

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
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**

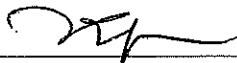
NOTICE OF ENTRY OF ORDER

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 May 31, 2019, 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 28, 2019
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4444 0557

STATE OF INDIANA) BEFORE THE INDIANA
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1300 South Clinton Street)
Fort Wayne, Indiana 46802)

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 Lincoln National Life Insurance Company (hereinafter “Company”) for the time period January 1, 2013 through December 31, 2017.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 29, 2019.

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 May 31, 2019 and was received by the Company on June 6, 2019.

The Company did not file any objections.

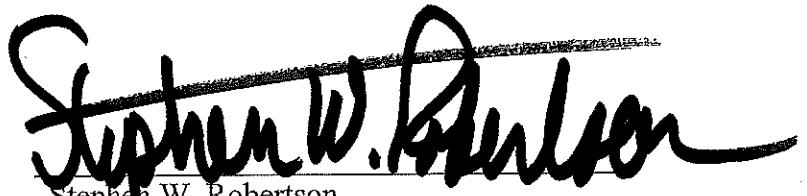
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of The Lincoln National Life Insurance Company as of December 31, 2017.
2. That the Examiner’s Recommendations are reasonable and necessary in order for 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 this 28 day of June, 2019.


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.

A large, stylized handwritten signature in black ink, appearing to be "Robert H. ...".Handwritten initials or a signature in black ink, possibly "RS" above "L".

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, 2017

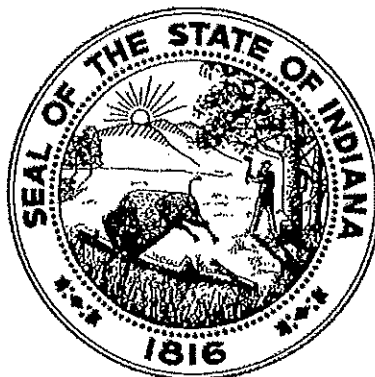


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

May 29, 2019

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 3991, 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 Greensboro, North Carolina.

The Report of Examination, reflecting the status of the Company as of December 31, 2017, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413 COMPANY COMPLIANCE 317-232-3495 CONSUMER SERVICES 317-232-2395/1-800-622-4461 FINANCIAL SERVICES 317-232-2390 MEDICAL MALPRACTICE 317-232-2402 COMPANY RECORDS 317-232-5692 STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2008 through December 31, 2012. The present risk focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2013 through December 31, 2017, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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 System. The INDOI served as the lead state on the examination; the New York State Department of Financial Services, the South Carolina Department of Insurance, and the Vermont Department of Financial Regulation served as participants.

Mark Alberts, FSA, MAAA, of Alberts Actuarial Consulting, LLC, provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2017.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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. The Company's principal business consists of underwriting annuities and life insurance contracts within its primary markets.

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

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, 2017, the Company had eight (8) surplus debentures or similar items issued and outstanding. The eight (8) notes have a total par value of \$1.5 billion. Four of the notes have fixed interest rates ranging from 4.20% - 9.76%. The other four notes are tied to LIBOR plus interest rates ranging from 1.11% - 2.00%. 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 \$240 million of principal was paid on the surplus debentures and \$422 million was paid in interest. The Company obtained prior INDOI approval to repay the principal and interest payments.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends, (in 000s), to LNC during the examination period:

Year	Total	Ordinary Dividends	Extraordinary Dividends
2017	\$ 954,000	\$ 244,000	\$ 710,000
2016	950,000	-	950,000
2015	1,121,000	1,121,000	-
2014	705,000	340,000	365,000
2013	640,000	640,000	-
Total	<u>\$4,370,000</u>	<u>\$2,345,000</u>	<u>\$2,025,000</u>

In accordance with 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 income of such insurer of the prior year. The Company paid extraordinary dividends during the examination period. In 2017, the company paid extraordinary dividends three (3) times totaling \$710 million. In 2016, the company paid extraordinary dividends four (4) times totaling \$950 million. The company paid extraordinary dividends two (2) times in 2014 totaling \$365 million. All extraordinary dividend payments in 2017, 2016, and 2014, were 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

The Company is licensed to write business in all states and the District of Columbia, with the exception of New York. The Company's primary line of business is separate account annuities. Operations are divided into four (4) major segments: Life Insurance, Annuities, Group Protection and Retirement Plan Services. The Company primarily develops life insurance solutions for high-net-worth individuals and business owners. Its products are primarily geared towards retirement, estate planning and management/distribution needs. It offers a wide portfolio of life insurance products including indexed UL, UL, VUL, term life, and linked-benefits. The Company manufactures and distributes various annuity products to plan sponsors, individual participants, and trustees for various retirement plans. The Company's products are distributed through many different distribution channels,

including Lincoln Financial Distributors, Lincoln Financial Advisors Corporation, Lincoln Financial Securities Corporation and other broker dealers and specialty marketing organizations.

Insurance Solutions – Life Insurance

The Life Insurance segment focuses on the creation and protection of wealth for its clients by providing life insurance products. 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 Protections 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.

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 product 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 also 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, 2017, LFD has approximately 525 internal and external wholesalers. As of December 31, 2017, LFN offered LFG and non-proprietary products and advisory services through a national network of approximately 8,950 active producers.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results, (in 000s), of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2017	\$239,826,136	\$231,980,747	\$7,845,389	\$17,337,136	\$1,390,105
2016	221,258,928	213,785,949	7,472,979	17,172,036	789,868
2015	213,891,333	206,774,211	7,117,122	19,605,348	1,056,907
2014	213,625,079	206,098,741	7,526,338	22,068,352	1,520,349
2013	200,018,194	193,182,046	6,836,148	21,752,378	577,565

Assets have increased throughout the examination period related to higher invested assets, primarily bonds, due to market appreciation as well as consistent increases in net income from operations. Liabilities have also increased over the examination period primarily due to growth in individual life and annuity business. Increase in Surplus is the result of net income from operations.

MANAGEMENT AND CONTROL

Directors

The property and business of the company shall be managed by a Board of Directors (Board), not less than five (5) nor more than sixteen (16) in number, which Board shall be constituted in conformity with the laws of the State of Indiana.

The following is a listing of persons serving as directors at December 31, 2017, and their principal occupations as of that date:

Name and Address	Principal Occupation
Ellen G. Cooper Gladwyne, Pennsylvania	Executive Vice President and Chief Investment Officer Lincoln Financial Group
Randal J. Freitag Devon, Pennsylvania	Executive Vice President, Chief Financial Officer and Head of Individual Life Lincoln Financial Group
Wilford H. Fuller Bryn Mawr, Pennsylvania	President, Annuity Solutions, Lincoln Financial Distributors and Lincoln Financial Network Lincoln Financial Group
Dennis R. Glass Bryn Mawr, Pennsylvania	President and Chief Executive Officer Lincoln Financial Group
Kirkland L. Hicks Wayne, Pennsylvania	Executive Vice President and General Counsel Lincoln Financial Group
Keith J. Ryan Fort Wayne, Indiana	Vice President Lincoln Financial Group

Officers

The Bylaws state that the elected officers of the Company shall be 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 or more vice presidents of a class or classes as the Board may determine, and such other officers as the Board may determine. The chairman of the board and the president shall be chosen from among the directors. Any two (2) or more offices may be held by the same person, except that the offices of president and secretary may not be held by the same person. The following is a list of key officers and their respective titles as of December 31, 2017:

<u>Name</u>	<u>Office</u>
Dennis R. Glass	President
Jeffrey D. Coutts	Treasurer
Amy J. Eby	Appointed Actuary
Andrea D. Goodrich	Secretary
Rajat B. Chakraborty	Executive Vice President
Ellen G. Cooper	Executive Vice President
Randal J. Freitag	Executive Vice President
Wilford H. Fuller	Executive Vice President
Kirkland L. Hicks	Executive Vice President
Kenneth S. Solon	Executive Vice President

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2017.

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. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2017.

CORPORATE RECORDS

Articles of Incorporation

There was a complete restatement of the Articles of Incorporation (Articles) as of October 3, 2017. The restatement of the Articles was to eliminate the supermajority voting standards applicable to certain provisions of the Restated Articles and replace them with simple majority voting standards.

Bylaws

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

Minutes

The Board and shareholders 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 state that the annual meeting of stockholders shall be held on the fourth Wednesday of May, or such earlier date as the Board may select. If the day fixed for an annual meeting shall be a legal holiday in the state of Indiana, such meeting shall be held on the next succeeding full business day. The annual meeting of the Board shall be held immediately after the adjournment of the annual stockholders' meeting, or within ten days thereafter upon notice in the manner provided by these Bylaws for calling special meetings of the Board.

The Company committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following LNL committees: Audit Committee and Investment Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the insurance company subsidiaries of LNC as of December 31, 2017:

	<u>NAIC Co. Code</u>	<u>Domiciliary State/Country</u>
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 III	14116	VT
Lincoln Reinsurance Company of Vermont IV	14147	VT
Lincoln Reinsurance Company of Vermont V	15336	VT
Lincoln Reinsurance Company of Vermont VI	15854	VT
Lincoln Reinsurance Company of Vermont VII	16183	VT
First Penn-Pacific Life Insurance Company	67652	IN

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Short-Term Cash Management Agreement

As amended and restated effective July 17, 2013, 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. LNL loaned \$342,015,498 to LNC in 2017.

Service Agreements

As amended and restated effective April 25, 2013, the Company is party 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. The Company's 2017 net expenses under this agreement were \$97,443,490.

As amended and restated effective January 1, 2010, the Company is party to a Master Services Agreement with Lincoln Financial Advisors Corporation (LFA). Under the agreement, LNL has contracted with LFA to manage the sale of certain employer-sponsored retirement products manufactured by LNL. This agreement was terminated on January 1, 2017, and the services received/provided were added to the Master Services Agreement dated April 25, 2013 shown in the preceding paragraph of this section.

As amended and restated effective December 30, 2011, the Company is party to a Services Agreement with LNC and other affiliates. Under the agreement, the Company and the affiliates, (collectively "Providers"), will provide the appropriate FINRA authorities with access to the books and records relating to the services covered by this agreement to Lincoln Financial Securities Corporation (Recipient). This agreement was terminated on January 1, 2017, and the services received/provided were added to the Master Services Agreement dated April 25, 2013 shown in the first paragraph of this section.

Effective June 1, 2015, the Company entered into an Absence Management Services Agreement with LNC, whereby LNC will provide administrative services through an employee absence management program. LNC, either directly or through a subcontractor, shall provide services that include those that are traditionally provided through employee absence management programs or other similarly situated administration programs. LNC paid \$168,474 to the Company for services performed in 2017.

Effective November 30, 2007, the Company, along with FPP and various affiliates, entered into a Master Services Agreement with LLANY under which each company provides specific services and facilities for the benefit/use of the other affiliated companies. The Company's net expenses under the agreement were \$72,363,519 in 2017.

As amended and restated effective January 1, 2016, the Company entered into a Financial Agreement with LNC. Under the agreement, LNC will provide benefits including Basic Life and AD&D, Optional Life and AD&D, Long term disability, vision, accident, and critical illness to eligible individuals of LNC and its affiliates and their covered dependents.

As amended and restated effective October 1, 2016, the Company is party to 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. The Company paid \$95,127,935 to LIMC in 2017.

Sale and Participation Agreement

Effective July 19, 2017, the Company entered into a Sale and Participation Agreement with LNC, Jefferson-Pilot Investments, Inc., FPP, LLANY, Lincoln Reinsurance Company (Barbados) Limited, and Lincoln Investment Solutions. Under the terms of the agreement, members of the agreement may act as a purchaser or seller of real estate project loans. The parties may purchase or sell an undivided interest in the real estate project loans, which will be shared pro rata and ratably.

Tax Sharing Agreement

As amended and restated effective September 15, 2010, the Company entered into a Tax Sharing Agreement with LNC. For any Tax Year or portion of a Tax Year in which LNL is a member of an affiliated group that files a consolidated return for which LNC is the common parent ("LNC Consolidated Group"), LNC shall be responsible for managing the filing of tax returns and for determining the appropriate strategy for handling audits and disputes with taxing authorities. Additionally, LNC shall be responsible for the final determination of all computations required under this Agreement. LNL paid \$59,571,889 pursuant to the tax sharing agreement in 2017.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by National Union Fire Insurance Company of Pittsburgh, PA. The bond has a single loss coverage limit of \$15.0 million, with a \$1.0 million deductible. The fidelity 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, 2017, including but not limited to cyber, employment practices liability, fiduciary, insurance company professional liability, auto, directors and officers, corporate fidelity bond, workers' compensation, general liability, and umbrella.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company maintains qualified defined benefit contribution and non-qualified deferred compensation plans for its agents. In June 2004, LNC entered into a total return swap agreement LNC. LNC is using the total return swap to mitigate the earnings effects created by the changes in value of LNCs deferred compensation plan liability that result from changes in value of the underlying investment options. The Company sponsors two qualified defined contribution plans for its agents, which include a 401(k)-plan and a money purchase plan.

The Company's share of expense for the agent's deferred compensation plans was \$2.6 million for 2017. The Company's share of expenses for the highly compensated agents' deferred compensation plans was \$2.9 million for 2017.

Eligible retiring employees and agents receive benefits based on years of service and final average earnings. The plans are funded by assets that are held in a master trust with Northern Trust. The Company's share of expenses for employees' defined benefit pension plan was \$10.4 million for 2017. In addition, the Company also provides certain other postretirement benefits to retired employees sponsored by LNC. The Company's share of expenses for the employees' other postretirement benefits was \$(1.3) million for 2017.

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 that 401(k)-plan was \$74.0 million for. In addition, LNC also sponsors contributory deferred compensation plans for certain employees. The Company's share of expenses related to these deferred compensation plans was \$20.5 million for 2017. These expenses reflect both the Company's employer matching contributions, as well as changes in the measurement of the Company's liabilities net of the plan's portion of the total return swap. The Company has no legal obligation for benefits under these plans.

STATUTORY DEPOSITS

The Company reported the following statutory deposits (in 000s), at December 31, 2017:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 3,624	\$ 4,447
All Other Special Deposits:		
California	39,629	43,340
Georgia	99	127
Massachusetts	4,235	4,927
New Hampshire	506	618
New Mexico	222	285
North Carolina	445	571
Virginia	504	507
Total Deposits	<u>\$49,264</u>	<u>\$54,822</u>

REINSURANCE

Ceded Reinsurance

The Company generally seeks to negotiate contract terms to protect the Company 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 A & H 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 2017 the Company reported total ceded premiums and reserves of \$4.1 billion and \$20.4 billion respectively. Of this \$20.4 billion in ceded reserves, approximately \$12.6 billion (62%) was ceded to reinsurers regarded as unauthorized by Indiana, the Company's domiciliary jurisdiction and, accordingly, the Company held a combination of Letters of Credit, Trust Funds and other collateral fully offsetting these reserve credits. Of the remaining ceded reserves, all but a financially insignificant portion were ceded to reinsurers rated A- or better by A.M. Best.

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

As noted above, LNL accounts for the sale of its former assumed reinsurance business to Swiss Reinsurance Company, Ltd. (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 effect a net-zero sum transaction. In 2017 the business associated with the Swiss Re sale transaction accounted for \$871 million (21%) of total ceded premiums and \$3.4 billion (17%) of total ceded reserves.

In addition to business ceded in connection with the Swiss Re sale transaction, LNL also cedes a portion of its life and accident and health business to external reinsurers. In 2017 this reinsurance accounted for ceded premiums and reserves totaling \$1.4 billion (35%) of total ceded premiums and \$5.84 billion (28%) 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 LNL'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. LNL generally cedes the reserves associated with these products to its various affiliates while at the same time maintaining collateral from the affiliate to secure the ceded reserves.

Reinsurance with affiliated entities represents the most significant ceded reinsurance activity during the current examination period. Collectively reinsurance placed with various affiliated captive reinsurers accounts for ceded premiums of \$1.8 billion (44%) and ceded reserves of \$11.1 billion (55%) of total ceded premium and reserve balances respectively. As the majority of these affiliates are regarded as "unauthorized reinsurers" in Indiana, LNL is required to hold collateral consisting of a combination of Funds Withheld, Trust Funds and Letters of Credit, and other qualifying collateral approved by the Indiana Commissioner securing 100% of the ceded reserve credits.

The Company had no other financially significant ceded reinsurance transactions in 2017.

Assumed Reinsurance

In 2017 the Company reported total assumed premiums and reserves of \$1.2 billion and \$7.8 billion respectively. These balances primarily derive from two significant closed blocks of business which are principally static in nature.

In 2001 LNL made a strategic decision to exit the underwriting of assumed reinsurance business, and in 2002, sold the majority of its assumed reinsurance operations, including related third-party retrocessions to Swiss Re. 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 transactions results in no current period income or surplus impact to the Company. During 2017 these transactions accounted for assumed life and accident and health premiums totaling \$872 million (74%) and assumed reserves totaling \$3.4 billion (45%) 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 Connecticut General Life Insurance Company. Currently this block of business accounts for \$177 million or roughly 15% of assumed premiums and \$3.3 billion of reserve credits (42%) of assumed reserves respectively. As part of this transaction the Company assumed all administrative responsibilities for this business and from an operational perspective processes ongoing activity in substantially the same manner as comparable direct written business of the Company.

The remainder of the Company's assumed business consists primarily of inter-company transactions involves LNL affiliates FPP and LLANY. The Company had no other financially significant assumed reinsurance transactions in 2017.

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, 2016 and December 31, 2017, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2013 through December 31, 2017, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

FINANCIAL STATEMENTS

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

Assets

As of December 31, 2017

(in 000s)

	<u>Per Examination*</u>
Bonds	\$ 75,646,160
Stocks:	
Preferred stocks	195,537
Common stocks	3,637,059
Mortgage loans on real estate	
First liens	9,625,724
Real estate	
Properties occupied by the company	60,282
Properties held for the production of income	10,363
Cash, cash equivalents, and short-term investments	974,997
Contract loans	1,899,447
Derivatives	808,426
Other invested assets	2,023,199
Receivables for securities	8,268
Securities lending reinvested collateral assets	46,995
Aggregate write-ins for invested assets	748,659
Subtotals, cash and invested assets	<u>95,685,115</u>
Investment income due and accrued	922,121
Premiums and considerations	
Uncollected premiums and agents' balance in the course of collection	46,772
Deferred premiums, agents' balances and installments booked but deferred and not yet due	360,352
Reinsurance	
Amounts recoverable for reinsurers	71,973
Funds held by or deposited with reinsured companies	43,825
Other amounts receivable under reinsurance contracts	474,643
Net deferred tax asset	522,517
Guaranty funds receivable or on deposit	39,680
Electronic data processing equipment and software	4,811
Receivables from parent, subsidiaries and affiliates	24,720
Health care and other amounts receivable	57,073
Aggregate write-ins for other-than-invested assets	<u>1,070,071</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	99,323,673
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>140,502,463</u>
Totals	<u>\$239,826,136</u>

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

Note: The amounts shown may include immaterial rounding differences.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Liabilities, Surplus and Other Funds
As of December 31, 2017
(in 000s)

	<u>Per Examination*</u>
Aggregate reserve for life contracts	\$77,207,919
Aggregate reserve for accident and health contract	1,755,558
Liability for deposit-type contracts	949,630
Contract claims	
Life	525,938
Accident and health	55,115
Policyholders' dividends	428
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	39,009
Premiums and annuity considerations for life and accident, and health contracts received in advance less discount; including accident and health premiums	14,388
Contract liabilities not included elsewhere	
Surrender values on canceled contracts	1,401
Provision for experience rating refunds, including the liability of accident and health experience rating refunds	42,275
Interest Maintenance Reserve (IMR)	55,132
Commissions to agents due or accrued – life and annuity contracts, accident and health and deposit-type contract funds	117,382
Commissions and expense allowances payable on reinsurance assumed	56,919
General expenses due or accrued	713,493
Transfers to Separate Accounts due or accrued (net)	(3,875,638)
Taxes, licenses and fees due or accrued, excluding federal income taxes	42,151
Current federal and foreign income taxes	5,368
Unearned investment income	8,446
Amounts withheld or retained by company as agent or trustee	99,527
Amounts held for agents' account, including agents' credit balances	145,367
Remittances and items not allocated	535,816
Net adjustment in assets and liabilities due to foreign exchange rates	34
Liability for benefits for employees and agents if not included above	98
Borrowed money and interest thereon	3,455,208
Miscellaneous liabilities:	
Asset valuation reserve (AVR)	1,051,856
Reinsurance in unauthorized and certified companies	40
Funds held under reinsurance treaties with unauthorized and certified reinsurers	6,182,092
Payable to parent, subsidiaries and affiliates	22,234
Liability for amounts held under uninsured plans	1,863
Funds held under coinsurance	433,840
Derivatives	792,048
Payable for securities	85,127
Payable for securities lending	222,069
Aggregate write-ins for liabilities	736,152
Total liabilities excluding Separate Accounts business	<u>91,478,286</u>
From Separate Accounts Statement	<u>140,502,460</u>
Total Liabilities	<u>231,980,746</u>
Common capital stock	25,000
Surplus notes	1,475,567
Gross paid in and contributed surplus	3,383,525
Unassigned funds (surplus)	2,961,298
Total surplus and other funds	<u>7,820,389</u>
Total liabilities, surplus and other funds	<u>7,845,389</u>
Totals	<u>\$239,826,136</u>

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

Note: The balances include immaterial rounding differences.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Summary of Operations
For the Year Ended December 31, 2017
(in 000s)

	Per Examination*
Premiums and annuity considerations for life and accident and health contracts	\$ 17,337,135
Considerations for supplementary contracts with life contingencies	15,207
Net investment income	4,438,563
Amortization of interest maintenance reserve (IMR)	15,393
Separate Accounts net gain from operations excluding unrealized gains or losses	60,733
Commissions and expense allowances on reinsurance ceded	367,839
Reserve adjustments on reinsurance ceded	(22,668)
Miscellaneous Income:	
Income from fees associated with investment management, administration and contract guarantees from Separate Accounts	2,264,841
Aggregate write-ins for miscellaneous income	1,072,682
Total	25,549,725
Death benefits	2,354,956
Matured endowments	4,084
Annuity benefits	521,557
Disability benefits and benefits under accident and health contracts	826,867
Surrender benefits and withdrawals for life contracts	16,513,393
Group conversions	(196)
Interest and adjustments on contracts with life contingencies	98,066
Payments on supplementary contracts with life contingencies	10,986
Increase in aggregate reserves for life and accident and health contracts	3,174,250
Totals	23,503,963
Commissions on premiums, annuity considerations, and deposit-type contract funds	1,972,019
Commissions and expenses allowances on reinsurance assumed	132,637
General insurance expenses	1,606,294
Insurance taxes, licenses and fees, excluding federal income taxes	212,011
Increase in loading on deferred and uncollected premiums	(32,155)
Net transfers to or (from) Separate Accounts net of reinsurance	(3,023,265)
Aggregate write-ins for deductions	16,446
Totals	24,387,949
Net gain from operations before dividends to policyholders and federal income taxes	1,161,776
Dividends to policyholders	36,017
Net gain from operations after dividends to policyholders and before federal income taxes	1,125,759
Federal and foreign income taxes incurred	(123,477)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	1,249,236
Net realized capital gains (losses) less capital gains tax	140,870
Net income	\$ 1,390,105

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

Note: The balances include immaterial rounding differences.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY
Capital and Surplus Account Reconciliation
For the Year Ended December 31, 2017
(in 000s)

	2017	2016	2015	2014	2013
Capital and surplus, December 31, prior year	\$ 7,472,979	\$ 7,117,122	\$ 7,526,338	\$ 6,836,148	\$ 6,399,581
Net income	1,390,105	789,868	1,056,907	1,520,349	577,565
Change in net unrealized capital gains or (losses) less capital gains tax	304,583	480,511	(309,167)	25,425	(116,318)
Change in net unrealized foreign exchange capital gain (loss)	4,129	(6,222)	3,167	95	329
Change in net deferred income tax	(467,568)	386,740	(138,228)	(179,648)	4,565
Change in nonadmitted assets	329,136	(112,510)	(4,710)	239,515	(75,304)
Change in liability for reinsurance in unauthorized and certified companies	513	75	1,775	(1,952)	494
Change in reserve on account of change in valuation basis, (increase) or decrease	-	71,715	-	(1,430)	-
Change in asset valuation reserve	(27,406)	(34,313)	(66,808)	(126,475)	95,071
Surplus (contributed to) withdrawn from Separate Accounts during period	(17,667)	(9,525)	(35,630)	(8,068)	(12,289)
Other changes in surplus in Separate Accounts Statement	(410)	42	(16)	18	53
Change in surplus notes	(165,186)	-	30,024	-	310,728
Cumulative effect of changes in accounting principles	-	-	-	-	(2,307)
Surplus adjustment					
Paid in	31,205	27,988	23,521	13,472	6,757
Change in surplus as a result of reinsurance	(57,620)	(206,727)	136,774	(77,694)	294,625
Dividends to stockholders	(954,000)	(950,000)	(1,121,000)	(705,000)	(640,000)
Aggregate write-ins for gains and losses in surplus	2,595	(81,785)	14,175	(8,417)	(7,403)
Net change in capital and surplus for the year	372,410	355,857	(409,216)	690,190	436,567
Capital and surplus, December 31, current year	<u>\$ 7,845,389</u>	<u>\$ 7,472,979</u>	<u>\$ 7,117,122</u>	<u>\$ 7,526,338</u>	<u>\$ 6,836,148</u>

Note: The balances include immaterial rounding differences.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2017, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no other significant issues as of December 31, 2017, based on the results of this examination.

SUBSEQUENT EVENTS

On May 1, 2018, LFG completed its acquisition of Liberty Life Assurance Company of Boston from Liberty Mutual Insurance Group for a sum of \$3.3 billion. The acquisition was part of a financial strategy to help LFG expand their group benefits operations

Effective July 19, 2018, Richard L. Mucci and Jamie B. Ohl were appointed to the Senior Management Committee of LFG and as Executive Vice Presidents of the Company.

Effective July 23, 2018, Rajat B. Chakraborty, stepped down as Executive Vice President and Chief Digital Officer of the Company.

Effective December 11, 2018, Kirkland L. Hicks stepped down from his role as LFG's General Counsel and head of the Legal and Compliance organization, as well as his position as an Executive Vice President and Director of the Company. Effective December 14, 2018, Leon Roday joined LFG as Executive Vice President and General Counsel.

As noted in January 2019, Pacific Gas & Electric Corporation (PG&E) is pending bankruptcy. LNL has an exposure of 2.1% of PG&E's bonds. The investment specialist on the examination does not expect interest to be paid during bankruptcy.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., investment assistance from Greg Hahn, CFA, of Winthrop Capital Management, and actuarial assistance from Mark Alberts, FSA, MAAA, of Alberts Actuarial Consulting, LLC, performed an examination of The Lincoln National Life Insurance Company as of December 31, 2017.

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

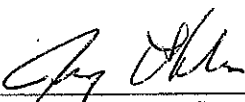
This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing 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, 2017, as determined by the undersigned.



Eric Dercher, CFE, CPA
Noble Consulting Services, Inc.

Under the Supervision of:

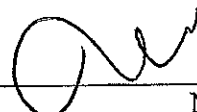


Jerry Ehlers, CFE, AES
Examinations Manager
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 6 day of June, 2019, before me personally appeared, Eric Dercher and Jerry Ehlers, to sign this document.

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

My commission expires: July 4, 2019 

Notary Public

