the economic downturn combined with the volatility in the equity markets in late 2008 and into most of 2009. Net individual life premiums decreased due to higher ceded premiums related to the Quota Share Coinsurance Agreement with Commonwealth. Conversely, premium income increased from between 2009 and 2010 due to an increase in annuity premiums, particularly an increase in sales of individual variable annuity products with GMDBs and GMWBs. This increase was driven by the economic upturn in the equity markets in 2010. Net individual life premiums increased due to lower ceded premiums related to the Quota Share Coinsurance Agreement with Commonwealth and an increase in UL and VUL business. Both life premiums and annuity considerations grew slightly in 2011 and 2012.

Net income fluctuated throughout the examination period. The reason for the fluctuation varies from year to year based on increase or decrease in net gain from operations. The increase from 2008 to 2009 was due to favorable reserve impacts in the variable annuity line of business offset by an increase in federal income tax expense. In 2010, the Company reported net income of $497.2 million compared to a $116.2 million net loss in 2009. Net income from operations decreased in 2010, due to less favorable reserve impacts in the variable annuities related to changes in the equity markets, increased loss ratios in the group accidents and health lines of business, and unfavorable reserve development in the UL and VUL lines of business.

Net income as well as net income from operations decreased in 2011, due to an increase in income tax expense over the prior year, which is due to a decline in favorable prior year tax true-ups and tax credits and reclassification of tax credits from current to deferred which increased current income tax expense. Net income increased from 2011 to 2012, due to an increase in income tax benefit over prior year, which was due to favorable income adjustments and tax credits.

MANAGEMENT AND CONTROL

Directors

The Bylaws state that the business affairs of the Company are to be managed by a Board of Directors consisting of no less than five (5) or more than sixteen (16) persons. At least one (1) of the directors must be a resident of Indiana. The shareholder, at the annual meeting, elects the members of the Board of Directors.

The following is a listing of persons serving as directors for the Company and their principal occupations as of December 31, 2012:

Names and Address	**Principal Occupation**
Ellen G. Cooper Maplewood, New Jersey	Executive Vice President and Chief Investment Officer Lincoln Financial Group
Charles C. Cornelio Greensboro, North Carolina	President, Retirement Plan Services Lincoln Financial Group
Randal J. Freitag Devon, Pennsylvania	Executive Vice President and Chief Financial Officer Lincoln Financial Group
Dennis R. Glass Bryn Mawr, Pennsylvania	President and Chief Executive Officer Lincoln Financial Group
Mark E. Konen Villanova, Pennsylvania	President, Insurance and Retirement Solutions Lincoln Financial Group
Keith J. Ryan Fort Wayne, Indiana	Vice President Lincoln Financial Group

Officers

The Company's Bylaws state the officers of the Company, who shall be chosen by the Board of Directors, shall consist of a President, a Secretary, and a Treasurer, and may also include a Chairman of the Board, a Chief Operating Officer, a Chief Financial Officer, one (1) or more Vice Presidents of a class or classes, and such other officers as determined by the Board of Directors. The Chairman of the Board and the President shall be chosen from among the directors. The same person may hold any two (2) or more offices, except the offices of President and Secretary may not be held by the same person.

The following is a list of the officers and their respective titles as of December 31, 2012:

Name	**Office**
Dennis R. Glass	President and Chief Executive Officer
Charles A. Brawley III	Secretary
Jeffrey D. Coutts	Treasurer
Richard M. Klenk	Appointed Actuary
Ellen G. Cooper	Executive Vice President and Chief Investment Officer
Charles C. Cornelio	Executive Vice President and Chief Accounting Officer
Robert W. Dineen	Executive Vice President
Randal J. Freitag	Executive Vice President and Chief Financial Officer
Wilford H. Fuller	Executive Vice President
Mark E. Konen	Executive Vice President

Corporate Governance

The corporate governance was evaluated through a review of the Company's corporate governance procedures, Executive Officer and Board of Director member interviews, Board of Director general meeting minutes, LNC committee minutes, and other examination documentation obtained from the INDOI in its coordinated examination of the Company's affiliates. The Corporate Governance review followed the format provided by Exhibit M of the Handbook.

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. The directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their Conflict of Interest statements as of December 31, 2012.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director listed in the Management and Control section of this Report of Examination have subscribed to an Oath of Office statement in 2012.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board of Directors' and Shareholder's meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7 (b) states an annual meeting of Shareholders, Members, or Policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws specify the annual meeting of shareholders is to be held the fourth Wednesday of April or such other date within five (5) months after the close of the fiscal year of the Company. For each year under review, the annual meeting was within five (5) months following the close of each fiscal year.

The LNC committee meeting minutes for the examination period, and through the field work date, were reviewed for the following committees: ALM & Equity Risk Management, Audit Committee, Compensation Committee, Corporate Governance Committee, Disclosure Committee, Enterprise Risk & Capital Committee, Finance Committee, and Investment Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the insurance company subsidiaries of LNC:

	NAIC Co. Code	Domiciliary State
Lincoln National Corporation		IN
The Lincoln National Life Insurance Company	**65676**	**IN**
Lincoln Life & Annuity Company of New York	62057	NY
Lincoln Reinsurance Company of South Carolina	13028	SC
Lincoln Reinsurance Company of Vermont I	13693	VT
Lincoln Reinsurance Company of Vermont II	13920	VT
Lincoln Reinsurance Company of Vermont III	14116	VT
Lincoln Reinsurance Company of Vermont IV	14147	VT
First Penn-Pacific Life Insurance Company	**67652**	**IN**

Affiliated Agreements

The following is a summary of the Company's financially significant affiliated agreements and transactions that were disclosed as part of the Form B – Holding Company Registration Statement and were filed as required with the INDOI in accordance with IC 27-1-23-4 and IC 27-6-1.1-5.

Short-Term Cash Management Agreement
As amended and restated effective January 6, 2012, the Company is party to a Short-Term Cash Management Agreement with LNC, whereby the Company provides short-term demand loans to LNC, or from LNC to the Company, in exchange for receiving the taxable money market rate of interest. Pursuant to this agreement, the Company had loaned LNC amounts totaling $732,347,420 as of December 31, 2012.

Services Agreements
Effective April 3, 2006, the Company entered into a Master Services Agreement with LNC, FPP, and other affiliates under which each company provides specific services and facilities for the benefit/use of the other affiliated companies. Assigned costs determined in accordance with customary insurance accounting practices are reimbursed monthly. Pursuant to this agreement, the Company's net expenses were $23,893,651 in 2012.

Effective May 1, 2007, the Company entered into a Master Services Agreement with FPP and LLANY whereby the Company and FPP provide services to LLANY with respect to LLANY's term business and also provide certain equipment, facilities, and property to LLANY. Services are provided at cost and are determined quarterly by the Company and FPP before being approved by LLANY. Intercompany settlement is required within 30 days. Pursuant to this agreement, the Company's net receipts were $64,061,818 in 2012.

Effective January 1, 2009, the Company and FPP entered into a Service Agreement with Lincoln Financial Securities Corporation (LFSC) whereby the Company, FPP, and other affiliates provide certain services on behalf of LFSC. Allocation of expenses shall be on a reasonable basis. Pursuant to this agreement, the Company received $21,834,127 in 2012.

Effective January 1, 2012, the Company entered into an Investment Advisory Agreement with Lincoln Investment Management Company (LIMC). Pursuant to the terms of the agreement, the Company has delegated investment management responsibility to LIMC for funds in designated accounts. Fees for this service are expressed in terms of basis points representing an annual rate of the month-end net assets managed by LIMC. Pursuant to this agreement, the Company paid $83,018,115 to LIMC in 2012.

Effective December 7, 2012, the Company entered into an Investment Advisory Agreement with Lincoln Investment Advisors Corporation (LIAC), a direct subsidiary of the Company. Pursuant to the terms of the agreement, LIAC provides specified investment advisory services to the Company for designated accounts. Fees for this service are expressed in terms of basis points representing an annual rate of the month-end net assets managed by LIAC. Pursuant to this agreement, the Company paid $1,671,519 to LAIC in 2012.

Effective October 1, 2007, the Company entered into an Administrative Services Agreement with Lincoln Reinsurance Company of South Carolina (LRCSC) in which the Company provides services to LRCSC, however, LRCSC did not pay any fees to the Company during 2012.

Tax Sharing Agreement
Effective January 1, 1996, and amended September 15, 2010, the Company entered into a Consolidated Tax Sharing Agreement with LNC. The amendment includes any of the Company's subsidiary companies, including the insurance subsidiaries, such that they are part of the Consolidated Tax Sharing Agreement. Prior to the current examination, FPP entered into a similar Tax Sharing Agreement with LNC, such that the end results have all of the Companies file a consolidated federal tax return with LNC. Pursuant to the Consolidated Tax Sharing Agreement with LNC, the Companies provide for income taxes on a separate return filing basis. The Consolidated Tax Sharing Agreement also provides that the Companies will receive benefits for net operating losses, capital losses, and tax credits, which are not usable on a separate return basis to the extent such items may be utilized in the consolidated income tax returns of LNC. In 2012, the Company paid $46,742,040 under the Consolidated Tax Sharing Agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from fraudulent or dishonest acts by its employees through a fidelity bond issued by Federal Insurance Company. The bond had blanket coverage of $50,000,000 with a $1,000,000 deductible. The bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2012, including but not limited to, commercial auto liability, commercial general liability, directors' and officers' liability, employment practices liability, professional liability, and workers' compensation liability.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

All eligible employees of the Company may participate in the 401(k) plan sponsored by LNC. The Company's share of expenses for the employer's portion of the 401(K) plan was $56.7 million for 2012. LNC also sponsors contributory deferred compensation plans for certain employees. The Company's share of expenses related to these deferred compensation plans was $16.0 million for 2012.

Employees of the Company participate in a non-contributory defined benefit pension plan sponsored by LNC. The Company's share of expense for the employees' defined benefit plan was $30.7 million for 2012. In addition, LNC also provides certain other post-retirement benefits to retired employees as well as defined contribution and deferred compensation plans to employees sponsored by LNC. The Company has no legal obligation for benefits under these plans. LNC allocates expenses for these plans to its affiliates based on the benefit obligation determined on each employee-retiree within an affiliate. The Company's share of expenses for the employees' other benefits pension plan was $3.4 million for 2012.

STATUTORY DEPOSITS

State	Book Value	Fair Value
For All Policyholders:		
Indiana	$ 3,585,558	$ 4,041,560
All Other Special Deposits:		
Arkansas	284,559	414,468
California	27,455,733	39,422,700
Georgia	94,853	138,156
Massachusetts	4,074,823	5,005,800
New Hampshire	509,432	753,905
New Mexico	322,500	469,730
North Carolina	426,839	621,702
Virginia	543,550	603,585
Total Deposits	$ 37,297,847	$ 51,471,606

REINSURANCE

Assumed Reinsurance

Since 2001, following a strategic decision to exit the underwriting of assumed reinsurance business, the Company has not actively marketed life reinsurance. In 2012, the Company reported total assumed premiums and reserves of $1.3 billion and $9.3 billion, respectively. These balances were derived from three (3) significant closed blocks of business, each of which is discussed in more detail below.

In 2002, the Company sold the majority of its assumed reinsurance operations, including related third-party retrocessions, to Swiss Re through a series of indemnity reinsurance transactions. Upon conclusion of the sale, although the Company remains contractually liable, Swiss Re assumes the full net risk and all responsibility for product administration functions.

As this transaction was accomplished through a series of indemnity reinsurance agreements, the Company continues to record assumed and ceded reinsurance transactions on their books each quarter with offsetting entries such that the net impact of the transaction results in no current period income or surplus impact to the Company. During 2012, these transactions accounted for assumed life and accident and health premiums totaling $1.3 billion (82%) and assumed reserves totaling $3.8 billion (40%) of LNL's total assumed business activity.

The second significant block of assumed reinsurance relates to a 1998 acquisition of a large block of life and accident and health insurance business from CIGNA. Currently this block of business accounts for $18 million of assumed premiums (1%) and $3.8 billion of reserve credits (40%) of total assumed premiums and reserves respectively. As part of this transaction, the Company assumed all administrative responsibilities for this business and operationally processes ongoing activity in substantially the same manner as comparable direct written business of the Company.

The third financially significant block of assumed business involves an agreement with an affiliate, FPP, covering a portfolio of BOLI. Although this block of business generated only minimal premium income in 2012, it accounted for $383 million (4%) in assumed reserves as of year-end 2012.

Ceded Reinsurance

The Company generally seeks to negotiate contract terms to protect itself from excessive risk via reinsurance arrangements placed with stable, financially responsible carriers. Ceded reinsurance transactions are generally structured along the Company's primary product lines, e.g. life, annuity, and accident and health business. Reinsurance contracts do not, however, relieve the Company from its direct obligations to policyholders and thus the failure of reinsurers to honor their obligations could result in additional losses to the Company. As such, the Company carefully evaluates the financial condition of its reinsurers and continually monitors concentrations of credit risk to mitigate potential exposure to losses arising from reinsurer insolvencies.

In 2012, the Company reported total ceded premiums and reserves of $4.0 billion and $16.7 billion, respectively. Of this $16.7 billion in ceded reserves, approximately $11.1 billion (66%) was ceded to reinsurers regarded as unauthorized by Indiana, the Company's domiciliary jurisdiction, and the Company held a combination of letters of credit, trust funds and other collateral fully offsetting these reserve credits. Of the remaining $5.6 billion in ceded reserves, $5.2 billion, representing approximately 93% of this class of ceded reserves, was ceded to reinsurers rated A- or better by A.M. Best. Of the remainder ceded to authorized insurers, all but a financially insignificant portion, although due from authorized parities, is collateralized.

The financially significant components of the Company's ceded business can be divided into three (3) primary components, each of which is discussed in more detail below.

As noted above, the Company accounts for the sale of its former assumed reinsurance business to Swiss Re through a series of indemnity reinsurance transactions. The net effect of these transactions is that 100% of the Lincoln Re assumed business is ceded to a combination of external reinsurers with the "net" remainder being ceded to Swiss Re so as to affect a net-zero sum transaction. In 2012, the business associated with the Swiss Re sale transaction accounted for ceded premiums of $1.3 billion (33%) of total ceded premiums and $3.8 billion (23%) of total ceded reserves respectively.

In addition to business ceded in connection with the Swiss Re sale transaction, the Company also cedes a portion of its life and annuity business to external reinsurers. In 2012, this reinsurance accounted for ceded premiums totaling $397 million (10% of total ceded premiums) and $1.5 billion (9% of total ceded reserves), respectively. These contracts involve reinsurance of amounts above scheduled retentions on both an excess and co-insurance basis. These cessions are widely disbursed with various external reinsurers, none of which are regarded as being individually significant to the Company's overall financial condition.

The Company utilizes reinsurance with affiliated entities as a means of lessening the surplus impact associated with the sale of many of its term life, universal life and annuity products. The Company generally cedes the reserves associated with these products to its various affiliates and maintains collateral from the affiliate to secure the ceded reserves.

This area represents the most significant growth in ceded reinsurance activity during the current examination period. Collectively, reinsurance placed with various affiliate captive reinsurers accounts for ceded premiums of $1.7 billion (44%) and ceded reserves of $7.4 billion (45%) of total ceded premium and reserve balances, respectively. As each of these affiliates are regarded as unauthorized reinsurers in Indiana, the Company is required to hold collateral consisting of a combination of funds withheld, trust funds, letters of credit, and other qualifying collateral approved by the Commissioner securing 100% of the ceded reserve credits.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2011 and 2012, were reconciled to the respective Annual Statements with no material exceptions noted. The Annual Statements for the years ended December 31, 2008 through December 31, 2012, were reconciled to each year's independent audit report with no material exceptions noted.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Assets
As of December 31, 2012

	Per Examination*
Bonds	$ 62,247,446,539
Stocks:	
Preferred stocks	204,433,855
Common stocks	2,434,874,923
Mortgage loans on real estate:	
First liens	6,329,058,513
Real estate:	
Properties occupied by the company	40,411,161
Properties held for the production of income	36,718,609
Cash, cash equivalents and short-term investments	3,590,619,121
Contract loans	2,197,191,449
Derivatives	2,514,555,978
Other invested assets	2,008,314,634
Subtotals, cash and invested assets	81,603,624,782
Investment income due and accrued	840,620,549
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	71,389,490
Deferred premiums, agents' balances and installments booked but deferred and not yet due	206,571,696
Reinsurance:	
Amounts recoverable from reinsurers	105,833,180
Funds held by or deposited with reinsured companies	31,847,804
Other amounts receivable under reinsurance contracts	384,319,896
Current federal and foreign income tax recoverable and interest thereon	108,480,817
Net deferred tax asset	718,387,900
Guaranty funds receivable or on deposit	15,507,796
Electronic data processing equipment and software	17,028,895
Receivables from parent, subsidiaries and affiliates	46,298,126
Health care and other amounts receivable	41,158,978
Aggregate write-ins for other than invested assets	873,754,709
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	85,064,824,618
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	94,960,646,260
Totals	$180,025,470,878

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Liabilities, Surplus and Other Funds
As of December 31, 2012

	Per Examination*
Aggregate reserve for life contracts	$ 64,989,234,881
Aggregate reserve for accident and health contracts	1,507,638,627
Liability for deposit-type contracts	1,262,869,084
Contract Claims:	
Life	425,118,237
Accident and health	66,703,509
Policyholders' dividends and coupons due and unpaid	421,303
Provision for policyholders' dividends and coupons payable in following calendar year - estimated amounts:	
Dividends apportioned for payment	50,040,941
Premiums and annuity considerations for life and accident and health contracts received in advance less discount	19,382,353
Contract liabilities not included elsewhere:	
Surrender values on canceled contracts	113,293
Provision for experience rating refunds, including the liability of accident and health experience rating refunds	31,565,542
Interest Maintenance Reserve (IMR)	117,922,741
Commissions to agents due or accrued-life and annuity contracts, accident and health and deposit-type contract funds	106,312,182
Commissions and expense allowances payable on reinsurance assumed	44,483,921
General expenses due or accrued	360,741,616
Transfers to Separate Accounts due or accrued (net)	(2,664,929,567)
Taxes, licenses and fees due or accrued, excluding federal income taxes	40,366,842
Unearned investment income	11,697,412
Amounts withheld or retained by company as agent or trustee	93,524,219
Amounts held for agents' account, including agents' credit balances	126,385,391
Remittances and items not allocated	320,705,402
Liability for benefits for employees and agents if not included above	283,013
Borrowed money and interest thereon	1,667,157,441
Miscellaneous liabilities:	
Asset valuation reserve (AVR)	891,926,420
Reinsurance in unauthorized and certified companies	946,366
Funds held under reinsurance treaties with unauthorized and certified reinsurers	6,367,801,820
Payable to parent, subsidiaries and affiliates	39,980,588
Funds held under coinsurance	96,901,405
Payable for securities lending	196,550,366
Aggregate write-ins for liabilities	2,493,714,945
Total liabilities excluding Separate Accounts business	78,665,560,293
From Separate Accounts Statement	94,960,329,741
Total Liabilities	173,625,890,034
Common capital stock	25,000,000
Surplus notes	1,300,000,000
Gross paid in and contributed surplus	3,280,581,224
Unassigned funds (surplus)	1,793,999,620
Surplus	6,374,580,844
Total surplus and other funds	6,399,580,844
Total liabilities, surplus and other funds	$180,025,470,878

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Summary of Operations
For the Year Ended December 31, 2012

	Per Examination*
Premiums and annuity considerations for life and accident and health contracts	$ 18,518,169,113
Considerations for supplementary contracts with life contingencies	5,702,000
Net investment income	3,855,441,027
Amortization of interest maintenance reserve (IMR)	10,278,583
Commissions and expense allowances on reinsurance ceded	360,499,428
Reserve adjustments on reinsurance ceded	(101,966,590)
Miscellaneous Income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	1,449,804,178
Aggregate write-ins for miscellaneous income	651,612,457
Total	24,749,540,196
Death benefits	1,655,044,909
Matured endowments	4,156,674
Annuity benefits	515,637,871
Disability benefits and benefits under accident and health contracts	787,098,183
Surrender benefits and withdrawals for life contracts	13,015,755,207
Group conversions	(51,149)
Interest and adjustments on contracts with life contingencies	132,967,190
Payment on supplementary contracts with life contingencies	11,670,109
Increase in aggregate reserves for life and accident and health contracts	2,555,106,909
Totals	18,677,385,903
Commissions on premiums, annuity considerations, and deposit-type contract funds	1,658,355,910
Commissions and expenses allowances on reinsurance assumed	151,391,303
General insurance expenses	1,379,005,548
Insurance taxes, licenses and fees, excluding federal income taxes	203,503,563
Increase in loading on deferred and uncollected premiums	(26,903,942)
Net transfers to or (from) Separate Accounts net of reinsurance	2,213,282,348
Aggregate write-ins for deductions	14,585,492
Totals	24,270,606,125
Net gain from operations before dividends to policyholders and federal income taxes	478,934,071
Dividends to policyholders	50,499,379
Net gain from operations after dividends to policyholders and before federal income taxes	428,434,692
Federal and foreign income taxes incurred	(214,967,160)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	643,401,852
Net realized capital gains (losses) less capital gains tax	(40,598,344)
Net income	$ 602,803,508

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Capital and Surplus Account Reconciliation

	2012	2011	2010	2009	2008
Capital and surplus, December 31, prior year	$ 6,754,781,890	$ 6,465,567,466	$ 6,245,063,838	$ 4,585,435,185	$ 4,957,875,132
Net income	602,803,508	207,003,758	497,188,207	(116,194,807)	(144,792,789)
Change in net unrealized capital gains or (losses) less capital gains tax	86,247,935	274,309,502	108,263,417	100,874,954	(309,310,335)
Change in net unrealized foreign exchange capital gain (loss)	2,512,248	962,665	(3,226,889)	(4,114,419)	(5,964,889)
Change in net deferred income tax	(119,938,969)	248,822,032	(222,851,028)	293,679,990	88,990,604
Change in nonadmitted assets	(243,888,195)	225,665,251	186,554,580	(379,835,567)	65,628
Change in liability for reinsurance in unauthorized and certified companies	(415,008)	801,048	-	211,379	19,875,484
Change in reinsurance on account of change in valuation basis, (increase) or decrease	-	52,946,824	216,298,155	(3,220,044)	53,642,867
Change in asset valuation reserve	(275,143,271)	(208,917,695)	(191,667,709)	62,335,464	472,754,963
Surplus (contributed to) withdrawn from Separate Accounts during period	161,121,845	75,856,641	112,094,861	101,058,457	(157,050,239)
Other changes in surplus in Separate Accounts Statement	(31,546,931)	2,751,440	(22,808,650)	3,744,815	46,561,768
Cumulative effect of changes in accounting principles	(1,900,449)	-	-	67,983,985	-
Surplus adjustment:					
Paid in	-	4,710,903	192,002	1,457,243,152	-
Change in surplus as a result of reinsurance	30,229,100	200,752,695	143,387,989	282,873,769	156,017,522
Dividends to stockholders	(605,000,000)	(800,000,000)	(684,000,000)	(405,000,000)	(400,000,000)
Aggregate write-ins for gains and losses in surplus	39,717,141	3,549,360	81,078,693	197,987,525	(193,230,531)
Net change in capital and surplus for the year	(355,201,046)	289,214,424	220,503,628	1,659,628,653	(372,439,947)
Capital and surplus, December 31, current year	$ 6,339,580,844	$ 6,754,781,890	$ 6,465,567,466	$ 6,245,063,838	$ 4,585,435,185

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2012, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no other significant issues as a result of this examination.

SUBSEQUENT EVENTS

Effective June 30, 2013, the Company added business written through December 2013 to Lincoln Reinsurance Company of Vermont I. The Company is party to a Reinsurance Management Agreement with Lincoln Reinsurance Company of Vermont I, whereby the Company ceded blocks of policies on a coinsurance basis with the Company maintaining a funds withheld account. Pursuant to this agreement, the premiums, less any reinsurance allowances, payable to Vermont I shall be set forth in each monthly report and shall be calculated on an annualized basis.

On June 30, 2013, the Company ceded UL/Survivorship Universal Life business issued in 2013, but on the 2012 version policy form, to Lincoln National Reinsurance Company of Barbados Limited. The Company is party to a Reinsurance Management Agreement with Lincoln National Reinsurance Company of Barbados Limited, whereby the Company ceded certain blocks of risks, provided such Policies are in force as of the Transaction Effective Date.

Effective September 30, 2013, the Company ceded a block of term life insurance business to Lincoln National Reinsurance Company of Vermont V (LRCVV) which was a newly formed captive. The business ceded was certain blocks of level premium term business written between July 1, 2010 and December 31, 2013. The reinsurance is on a 100% coinsurance and coinsurance with funds withheld basis. The Company will pay premiums to LRCVV on a monthly basis while LRCVV will pay death claims and an expense allowance to the Company on a monthly basis.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Actuarial Options, LLC., hereinafter collectively referred to as the "Examiners", performed an examination of The Lincoln National Life Insurance Company, as of December 31, 2012.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of The Lincoln National Life Insurance Company as of December 31, 2012, as determined by the undersigned.

Nadine Treon

Nadine Treon, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 6 day of March, 2014, before me personally appeared, Nadine Treon, to sign this document.

IN WITNESS WHEROF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

SAMANTHA LEIGH DOUGHERTY
Notary Public, State of Indiana
Hendricks County
Commission # 627605
My Commission Expires
July 04, 2019

My commission expires: ____________ Notary Public