

LINCOLN NATIONAL CORP  
Form 10-Q/A  
November 08, 2012

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

FORM 10-Q/A  
(Amendment No. 1)

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(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-6028

LINCOLN NATIONAL CORPORATION  
(Exact name of registrant as specified in its charter)

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Indiana  
(State or other jurisdiction of  
incorporation or organization)

35-1140070  
(I.R.S. Employer  
Identification No.)

150 N. Radnor Chester Road, Suite A305, Radnor,  
Pennsylvania  
(Address of principal executive offices)

19087  
(Zip Code)

(484) 583-1400  
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

As of November 5, 2012, there were 275,015,830 shares of the registrant's common stock outstanding.

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Explanatory Note

This amendment to our quarterly report on Form 10-Q for the quarter ended September 30, 2012, is being filed for the sole purpose of amending Exhibits 32.1 and 32.2 to correct the quarter end referenced to September 30, 2012. No other changes have been made to the Form 10-Q. This amendment to the Form 10-Q does not reflect events occurring after the filing of Form 10-Q, nor does it modify or update the disclosures and information contained in the Form 10-Q in any way other than as described above.

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Lincoln National Corporation

Table of Contents

| Item    |   | Page |
|---------|---|------|
| PART I  |   |      |
| 1.      | Financial Statements  | 1    |
| 2.      | Management's Discussion and Analysis of Financial Condition and Results of Operations | 48   |
|         | Forward-Looking Statements – Cautionary Language                                      | 48   |
|         | Introduction  | 49   |
|         | Executive Summary   | 49   |
|         | Critical Accounting Policies and Estimates  | 50   |
|         | Acquisitions and Dispositions   | 53   |
|         | Results of Consolidated Operations  | 53   |
|         | Results of Annuities  | 55   |
|         | Results of Retirement Plan Services   | 61   |
|         | Results of Life Insurance   | 67   |
|         | Results of Group Protection   | 74   |
|         | Results of Other Operations   | 77   |
|         | Realized Gain (Loss) and Benefit Ratio Unlocking                                      | 79   |
|         | Consolidated Investments  | 81   |
|         | Review of Consolidated Financial Condition  | 96   |
|         | Liquidity and Capital Resources   | 96   |
|         | Other Matters   | 100  |
|         | Other Factors Affecting Our Business  | 100  |
|         | Recent Accounting Pronouncements  | 100  |
| 3.      | Quantitative and Qualitative Disclosures About Market Risk                            | 100  |
| 4.      | Controls and Procedures   | 104  |
| PART II |   |      |
| 1.      | Legal Proceedings   | 104  |
| 1A.     | Risk Factors  | 104  |
| 2.      | Unregistered Sales of Equity Securities and Use of Proceeds                           | 105  |
| 6.      | Exhibits  | 105  |
|         | Signatures  | 106  |
|         | Exhibit Index for the Report on Form 10-Q   | E-1  |



## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|   | As of<br>September<br>30,<br>2012<br>(Unaudited) | As of<br>December<br>31,<br>2011 |
|---|--|----------------------------------|
| <b>ASSETS</b>   |  |                                  |
| Investments:  |  |                                  |
| Available-for-sale securities, at fair value:   |  |                                  |
| Fixed maturity securities (amortized cost: 2012 - \$71,778; 2011 - \$68,988)                          | \$ 81,179  | \$ 75,433                        |
| Variable interest entities' fixed maturity securities (amortized cost: 2012 - \$676;<br>2011 - \$673) | 706  | 700                              |
| Equity securities (cost: 2012 - \$143; 2011 - \$135)  | 156  | 139                              |
| Trading securities  | 2,650  | 2,675                            |
| Mortgage loans on real estate   | 6,690  | 6,942                            |
| Real estate   | 112  | 137                              |
| Policy loans  | 2,780  | 2,884                            |
| Derivative investments  | 3,072  | 3,151                            |
| Other investments   | 1,123  | 1,069                            |
| Total investments   | 98,468   | 93,130                           |
| Cash and invested cash  | 4,373  | 4,510                            |
| Deferred acquisition costs and value of business acquired   | 5,813  | 6,776                            |
| Premiums and fees receivable  | 366  | 408                              |
| Accrued investment income   | 1,067  | 981                              |
| Reinsurance recoverables  | 6,424  | 6,526                            |
| Funds withheld reinsurance assets   | 846  | 874                              |
| Goodwill  | 2,273  | 2,273                            |
| Other assets  | 2,502  | 2,536                            |
| Separate account assets   | 93,326   | 83,477                           |
| Total assets  | \$ 215,458                                       | \$ 201,491                       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                                  |
| Liabilities   |  |                                  |
| Future contract benefits  | \$ 19,232  | \$ 19,813                        |
| Other contract holder funds   | 70,706   | 69,466                           |
| Short-term debt   | 200  | 300                              |
| Long-term debt  | 5,494  | 5,391                            |
| Reinsurance related embedded derivatives  | 215  | 168                              |
| Funds withheld reinsurance liabilities  | 987  | 1,045                            |
| Deferred gain on business sold through reinsurance  | 338  | 394                              |
| Payables for collateral on investments  | 4,566  | 3,733                            |
| Variable interest entities' liabilities   | 121  | 193                              |
| Other liabilities   | 5,036  | 4,273                            |
| Separate account liabilities  | 93,326   | 83,477                           |
| Total liabilities   | 200,221  | 188,253                          |

Contingencies and Commitments (See Note 9)

Stockholders' Equity

|   |            |            |
|---|------------|------------|
| Preferred stock - 10,000,000 shares authorized; Series A - 9,532 and 10,072 shares issued and outstanding as of September 30, 2012, and December 31, 2011, respectively | -          | -          |
| Common stock - 800,000,000 shares authorized; 275,073,618 and 291,319,222 shares issued and outstanding as of September 30, 2012, and December 31, 2011, respectively   | 7,214      | 7,590      |
| Retained earnings   | 3,873      | 2,969      |
| Accumulated other comprehensive income (loss)   | 4,150      | 2,679      |
| Total stockholders' equity  | 15,237     | 13,238     |
| Total liabilities and stockholders' equity  | \$ 215,458 | \$ 201,491 |

See accompanying Notes to Consolidated Financial Statements

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

|  | For the Three<br>Months Ended<br>September 30, |          | For the Nine<br>Months Ended<br>September 30, |          |
|--|--|----------|---|----------|
|  | 2012   | 2011     | 2012  | 2011     |
| Revenues   |  |          |   |          |
| Insurance premiums   | \$ 606   | \$ 559   | \$ 1,825                                      | \$ 1,721 |
| Insurance fees   | 990  | 864      | 2,784   | 2,582    |
| Net investment income  | 1,146  | 1,151    | 3,509   | 3,522    |
| Realized gain (loss):  |  |          |   |          |
| Total other-than-temporary impairment losses on securities                           | (47)   | (44)     | (194)   | (135)    |
| Portion of loss recognized in other comprehensive income                             | 15   | 18       | 82  | 37       |
| Net other-than-temporary impairment losses on securities recognized in earnings      | )  | )        | )   |          |
| Realized gain (loss), excluding other-than-temporary impairment losses on securities | (32)   | (26)     | (112)   | (98)     |
| Total realized gain (loss)   | 102  | (137)    | 140   | (72)     |
| Amortization of deferred gain on business sold through reinsurance                   | 70   | (163)    | 28  | (170)    |
| Other revenues and fees  | 19   | 19       | 56  | 56       |
| Total revenues   | 123  | 117      | 366   | 362      |
| Expenses   | 2,954  | 2,547    | 8,568   | 8,073    |
| Interest credited  | 610  | 625      | 1,851   | 1,864    |
| Benefits   | 811  | 664      | 2,615   | 2,527    |
| Commissions and other expenses   | 1,047  | 1,024    | 2,731   | 2,467    |
| Interest and debt expense  | 68   | 79       | 203   | 223      |
| Total expenses   | 2,536  | 2,392    | 7,400   | 7,081    |
| Income (loss) from continuing operations before taxes                                | 418  | 155      | 1,168   | 992      |
| Federal income tax expense (benefit)   | 45   | (6)      | 224   | 214      |
| Income (loss) from continuing operations   | 373  | 161      | 944   | 778      |
| Income (loss) from discontinued operations, net of federal income taxes              | 29   | (8)      | 27  | (8)      |
| Net income (loss)  | 402  | 153      | 971   | 770      |
| Other comprehensive income (loss), net of tax  | 771  | 1,437    | 1,471   | 1,813    |
| Comprehensive income (loss)  | \$ 1,173                                       | \$ 1,590 | \$ 2,442                                      | \$ 2,583 |
| Earnings (Loss) Per Common Share - Basic   |  |          |   |          |
| Income (loss) from continuing operations   | \$ 1.35  | \$ 0.53  | \$ 3.33                                       | \$ 2.51  |
| Income (loss) from discontinued operations   | 0.10   | (0.03)   | 0.10  | (0.03)   |
| Net income (loss)  | \$ 1.45  | \$ 0.50  | \$ 3.43                                       | \$ 2.48  |
| Earnings (Loss) Per Common Share - Diluted   |  |          |   |          |
| Income (loss) from continuing operations   | \$ 1.31  | \$ 0.50  | \$ 3.26                                       | \$ 2.43  |
| Income (loss) from discontinued operations   | 0.10   | (0.03)   | 0.09  | (0.03)   |
| Net income (loss)  | \$ 1.41  | \$ 0.47  | \$ 3.35                                       | \$ 2.40  |





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

|   | For the Nine<br>Months Ended<br>September 30, |           |
|---|---|-----------|
|   | 2012  | 2011      |
| <b>Common Stock</b>   |   |           |
| Balance as of beginning-of-year                             | \$ 7,590                                      | \$ 8,124  |
| Stock compensation/issued for benefit plans                 | 24  | 13        |
| Retirement of common stock/cancellation of shares           | (400 )  | (345 )    |
| Balance as of end-of-period                                 | 7,214   | 7,792     |
| <b>Retained Earnings</b>                                    |   |           |
| Balance as of beginning-of-year                             | 2,969   | 3,934     |
| Cumulative effect from adoption of new accounting standards | -   | (1,095 )  |
| Net income (loss)   | 971   | 770       |
| Retirement of common stock                                  | -   | (30 )     |
| Dividends declared: Common (2012 - \$0.240; 2011 - \$0.150) | (67 )   | (48 )     |
| Balance as of end-of-period                                 | 3,873   | 3,531     |
| <b>Accumulated Other Comprehensive Income (Loss)</b>        |   |           |
| Balance as of beginning-of-year                             | 2,679   | 748       |
| Cumulative effect from adoption of new accounting standards | -   | 103       |
| Other comprehensive income (loss), net of tax               | 1,471   | 1,813     |
| Balance as of end-of-period                                 | 4,150   | 2,664     |
| Total stockholders' equity as of end-of-period              | \$ 15,237                                     | \$ 13,987 |

See accompanying Notes to Consolidated Financial Statements

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

|   | For the Nine<br>Months Ended<br>September 30, |         |
|---|---|---------|
|   | 2012  | 2011    |
| <b>Cash Flows from Operating Activities</b>   |   |         |
| Net income (loss)   | \$ 971  | \$ 770  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:  |   |         |
| Deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads deferrals and interest, net of amortization | (96 )   | (44 )   |
| Trading securities purchases, sales and maturities, net   | 124   | 33      |
| Change in premiums and fees receivable  | 42  | (48 )   |
| Change in accrued investment income   | (86 )   | (90 )   |
| Change in future contract benefits and other contract holder funds  | (264 )  | 141     |
| Change in reinsurance related assets and liabilities  | 71  | (210 )  |
| Change in federal income tax accruals   | 44  | 255     |
| Realized (gain) loss  | (28 )   | 170     |
| (Gain) loss on early extinguishment of debt   | -   | 8       |
| Amortization of deferred gain on business sold through reinsurance  | (56 )   | (56 )   |
| (Gain) loss on disposal of discontinued operations  | 1   | 3       |
| Other   | (57 )   | 2       |
| Net cash provided by (used in) operating activities   | 666   | 934     |
| <b>Cash Flows from Investing Activities</b>   |   |         |
| Purchases of available-for-sale securities  | (8,437)                                       | (8,540) |
| Sales of available-for-sale securities  | 965   | 1,274   |
| Maturities of available-for-sale securities   | 4,471   | 3,988   |
| Purchases of other investments  | (1,418)                                       | (2,202) |
| Sales or maturities of other investments  | 1,622   | 2,336   |
| Increase (decrease) in payables for collateral on investments   | 833   | 2,196   |
| Other   | (103 )  | (63 )   |
| Net cash provided by (used in) investing activities   | (2,067)                                       | (1,011) |
| <b>Cash Flows from Financing Activities</b>   |   |         |
| Payment of long-term debt, including current maturities   | (300 )  | (275 )  |
| Issuance of long-term debt, net of issuance costs   | 300   | 298     |
| Increase (decrease) in commercial paper, net  | -   | (100 )  |
| Deposits of fixed account values, including the fixed portion of variable   | 7,612   | 8,187   |
| Withdrawals of fixed account values, including the fixed portion of variable  | (4,103)                                       | (3,750) |
| Transfers to and from separate accounts, net  | (1,775)                                       | (1,763) |
| Common stock issued for benefit plans and excess tax benefits   | (3 )  | (6 )    |
| Repurchase of common stock  | (400 )  | (375 )  |
| Dividends paid to common and preferred stockholders   | (67 )   | (48 )   |
| Net cash provided by (used in) financing activities   | 1,264   | 2,168   |

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|  |          |          |
|--|----------|----------|
| Net increase (decrease) in cash and invested cash, including discontinued operations | (137 )   | 2,091    |
| Cash and invested cash, including discontinued operations, as of beginning-of-year   | 4,510    | 2,741    |
| Cash and invested cash, including discontinued operations, as of end-of-period       | \$ 4,373 | \$ 4,832 |

See accompanying Notes to Consolidated Financial Statements

LINCOLN NATIONAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. Nature of Operations and Basis of Presentation

Nature of Operations

Lincoln National Corporation and its majority-owned subsidiaries (“LNC” or the “Company,” which also may be referred to as “we,” “our” or “us”) operate multiple insurance businesses through four business segments. See Note 14 for additional details. The collective group of businesses uses “Lincoln Financial Group” as its marketing identity. Through our business segments, we sell a wide range of wealth protection, accumulation and retirement income products. These products include institutional and/or retail fixed and indexed annuities, variable annuities, universal life insurance (“UL”), variable universal life insurance (“VUL”), linked-benefit UL, term life insurance, mutual funds and group life, disability and dental.

Basis of Presentation

The accompanying unaudited consolidated financial statements are prepared in accordance with United States of America generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions for the Securities and Exchange Commission (“SEC”) Quarterly Report on Form 10-Q, including Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, the information contained in the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 (“2011 Form 10-K”), should be read in connection with the reading of these interim unaudited consolidated financial statements.

Certain GAAP policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized in our 2011 Form 10-K.

In the opinion of management, these statements include all normal recurring adjustments necessary for a fair presentation of the Company’s results. Operating results for the nine month period ended September 30, 2012, are not necessarily indicative of the results that may be expected for the full year ending December 31, 2012. All material intercompany accounts and transactions have been eliminated in consolidation.

See Note 2 “Financial Services – Insurance Industry Topic” below for information about the retrospective restatement of amounts due to the adoption of new accounting guidance. In addition, certain amounts reported in prior years’ consolidated financial statements have been reclassified to conform to the presentation adopted in the current year. These reclassifications had no effect on net income or stockholders’ equity of the prior years.

2. New Accounting Standards

Adoption of New Accounting Standards

Comprehensive Income Topic

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”), with an objective of increasing the prominence of items reported in other comprehensive income (“OCI”); however, in December 2011, the FASB deferred a portion of the

presentation requirements by issuing ASU No. 2011-12, “Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” (“ASU 2011- 12”). For a more detailed description of ASU 2011-05 and ASU 2011-12, see “Future Adoption of New Accounting Standards – Comprehensive Income Topic” in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-05 as of January 1, 2012, after considering the deferral in ASU 2011-12, and have included a single continuous statement of comprehensive income in Item 1 of this quarterly report on Form 10-Q for the quarterly period ended September 30, 2012.

#### Fair Value Measurements and Disclosures Topic

In May 2011, the FASB issued ASU No. 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards” (“ASU 2011-04”), which was issued to create a consistent framework for the application of fair value measurement across jurisdictions. For a more detailed description of ASU 2011-04 see “Future Adoption of New Accounting Standards – Fair Value Measurements and Disclosures Topic” in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-04 effective January 1, 2012, and have included the additional disclosures required for fair value measurements in Note 13 for the quarterly period ended September 30, 2012.

## Financial Services – Insurance Industry Topic

In October 2010, the FASB issued ASU No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (“ASU 2010-26”), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. The determination of deferability must be made on a contract-level basis.

Prior to the adoption of ASU 2010-26, we defined deferred acquisition costs (“DAC”) as commissions and other costs of acquiring UL insurance, VUL insurance, traditional life insurance, annuities and other investments contracts that vary with and are related primarily to new or renewal business, regardless of whether the acquisition efforts were successful or unsuccessful. Upon the adoption of ASU 2010-26, we revised our accounting policy to only defer acquisition costs directly related to successful contract acquisitions or renewals, and excluded from DAC those costs incurred for soliciting potential customers, market research, training, administration, management of distribution and underwriting functions, unsuccessful acquisition or renewal efforts and product development. In addition, indirect acquisition costs including administrative costs, rent, depreciation, occupancy costs, equipment costs and other general overhead are excluded from DAC. The costs that are considered non-deferrable acquisition costs under ASU 2010-26 are expensed in the period incurred.

We adopted the provisions of ASU 2010-26 as of January 1, 2012, and elected to retrospectively restate all prior periods. The following summarizes the prior period increases (decreases) (in millions) reflected in our Consolidated Balance Sheets and Consolidated Statements of Stockholders’ Equity related to the adoption:

|   | As of December 31, |            |
|---|--------------------|------------|
|   | 2011               | 2010       |
| Assets  |                    |            |
| Deferred acquisition costs                    | \$ (1,415)         | \$ (1,516) |
| Liabilities and Stockholders' Equity          |                    |            |
| Other liabilities - deferred income taxes     | \$ (490)           | \$ (524)   |
| Stockholders' equity:                         |                    |            |
| Retained earnings                             | (1,157)            | (1,095)    |
| Accumulated other comprehensive income (loss) | 232                | 103        |
| Total stockholders' equity                    | (925)              | (992)      |
| Total liabilities and stockholders' equity    | \$ (1,415)         | \$ (1,516) |

The following summarizes the prior period increases (decreases) to income from continuing operations and earnings (loss) per share (“EPS”) (in millions, except per share data) reflected in our Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2011, related to the adoption:

|   | For the<br>Three<br>Months<br>Ended<br>September<br>30,<br>2011 | For the<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2011 |
|---|---|--|
| Revenues  |   |  |
| Realized gain (loss)                                  | \$ -  | \$ 8   |
| Expenses  |   |  |
| Commissions and other expenses                        | 15  | (66)   |
| Income (loss) from continuing operations before taxes | 15  | (58)   |
| Federal income tax expense (benefit)                  | (5)   | 20   |
| Income (loss) from continuing operations              | \$ 10   | \$ (38)  |
| Earnings (Loss) Per Common Share - Basic              | \$ 0.03   | \$ (0.12)  |
| Earnings (Loss) Per Common Share - Diluted            | \$ 0.03   | \$ (0.12)  |

#### Intangibles – Goodwill and Other Topic

In September 2011, the FASB issued ASU No. 2011-08, “Testing Goodwill for Impairment” (“ASU 2011-08”), which provides an option to first assess qualitative factors to determine if it is necessary to complete the two-step goodwill impairment test. For a more detailed description of ASU 2011-08, see “Future Adoption of New Accounting Standards – Intangibles – Goodwill and Other Topic” in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-08 effective January 1, 2012. The adoption did not have a material effect on our consolidated financial condition and results of operations.

#### Transfers and Servicing Topic

In April 2011, the FASB issued ASU No. 2011-03, “Reconsideration of Effective Control for Repurchase Agreements” (“ASU 2011-03”), which revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. For a more detailed description of ASU 2011-03, see “Future Adoption of New Accounting Standards – Transfers and Servicing Topic” in Note 2 of our 2011 Form 10-K. We adopted the provisions of ASU 2011-03 effective January 1, 2012. The adoption did not have a material effect on our consolidated financial condition and results of operations.

#### Future Adoption of New Accounting Standards

#### Balance Sheet Topic



In December 2011, the FASB issued ASU No. 2011-11, “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”), to address certain comparability issues between financial statements prepared in accordance with GAAP and those prepared in accordance with International Financial Reporting Standards. For a more detailed description of ASU 2011-11, see “Future Adoption of New Accounting Standards – Balance Sheet Topic” in Note 2 of our 2011 Form 10-K. We will adopt the disclosure requirements in ASU 2011-11 beginning with our first quarter 2013 financial statements and are currently evaluating the appropriate location for these disclosures in the notes to our financial statements.

#### Intangibles – Goodwill and Other

In July 2012, the FASB issued ASU No. 2012-02, “Testing Indefinite-Lived Intangible Assets for Impairment” (“ASU 2012-02”), which provides an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If based on the qualitative assessment an entity determines that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the quantitative impairment test is not required. In addition, an entity has the option to bypass the qualitative assessment in any period and proceed directly to

the quantitative assessment, with the option to return to the qualitative assessment in any subsequent period. The amendments in ASU 2012-02 are effective for interim and annual impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We will adopt the provisions of ASU 2012-02 in the fourth quarter of 2012 and do not expect the adoption will have a material effect on our consolidated financial condition and results of operations.

### 3. Dispositions

#### Discontinued Operations

On January 4, 2010, we closed on the stock sale of our subsidiary Delaware Management Holdings, Inc. (“Delaware”), which provided investment products and services to individuals and institutions, to Macquarie Bank Limited. On October 1, 2009, we closed on the stock sale of Lincoln National (UK) plc (“Lincoln UK”), our subsidiary, which focused primarily on providing life and retirement income products in the United Kingdom to SLF of Canada UK Limited, and we retained Lincoln UK’s pension plan assets and liabilities.

Amounts (in millions) reflected in income (loss) from discontinued operations on our Consolidated Statements of Comprehensive Income (Loss) were as follows:

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |         | For the Nine<br>Months Ended<br>September 30,<br>2011 |         |
|--|--|---------|---|---------|
| Disposal   |  |         |   |         |
| Gain (loss) on disposal, before federal income taxes | \$ -   | \$ (3 ) | \$ (1 )   | \$ (3 ) |
| Federal income tax expense (benefit)                 | (29 )  | 5       | (28 )   | 5       |
| Gain (loss) on disposal                              | 29   | (8 )    | 27  | (8 )    |
| Income (loss) from discontinued operations           | \$ 29  | \$ (8 ) | \$ 27   | \$ (8 ) |

The income from discontinued operations for the three and nine months ended September 30, 2012, related to the release of reserves associated with prior tax years that were closed out during the quarter associated with our former subsidiaries. In addition, the nine months ended September 30, 2012, included a purchase price adjustment associated with the termination of a portion of the investment advisory agreement with Delaware. The loss from discontinued operations for the three and nine months ended September 30, 2011, related to prior year tax return true-ups.

### 4. Variable Interest Entities (“VIEs”)

#### Consolidated VIEs

See Note 4 in our 2011 Form 10-K for a detailed discussion of our consolidated VIEs, which information is incorporated herein by reference.

The following summarizes information regarding the credit-linked note (“CLN”) structures (dollars in millions) as of September 30, 2012:

|          | Amount and Date of<br>Issuance |
|----------|--------------------------------|
| \$400    | \$200                          |
| December | April                          |

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|  | 2006       | 2007      |
|--|------------|-----------|
| Original attachment point (subordination)        | 5.50%      | 2.05%     |
| Current attachment point (subordination)         | 4.17%      | 1.48%     |
| Maturity   | 12/20/2016 | 3/20/2017 |
| Current rating of tranche                        | BB-        | Ba2       |
| Current rating of underlying collateral pool     | Aa1-B3     | Aaa-Caa2  |
| Number of defaults in underlying collateral pool | 2          | 2         |
| Number of entities                               | 123        | 99        |
| Number of countries                              | 20         | 21        |

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

| Industry                         | AAA   | AA     | A      | BBB    | BB    | B     | CCC   | Total   |
|----------------------------------|-------|--------|--------|--------|-------|-------|-------|---------|
| Financial intermediaries         | - %   | 2.1 %  | 7.6 %  | 0.9 %  | - %   | - %   | - %   | 10.6 %  |
| Telecommunications               | - %   | - %    | 5.5 %  | 4.5 %  | - %   | 0.5 % | - %   | 10.5 %  |
| Oil and gas                      | 0.3 % | 2.1 %  | 1.0 %  | 4.6 %  | - %   | - %   | - %   | 8.0 %   |
| Utilities                        | - %   | - %    | 2.6 %  | 2.0 %  | - %   | - %   | - %   | 4.6 %   |
| Chemicals and plastics           | - %   | - %    | 2.3 %  | 1.2 %  | 0.3 % | - %   | - %   | 3.8 %   |
| Drugs                            | 0.3 % | 2.7 %  | 0.7 %  | - %    | - %   | - %   | - %   | 3.7 %   |
| Retailers (except food and drug) | - %   | - %    | 2.1 %  | 0.9 %  | 0.5 % | - %   | - %   | 3.5 %   |
| Industrial equipment             | - %   | - %    | 3.0 %  | 0.3 %  | - %   | - %   | - %   | 3.3 %   |
| Sovereign                        | - %   | 0.7 %  | 1.2 %  | 1.3 %  | - %   | - %   | - %   | 3.2 %   |
| Conglomerates                    | - %   | 2.3 %  | 0.9 %  | - %    | - %   | - %   | - %   | 3.2 %   |
| Forest products                  | - %   | - %    | - %    | 1.6 %  | 1.4 % | - %   | - %   | 3.0 %   |
| Other                            | - %   | 4.5 %  | 14.9 % | 17.9 % | 4.1 % | 0.9 % | 0.3 % | 42.6 %  |
| Total                            | 0.6 % | 14.4 % | 41.8 % | 35.2 % | 6.3 % | 1.4 % | 0.3 % | 100.0 % |

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

|                                   | As of September 30, 2012 |                  |                | As of December 31, 2011 |                  |                |
|-----------------------------------|--------------------------|------------------|----------------|-------------------------|------------------|----------------|
|                                   | Number of Instruments    | Notional Amounts | Carrying Value | Number of Instruments   | Notional Amounts | Carrying Value |
| <b>Assets</b>                     |                          |                  |                |                         |                  |                |
| <b>Fixed maturity securities:</b> |                          |                  |                |                         |                  |                |
| Asset-backed credit card loan     | N/A                      | \$ -             | \$ 596         | N/A                     | \$ -             | \$ 592         |
| U.S. government bonds             | N/A                      | -                | 110            | N/A                     | -                | 108            |
| Excess mortality swap             | 1                        | 100              | -              | 1                       | 100              | -              |
| Total assets (1)                  | 1                        | \$ 100           | \$ 706         | 1                       | \$ 100           | \$ 700         |
| <b>Liabilities</b>                |                          |                  |                |                         |                  |                |
| <b>Non-qualifying hedges:</b>     |                          |                  |                |                         |                  |                |
| Credit default swaps              | 2                        | \$ 600           | \$ 175         | 2                       | \$ 600           | \$ 295         |
| Contingent forwards               | 2                        | -                | (1)            | 2                       | -                | (4)            |
| Total non-qualifying hedges       | 4                        | 600              | 174            | 4                       | 600              | 291            |
| Federal income tax                | N/A                      | -                | (53)           | N/A                     | -                | (98)           |
| Total liabilities (2)             | 4                        | \$ 600           | \$ 121         | 4                       | \$ 600           | \$ 193         |

(1) Reported in VIEs' fixed maturity securities on our Consolidated Balance Sheets.

(2) Reported in VIEs' liabilities on our Consolidated Balance Sheets.

For details related to the fixed maturity available-for-sale ("AFS") securities for these VIEs, see Note 4.

As described more fully in Note 1 of our 2011 Form 10-K, we regularly review our investment holdings for other-than-temporary impairment ("OTTI"). Based upon this review, we believe that the fixed maturity securities were

not other-than-temporarily impaired as of September 30, 2012.

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

|                                 | For the Three<br>Months Ended<br>September 30,<br>2012 |          | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |
|---------------------------------|--|----------|---|----------|
| Non-Qualifying Hedges           |  |          |   |          |
| Credit default swaps            | \$ 58  | \$ (105) | \$ 120  | \$ (92 ) |
| Contingent forwards             | (1 )   | 2        | (3 )  | 1        |
| Total non-qualifying hedges (1) | \$ 57  | \$ (103) | \$ 117  | \$ (91 ) |

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

#### Unconsolidated VIEs

See Note 4 in our 2011 Form 10-K for a detailed discussion of our unconsolidated VIEs, which information is incorporated herein by reference.

#### 5. Investments

##### AFS Securities

Pursuant to the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification™ (“ASC”), we have categorized AFS securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3), as described in Note 1 in our 2011 Form 10-K, which also includes additional disclosures regarding our fair value measurements.

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

|   | As of September 30, 2012 |                |                      |        |               |
|---|--------------------------|----------------|----------------------|--------|---------------|
|   | Amortized<br>Cost        | Gross<br>Gains | Unrealized<br>Losses | OTTI   | Fair<br>Value |
| Fixed maturity securities:                      |                          |                |                      |        |               |
| Corporate bonds                                 | \$ 58,531                | \$ 8,335       | \$ 292               | \$ 98  | \$ 66,476     |
| U.S. government bonds                           | 441                      | 67             | -                    | -      | 508           |
| Foreign government bonds                        | 570                      | 91             | -                    | -      | 661           |
| Residential mortgage-backed securities ("RMBS") | 6,278                    | 530            | 11                   | 60     | 6,737         |
| Commercial mortgage-backed securities ("CMBS")  | 1,104                    | 75             | 32                   | 21     | 1,126         |
| Collateralized debt obligations ("CDOs")        | 159                      | -              | 4                    | 8      | 147           |
| State and municipal bonds                       | 3,519                    | 826            | 7                    | -      | 4,338         |
| Hybrid and redeemable preferred securities      | 1,176                    | 95             | 85                   | -      | 1,186         |
| VIEs' fixed maturity securities                 | 676                      | 30             | -                    | -      | 706           |
| Total fixed maturity securities                 | 72,454                   | 10,049         | 431                  | 187    | 81,885        |
| Equity securities                               | 143                      | 21             | 8                    | -      | 156           |
| Total AFS securities                            | \$ 72,597                | \$ 10,070      | \$ 439               | \$ 187 | \$ 82,041     |



|  | As of December 31, 2011 |                |                      |        |               |
|--|-------------------------|----------------|----------------------|--------|---------------|
|  | Amortized<br>Cost       | Gross<br>Gains | Unrealized<br>Losses | OTTI   | Fair<br>Value |
| Fixed maturity securities:                 |                         |                |                      |        |               |
| Corporate bonds                            | \$ 53,661               | \$ 6,185       | \$ 517               | \$ 68  | \$ 59,261     |
| U.S. government bonds                      | 439                     | 55             | -                    | -      | 494           |
| Foreign government bonds                   | 668                     | 65             | -                    | -      | 733           |
| RMBS                                       | 7,690                   | 548            | 73                   | 126    | 8,039         |
| CMBS                                       | 1,642                   | 73             | 106                  | 9      | 1,600         |
| CDOs                                       | 121                     | -              | 19                   | -      | 102           |
| State and municipal bonds                  | 3,490                   | 566            | 9                    | -      | 4,047         |
| Hybrid and redeemable preferred securities | 1,277                   | 50             | 170                  | -      | 1,157         |
| VIEs' fixed maturity securities            | 673                     | 27             | -                    | -      | 700           |
| Total fixed maturity securities            | 69,661                  | 7,569          | 894                  | 203    | 76,133        |
| Equity securities                          | 135                     | 16             | 12                   | -      | 139           |
| Total AFS securities                       | \$ 69,796               | \$ 7,585       | \$ 906               | \$ 203 | \$ 76,272     |

The amortized cost and fair value of fixed maturity AFS securities by contractual maturities (in millions) as of September 30, 2012, were as follows:

|  | Amortized<br>Cost | Fair<br>Value |
|--|-------------------|---------------|
| Due in one year or less                | \$ 2,841          | \$ 2,895      |
| Due after one year through five years  | 12,308            | 13,414        |
| Due after five years through ten years | 24,171            | 27,194        |
| Due after ten years                    | 25,593            | 30,372        |
| Subtotal                               | 64,913            | 73,875        |
| Mortgage-backed securities ("MBS")     | 7,382             | 7,863         |
| CDOs                                   | 159               | 147           |
| Total fixed maturity AFS securities    | \$ 72,454         | \$ 81,885     |

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



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

|   | As of September 30, 2012            |          |                            |          |                         |          |
|---|-------------------------------------|----------|----------------------------|----------|-------------------------|----------|
|   | Less Than or Equal to Twelve Months |          | Greater Than Twelve Months |          | Total                   |          |
|   | Gross Unrealized Losses             |          | Gross Unrealized Losses    |          | Gross Unrealized Losses |          |
|   | Fair Value                          | and OTTI | Fair Value                 | and OTTI | Fair Value              | and OTTI |
|   |                                     |          |                            |          |                         |          |
|   |                                     |          |                            |          |                         |          |
| Fixed maturity securities:                                    |                                     |          |                            |          |                         |          |
| Corporate bonds   | \$ 1,534                            | \$ 140   | \$ 1,095                   | \$ 250   | \$ 2,629                | \$ 390   |
| RMBS  | 257                                 | 41       | 226                        | 30       | 483                     | 71       |
| CMBS  | 64                                  | 21       | 137                        | 32       | 201                     | 53       |
| CDOs  | 20                                  | 8        | 57                         | 4        | 77                      | 12       |
| State and municipal bonds                                     | -                                   | -        | 23                         | 7        | 23                      | 7        |
| Hybrid and redeemable preferred securities                    | 12                                  | 3        | 405                        | 82       | 417                     | 85       |
| Total fixed maturity securities                               | 1,887                               | 213      | 1,943                      | 405      | 3,830                   | 618      |
| Equity securities   | 8                                   | 1        | 4                          | 7        | 12                      | 8        |
| Total AFS securities  | \$ 1,895                            | \$ 214   | \$ 1,947                   | \$ 412   | \$ 3,842                | \$ 626   |
| Total number of AFS securities in an unrealized loss position |                                     |          |                            |          |                         | 583      |

|   | As of December 31, 2011             |          |                            |          |                         |          |
|---|-------------------------------------|----------|----------------------------|----------|-------------------------|----------|
|   | Less Than or Equal to Twelve Months |          | Greater Than Twelve Months |          | Total                   |          |
|   | Gross Unrealized Losses             |          | Gross Unrealized Losses    |          | Gross Unrealized Losses |          |
|   | Fair Value                          | and OTTI | Fair Value                 | and OTTI | Fair Value              | and OTTI |
|   |                                     |          |                            |          |                         |          |
|   |                                     |          |                            |          |                         |          |
| Fixed maturity securities:                                    |                                     |          |                            |          |                         |          |
| Corporate bonds   | \$ 2,848                            | \$ 162   | \$ 1,452                   | \$ 423   | \$ 4,300                | \$ 585   |
| RMBS  | 565                                 | 125      | 429                        | 74       | 994                     | 199      |
| CMBS  | 178                                 | 15       | 146                        | 100      | 324                     | 115      |
| CDOs  | 9                                   | 1        | 80                         | 18       | 89                      | 19       |
| State and municipal bonds                                     | 31                                  | -        | 30                         | 9        | 61                      | 9        |
| Hybrid and redeemable preferred securities                    | 324                                 | 23       | 353                        | 147      | 677                     | 170      |
| Total fixed maturity securities                               | 3,955                               | 326      | 2,490                      | 771      | 6,445                   | 1,097    |
| Equity securities   | 38                                  | 12       | -                          | -        | 38                      | 12       |
| Total AFS securities  | \$ 3,993                            | \$ 338   | \$ 2,490                   | \$ 771   | \$ 6,483                | \$ 1,109 |
| Total number of AFS securities in an unrealized loss position |                                     |          |                            |          |                         | 897      |

For information regarding our investments in VIEs, see Note 4.



We perform detailed analysis on the AFS securities backed by pools of residential and commercial mortgages that are most at risk of impairment based on factors discussed in Note 1 in our 2011 Form 10-K. Selected information for these securities in a gross unrealized loss position (in millions) was as follows:

|   | As of September 30, 2012 |            |                 |
|---|--------------------------|------------|-----------------|
|   | Amortized Cost           | Fair Value | Unrealized Loss |
| Total   |                          |            |                 |
| AFS securities backed by pools of residential mortgages | \$ 1,283                 | \$ 1,016   | \$ 267          |
| AFS securities backed by pools of commercial mortgages  | 282                      | 219        | 63              |
| Total   | \$ 1,565                 | \$ 1,235   | \$ 330          |
|   |                          |            |                 |
| Subject to Detailed Analysis                            |                          |            |                 |
| AFS securities backed by pools of residential mortgages | \$ 1,279                 | \$ 1,012   | \$ 267          |
| AFS securities backed by pools of commercial mortgages  | 63                       | 39         | 24              |
| Total   | \$ 1,342                 | \$ 1,051   | \$ 291          |
|   |                          |            |                 |
|   | As of December 31, 2011  |            |                 |
|   | Amortized Cost           | Fair Value | Unrealized Loss |
| Total   |                          |            |                 |
| AFS securities backed by pools of residential mortgages | \$ 2,023                 | \$ 1,553   | \$ 470          |
| AFS securities backed by pools of commercial mortgages  | 472                      | 344        | 128             |
| Total   | \$ 2,495                 | \$ 1,897   | \$ 598          |
|   |                          |            |                 |
| Subject to Detailed Analysis                            |                          |            |                 |
| AFS securities backed by pools of residential mortgages | \$ 2,015                 | \$ 1,545   | \$ 470          |
| AFS securities backed by pools of commercial mortgages  | 126                      | 61         | 65              |
| Total   | \$ 2,141                 | \$ 1,606   | \$ 535          |

For the nine months ended September 30, 2012 and 2011, we recorded OTTI for AFS securities backed by pools of residential and commercial mortgages of \$6 million and \$42 million, pre-tax, respectively, and before associated amortization expense for DAC, value of business acquired (“VOBA”), deferred sales inducements (“DSI”) and deferred front-end loads (“DFEL”), of which \$(31) million and \$9 million, respectively, was recognized in OCI and \$37 million and \$33 million, respectively, was recognized in net income (loss).

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

|   | As of September 30, 2012 |                         |        |                                     |
|---|--------------------------|-------------------------|--------|-------------------------------------|
|   | Fair Value               | Gross Unrealized Losses | OTTI   | Number of Securities <sup>(1)</sup> |
| Less than six months                                | \$ 13                    | \$ 5                    | \$ 1   | 11                                  |
| Six months or greater, but less than nine months    | 18                       | 10                      | -      | 5                                   |
| Nine months or greater, but less than twelve months | 7                        | 2                       | -      | 1                                   |
| Twelve months or greater                            | 546                      | 289                     | 142    | 154                                 |
| Total   | \$ 584                   | \$ 306                  | \$ 143 | 171                                 |



|   | As of December 31, 2011 |                   |        |                                     |
|---|-------------------------|-------------------|--------|-------------------------------------|
|   | Fair Value              | Gross             |        | Number of Securities <sup>(1)</sup> |
|   |                         | Unrealized Losses | OTTI   |                                     |
| Less than six months                                | \$ 385                  | \$ 125            | \$ 31  | 56                                  |
| Six months or greater, but less than nine months    | 53                      | 30                | 12     | 18                                  |
| Nine months or greater, but less than twelve months | 2                       | -                 | 1      | 7                                   |
| Twelve months or greater                            | 615                     | 470               | 111    | 175                                 |
| Total   | \$ 1,055                | \$ 625            | \$ 155 | 256                                 |

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

We regularly review our investment holdings for OTTI. Our gross unrealized losses on AFS securities decreased \$483 million for the nine months ended September 30, 2012. As discussed further below, we believe the unrealized loss position as of September 30, 2012, did not represent OTTI as we did not intend to sell these fixed maturity AFS securities, it is not more likely than not that we will be required to sell the fixed maturity AFS securities before recovery of their amortized cost basis, the estimated future cash flows were equal to or greater than the amortized cost basis of the debt securities, or we had the ability and intent to hold the equity AFS securities for a period of time sufficient for recovery.

Based upon this evaluation as of September 30, 2012, management believed we had the ability to generate adequate amounts of cash from our normal operations (e.g., insurance premiums and fees and investment income) to meet cash requirements with a prudent margin of safety without requiring the sale of our temporarily-impaired securities.

As of September 30, 2012, the unrealized losses associated with our corporate bond securities were attributable primarily to securities that were backed by commercial loans and individual issuer companies. For our corporate bond securities with commercial loans as the underlying collateral, we evaluated the projected credit losses in the underlying collateral and concluded that we had sufficient subordination or other credit enhancement when compared with our estimate of credit losses for the individual security and we expected to recover the entire amortized cost for each security. For individual issuers, we performed detailed analysis of the financial performance of the issuer and determined that we expected to recover the entire amortized cost for each security.

As of September 30, 2012, the unrealized losses associated with our MBS and CDOs were attributable primarily to collateral losses and credit spreads. We assessed for credit impairment using a cash flow model as discussed above. The key assumptions included default rates, severities and prepayment rates. We estimated losses for a security by forecasting the underlying loans in each transaction. The forecasted loan performance was used to project cash flows to the various tranches in the structure, as applicable. Our forecasted cash flows also considered, as applicable, independent industry analyst reports and forecasts, sector credit ratings and other independent market data. Based upon our assessment of the expected credit losses of the security given the performance of the underlying collateral compared to our subordination or other credit enhancement, we expected to recover the entire amortized cost basis of each security.

As of September 30, 2012, the unrealized losses associated with our hybrid and redeemable preferred securities were attributable primarily to wider credit spreads caused by illiquidity in the market and subordination within the capital structure, as well as credit risk of specific issuers. For our hybrid and redeemable preferred securities, we evaluated the financial performance of the issuer based upon credit performance and investment ratings and determined we expected to recover the entire amortized cost of each security.



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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |        |
|--|--|--------|---|--------|
| Balance as of beginning-of-period  | \$ 415   | \$ 340 | \$ 390  | \$ 319 |
| Increases attributable to:   |  |        |   |        |
| Credit losses on securities for which an OTTI was not<br>previously recognized | 19   | 11     | 74  | 40     |
| Credit losses on securities for which an OTTI was previously<br>recognized     | 18   | 17     | 60  | 57     |
| Decreases attributable to:   |  |        |   |        |
| Securities sold  | (19)   | (6)    | (91)  | (54)   |
| Balance as of end-of-period  | \$ 433   | \$ 362 | \$ 433  | \$ 362 |

During 2012 and 2011, we recorded credit losses on securities for which an OTTI was not previously recognized as we determined the cash flows expected to be collected would not be sufficient to recover the entire amortized cost basis of the debt security. The credit losses we recorded on securities for which an OTTI was not previously recognized were attributable primarily to one or a combination of the following reasons:

- Failure of the issuer of the security to make scheduled payments;
  - Deterioration of creditworthiness of the issuer;
  - Deterioration of conditions specifically related to the security;
- Deterioration of fundamentals of the industry in which the issuer operates;
- Deterioration of fundamentals in the economy including, but not limited to, higher unemployment and lower housing prices; and
  - Deterioration of the rating of the security by a rating agency.

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

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

|                 | As of September 30, 2012 |                              |  |               |                                |
|-----------------|--------------------------|------------------------------|--|---------------|--------------------------------|
|                 | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses<br>and<br>OTTI | Fair<br>Value | OTTI<br>in<br>Credit<br>Losses |
| Corporate bonds | \$ 259                   | \$ 2                         | \$ 104                                       | \$ 157        | \$ 78                          |
| RMBS            | 662                      | 19                           | 42   | 639           | 267                            |
| CMBS            | 43                       | 1                            | 20   | 24            | 88                             |
| Total           | \$ 964                   | \$ 22                        | \$ 166                                       | \$ 820        | \$ 433                         |

As of December 31, 2011

|                 |                   |       | Gross<br>Unrealized<br>Losses | Fair<br>Value | OTTI<br>in<br>Credit<br>Losses |
|-----------------|-------------------|-------|-------------------------------|---------------|--------------------------------|
|                 | Amortized<br>Cost | Gains | and<br>OTTI                   |               |                                |
| Corporate bonds | \$ 169            | \$ 1  | \$ 67                         | \$ 103        | \$ 51                          |
| RMBS            | 690               | 1     | 128                           | 563           | 301                            |
| CMBS            | 17                | -     | 10                            | 7             | 38                             |
| Total           | \$ 876            | \$ 2  | \$ 205                        | \$ 673        | \$ 390                         |



## Mortgage Loans on Real Estate

Mortgage loans on real estate principally involve commercial real estate. The commercial loans are geographically diversified throughout the U.S. with the largest concentrations in California and Texas, which accounted for 32% of mortgage loans on real estate as of September 30, 2012, and December 31, 2011.

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

|  | As of<br>September<br>30,<br>2012 | As of<br>December<br>31,<br>2011 |
|--|-----------------------------------|----------------------------------|
| Current  | \$ 6,646                          | \$ 6,858                         |
| 60 to 90 days past due   | 15                                | 26                               |
| Greater than 90 days past due  | 40                                | 76                               |
| Valuation allowance associated with impaired mortgage loans on real estate | (21 )                             | (31 )                            |
| Unamortized premium (discount)   | 10                                | 13                               |
| Total carrying value   | \$ 6,690                          | \$ 6,942                         |

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

|  | As of<br>September<br>30,<br>2012 | As of<br>December<br>31,<br>2011 |
|--|-----------------------------------|----------------------------------|
| Number of impaired mortgage loans on real estate                           | 9                                 | 12                               |
| Principal balance of impaired mortgage loans on real estate                | \$ 65                             | \$ 100                           |
| Valuation allowance associated with impaired mortgage loans on real estate | (21)                              | (31)                             |
| Carrying value of impaired mortgage loans on real estate                   | \$ 44                             | \$ 69                            |

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |       | For the Nine<br>Months Ended<br>September 30,<br>2011 |       |
|--|--|-------|---|-------|
| Average carrying value for impaired mortgage loans on real estate    | \$ 42  | \$ 58 | \$ 52   | \$ 55 |
| Interest income recognized on impaired mortgage loans on real estate | 1  | -     | 1   | 2     |
| Interest income collected on impaired mortgage loans on real estate  | 1  | -     | 1   | 2     |

As described in Note 1 in our 2011 Form 10-K, we use the loan-to-value and debt-service coverage ratios as credit quality indicators for our mortgage loans, which were as follows (dollars in millions):

|           |      | As of September 30, 2012     |      | As of December 31, 2011      |      |
|-----------|------|------------------------------|------|------------------------------|------|
|           |      | Debt-<br>Service<br>Coverage |      | Debt-<br>Service<br>Coverage |      |
| Principal | % of | Principal                    | % of | Principal                    | % of |
|           |      |                              |      |                              |      |

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| Loan-to-Value                       | Amount   | Total  | Ratio | Amount   | Total  | Ratio |
|-------------------------------------|----------|--------|-------|----------|--------|-------|
| Less than 65%                       | \$ 5,258 | 78.5 % | 1.66  | \$ 5,338 | 76.7 % | 1.61  |
| 65% to 74%                          | 948      | 14.1 % | 1.39  | 1,198    | 17.2 % | 1.37  |
| 75% to 100%                         | 424      | 6.3 %  | 0.80  | 308      | 4.4 %  | 0.92  |
| Greater than 100%                   | 71       | 1.1 %  | 0.60  | 116      | 1.7 %  | 0.36  |
| Total mortgage loans on real estate | \$ 6,701 | 100.0% |       | \$ 6,960 | 100.0% |       |

## Alternative Investments

As of September 30, 2012, and December 31, 2011, alternative investments included investments in 99 and 96 different partnerships, respectively, and the portfolio represented less than 1% of our overall invested assets.

## Realized Gain (Loss) Related to Certain Investments

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

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |         | For the Nine<br>Months Ended<br>September 30,<br>2011 |         |
|---|--|---------|---|---------|
| Fixed maturity AFS securities:  |  |         |   |         |
| Gross gains   | \$ 4   | \$ 17   | \$ 12   | \$ 84   |
| Gross losses  | (49)   | (63)    | (161)   | (177)   |
| Equity AFS securities:  |  |         |   |         |
| Gross gains   | -  | -       | 1   | 10      |
| Gain (loss) on other investments  | (10)   | (3)     | (8)   | 1       |
| Associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds | 1  | 4       | 3   | (10)    |
| Total realized gain (loss) related to certain investments                                     | \$ (54)  | \$ (45) | \$ (153)  | \$ (92) |

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

|  | For the Three<br>Months<br>Ended<br>September 30,<br>2012 |          | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |
|--|---|----------|---|----------|
| OTTI Recognized in Net Income (Loss)               |   |          |   |          |
| Corporate bonds                                    | \$ (5 )   | \$ (3 )  | \$ (34 )  | \$ (9 )  |
| RMBS   | (16 )   | (22 )    | (48 )   | (65 )    |
| CMBS   | (14 )   | (8 )     | (50 )   | (47 )    |
| CDOs   | (2 )  | -        | (2 )  | (1 )     |
| Hybrid and redeemable preferred securities         | -   | -        | -   | (2 )     |
| Gross OTTI recognized in net income (loss)         | (37 )   | (33 )    | (134 )  | (124 )   |
| Associated amortization of DAC, VOBA, DSI and DFEL | 5   | 7        | 22  | 26       |
| Net OTTI recognized in net income (loss), pre-tax  | \$ (32 )  | \$ (26 ) | \$ (112 )   | \$ (98 ) |
| Portion of OTTI Recognized in OCI                  |   |          |   |          |
| Gross OTTI recognized in OCI                       | \$ (17 )  | \$ (21 ) | \$ (96 )  | \$ (48 ) |
| Change in DAC, VOBA, DSI and DFEL                  | 2   | 3        | 14  | 11       |
| Net portion of OTTI recognized in OCI, pre-tax     | \$ (15 )  | \$ (18 ) | \$ (82 )  | \$ (37 ) |

Determination of Credit Losses on Corporate Bonds and CDOs

As of September 30, 2012, and December 31, 2011, we reviewed our corporate bond and CDO portfolios for potential shortfall in contractual principal and interest based on numerous subjective and objective inputs. The factors used to determine the amount of credit loss for each individual security, include, but are not limited to, near term risk, substantial discrepancy between book and market value, sector or company-specific volatility, negative operating trends and trading levels wider than peers.

Credit ratings express opinions about the credit quality of a security. Securities rated investment grade, that is those rated BBB- or higher by Standard & Poor's ("S&P") Rating Services or Baa3 or higher by Moody's Investors Service ("Moody's"), are generally considered by the rating agencies and market participants to be low credit risk. As of September 30, 2012, and December 31, 2011, 96% of the fair value of our corporate bond portfolio was rated investment grade. As of September 30, 2012, and December 31, 2011, the portion of our corporate bond portfolio rated below investment grade had an amortized cost of \$2.8 billion and \$2.6 billion and a fair value of \$2.7 billion and \$2.4 billion, respectively. As of September 30, 2012, and December 31, 2011, 98% and 97%, respectively, of the fair value of our CDO portfolio was rated investment grade. As of September 30, 2012, and December 31, 2011, the portion of our CDO portfolio rated below investment grade had an amortized cost and fair value of \$3.5 million and \$2.6 million, respectively. Based upon the analysis discussed above, we believed as of September 30, 2012, and December 31, 2011, that we would recover the amortized cost of each investment grade corporate bond and CDO security.

For securities where we recorded an OTTI recognized in net income (loss) for the nine months ended September 30, 2012 and 2011, the recovery as a percentage of amortized cost was 93% and 98%, respectively, for corporate bonds and 90% and 0% respectively for CDOs.

#### Determination of Credit Losses on MBS

As of September 30, 2012, and December 31, 2011, default rates were projected by considering underlying MBS loan performance and collateral type. Projected default rates on existing delinquencies vary between 25% to 100% depending on loan type and severity of delinquency status. In addition, we estimate the potential contributions of currently performing loans that may become delinquent in the future based on the change in delinquencies and loan liquidations experienced in the recent history. Finally, we develop a default rate timing curve by aggregating the defaults for all loans (delinquent loans, foreclosure and real estate owned and new delinquencies from currently performing loans) in the pool to project the future expected cash flows.

We use certain available loan characteristics such as lien status, loan sizes and occupancy to estimate the loss severity of loans. Second lien loans are assigned 100% severity, if defaulted. For first lien loans, we assume a minimum of 30% severity with higher severity assumed for investor properties and further housing price depreciation.

## Payables for Collateral on Investments

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

|  | As of September<br>30, 2012 |               | As of December<br>31, 2011 |               |
|--|-----------------------------|---------------|----------------------------|---------------|
|  | Carrying<br>Value           | Fair<br>Value | Carrying<br>Value          | Fair<br>Value |
| Collateral payable held for derivative investments (1)                                     | \$ 2,953                    | \$ 2,953      | \$ 2,980                   | \$ 2,980      |
| Securities pledged under securities lending agreements (2)                                 | 196                         | 190           | 200                        | 193           |
| Securities pledged under reverse repurchase agreements (3)                                 | 280                         | 294           | 280                        | 294           |
| Securities pledged for Term Asset-Backed Securities Loan Facility ("TALF")<br>(4)          | 37                          | 52            | 173                        | 199           |
| Investments pledged for Federal Home Loan Bank of Indianapolis Securities<br>("FHLBI") (5) | 1,100                       | 1,870         | 100                        | 142           |
| Total payables for collateral on investments   | \$ 4,566                    | \$ 5,359      | \$ 3,733                   | \$ 3,808      |

- (1) We obtain collateral based upon contractual provisions with our counterparties. These agreements take into consideration the counterparties' credit rating as compared to ours, the fair value of the derivative investments and specified thresholds that if exceeded result in the receipt of cash that is typically invested in cash and invested cash. See Note 6 for details about maximum collateral potentially required to post on our credit default swaps.
- (2) Our pledged securities under securities lending agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We generally obtain collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. We value collateral daily and obtain additional collateral when deemed appropriate. The cash received in our securities lending program is typically invested in cash and invested cash or fixed maturity AFS securities.
- (3) Our pledged securities under reverse repurchase agreements are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount equal to 95% of the fair value of the securities, and our agreements with third parties contain contractual provisions to allow for additional collateral to be obtained when necessary. The cash received in our reverse repurchase program is typically invested in fixed maturity AFS securities.
- (4) Our pledged securities for TALF are included in fixed maturity AFS securities on our Consolidated Balance Sheets. We obtain collateral in an amount that has typically averaged 90% of the fair value of the TALF securities. The cash received in these transactions is invested in fixed maturity AFS securities.
- (5) Our pledged investments for FHLBI are included in fixed maturity AFS securities and mortgage loans on real estate on our Consolidated Balance Sheets. The collateral requirements are generally 105% to 115% of the fair value for fixed maturity AFS securities and 155% to 175% of the fair value for mortgage loans on real estate. The cash received in these transactions is primarily invested in cash and invested cash or fixed maturity AFS securities.

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

|  | For the Nine<br>Months Ended<br>September 30, |          |
|--|---|----------|
|  | 2012  | 2011     |
| Collateral payable held for derivative investments | \$ (27 )                                      | \$ 1,793 |

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|   |        |          |
|---|--------|----------|
| Securities pledged under securities lending agreements              | (4 )   | (1 )     |
| Securities pledged for TALF   | (136 ) | (96 )    |
| Investments pledged for FHLBI                                       | 1,000  | 500      |
| Total increase (decrease) in payables for collateral on investments | \$ 833 | \$ 2,196 |

Investment Commitments

As of September 30, 2012, our investment commitments were \$966 million, which included \$231 million of limited partnerships (“LPs”), \$405 million of private placements and \$330 million of mortgage loans on real estate.

## Concentrations of Financial Instruments

As of September 30, 2012, and December 31, 2011, our most significant investments in one issuer were our investments in securities issued by the Federal Home Loan Mortgage Corporation with a fair value of \$4.1 billion and \$5.0 billion, respectively, or 4% and 5% of our invested assets portfolio, respectively, and our investments in securities issued by Fannie Mae with a fair value of \$2.4 billion and \$2.6 billion, respectively, or 2% and 3% of our invested assets portfolio, respectively. These investments are included in corporate bonds in the tables above.

As of September 30, 2012, and December 31, 2011, our most significant investments in one industry were our investment securities in the electric industry with a fair value of \$8.5 billion and \$7.7 billion, respectively, or 9% and 8% of our invested assets portfolio, respectively, and our investment securities in the banking industry with a fair value of \$4.9 billion and \$5.6 billion, or 5% and 6% of our invested assets portfolio, respectively. We utilized the industry classifications to obtain the concentration of financial instruments amount; as such, this amount will not agree to the AFS securities table above.

## 6. Derivative Instruments

We maintain an overall risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate risk, foreign currency exchange risk, equity market risk, default risk, basis risk and credit risk. See Note 1 in our 2011 Form 10-K for a detailed discussion of the accounting treatment for derivative instruments. See Note 6 in our 2011 Form 10-K for a detailed discussion of our derivative instruments and use of them in our overall risk management strategy which information is incorporated herein by reference. In addition, we have entered into forward-starting interest rate swaps that hedge the interest rate risk of floating rate bond coupon payments by replicating a fixed rate bond. See Note 13 for additional disclosures related to the fair value of our derivative instruments and Note 4 for derivative instruments related to our consolidated VIEs.

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

|                                | As of September 30, 2012 |                     |           | As of December 31, 2011 |                     |           |
|--------------------------------|--------------------------|---------------------|-----------|-------------------------|---------------------|-----------|
|                                | Notional<br>Amounts      | Fair Value<br>Asset | Liability | Notional<br>Amounts     | Fair Value<br>Asset | Liability |
| Qualifying Hedges              |                          |                     |           |                         |                     |           |
| Cash flow hedges:              |                          |                     |           |                         |                     |           |
| Interest rate contracts (1)    | \$ 3,336                 | \$ 210              | \$ -      | \$ 2,512                | \$ 130              | \$ -      |
| Foreign currency contracts (1) | 420                      | 25                  | -         | 340                     | 38                  | -         |
| Total cash flow hedges         | 3,756                    | 235                 | -         | 2,852                   | 168                 | -         |
| Fair value hedges:             |                          |                     |           |                         |                     |           |
| Interest rate contracts (1)    | 875                      | 307                 | -         | 1,675                   | 319                 | -         |
| Equity collar (1)              | 9                        | -                   | -         | -                       | -                   | -         |
| Total fair value hedges        | 884                      | 307                 | -         | 1,675                   | 319                 | -         |
| Non-Qualifying Hedges          |                          |                     |           |                         |                     |           |
| Interest rate contracts (1)    | 36,714                   | 750                 | -         | 30,232                  | 568                 | -         |
| Foreign currency contracts (1) | 138                      | -                   | -         | 4                       | -                   | -         |
| Equity market contracts (1)    | 19,276                   | 1,780               | -         | 16,401                  | 2,096               | -         |
| Credit contracts (1)           | 47                       | -                   | 3         | 48                      | -                   | -         |
| Credit contracts (2)           | 188                      | -                   | 16        | 148                     | -                   | 16        |
| Embedded derivatives:          |                          |                     |           |                         |                     |           |



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|   |           |          |          |           |          |          |
|---|-----------|----------|----------|-----------|----------|----------|
| Indexed annuity contracts (3)                   | -         | -        | 733      | -         | -        | 399      |
| Guaranteed living benefits ("GLB") reserves (3) | -         | -        | 1,411    | -         | -        | 2,217    |
| Reinsurance related (4)                         | -         | -        | 215      | -         | -        | 168      |
| Total derivative instruments                    | \$ 61,003 | \$ 3,072 | \$ 2,378 | \$ 51,360 | \$ 3,151 | \$ 2,800 |

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

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

|   | Remaining Life as of September 30, 2012 |                |                 |                  |                  | Total     |
|---|---|----------------|-----------------|------------------|------------------|-----------|
|   | Less Than<br>1 Year                     | 1 – 5<br>Years | 6 – 10<br>Years | 11 – 30<br>Years | Over 30<br>Years |           |
| Interest rate contracts (1)                           | \$ 3,110                                | \$ 20,203      | \$ 6,307        | \$ 10,092        | \$ 1,213         | \$ 40,925 |
| Foreign currency contracts (2)                        | 138                                     | 179            | 191             | 50               | -                | 558       |
| Equity market contracts                               | 9,917                                   | 3,863          | 5,477           | 25               | 3                | 19,285    |
| Credit contracts                                      | 40                                      | 195            | -               | -                | -                | 235       |
| Total derivative instruments with<br>notional amounts | \$ 13,205                               | \$ 24,440      | \$ 11,975       | \$ 10,167        | \$ 1,216         | \$ 61,003 |

(1) As of September 30, 2012, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was June 2042.

(2) As of September 30, 2012, the latest maturity date for which we were hedging our exposure to the variability in future cash flows for these instruments was April 2028.

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

|   | For the Nine<br>Months Ended<br>September 30, |         |
|---|---|---------|
|   | 2012  | 2011    |
| Unrealized Gain (Loss) on Derivative Instruments                              |   |         |
| Balance as of beginning-of-year   | \$ 119  | \$ (15) |
| Other comprehensive income (loss):  |   |         |
| Cumulative effect from adoption of new accounting standards                   | -   | 4       |
| Unrealized holding gains (losses) arising during the year:                    |   |         |
| Cash flow hedges:   |   |         |
| Interest rate contracts   | 67  | 178     |
| Foreign currency contracts  | (3)   | 7       |
| Fair value hedges:  |   |         |
| Interest rate contracts   | 3   | 3       |
| Change in foreign currency exchange rate adjustment                           | (7)   | (1)     |
| Change in DAC, VOBA, DSI and DFEL   | 9   | (1)     |
| Transfers from derivative instruments to bonds through basis adjustment       | 13  | -       |
| Income tax benefit (expense)  | (30)  | (65)    |
| Less:   |   |         |
| Reclassification adjustment for gains (losses) included in net income (loss): |   |         |
| Cash flow hedges:   |   |         |
| Interest rate contracts (1)   | (17)  | (6)     |
| Interest rate contracts (2)   | -   | 3       |
| Foreign currency contracts (1)  | 3   | (3)     |
| Fair value hedges:  |   |         |
| Interest rate contracts (2)   | 3   | 3       |
| Associated amortization of DAC, VOBA, DSI and DFEL                            | 2   | -       |
| Income tax benefit (expense)  | 3   | 1       |
| Balance as of end-of-period   | \$ 177  | \$ 112  |

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

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

|                                | For the Three<br>Months Ended<br>September 30,<br>2012 |           | For the Nine<br>Months Ended<br>September 30,<br>2011 |           |
|--------------------------------|--|-----------|---|-----------|
| Qualifying Hedges              |  |           |   |           |
| Cash flow hedges:              |  |           |   |           |
| Interest rate contracts (1)    | \$ (6 )  | \$ (2 )   | \$ (17 )  | \$ (7 )   |
| Foreign currency contracts (1) | 2  | 2         | 4   | 3         |
| Total cash flow hedges         | (4 )   | -         | (13 )   | (4 )      |
| Fair value hedges:             |  |           |   |           |
| Interest rate contracts (2)    | 5  | 13        | 28  | 38        |
| Non-Qualifying Hedges          |  |           |   |           |
| Interest rate contracts (1)    | (4 )   | (25 )     | (23 )   | (41 )     |
| Interest rate contracts (3)    | (2 )   | 982       | 206   | 1,008     |
| Foreign currency contracts (3) | (4 )   | (5 )      | (8 )  | (11 )     |
| Equity market contracts (3)    | (343)  | 694       | (773)   | 560       |
| Equity market contracts (4)    | (136)  | 154       | (246)   | 120       |
| Credit contracts (1)           | -  | (1 )      | (1 )  | (1 )      |
| Credit contracts (3)           | (7 )   | (8 )      | (2 )  | (6 )      |
| Embedded derivatives:          |  |           |   |           |
| Indexed annuity contracts (3)  | (63 )  | 135       | (143)   | 81        |
| GLB reserves (3)               | 570  | (2,065)   | 861   | (1,935)   |
| Reinsurance related (3)        | (30 )  | (58 )     | (48 )   | (76 )     |
| AFS securities (1)             | -  | -         | -   | 1         |
| Total derivative instruments   | \$ (18 )   | \$ (184 ) | \$ (162)  | \$ (266 ) |

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

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

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |      | For the Nine<br>Months Ended<br>September 30,<br>2011 |         |
|---|--|------|---|---------|
| Gain (loss) recognized as a component of OCI with the offset to net investment income | \$ (5 )  | \$ - | \$ (15 )  | \$ (4 ) |

As of September 30, 2012, \$22 million of the deferred net losses on derivative instruments in accumulated OCI were expected to be reclassified to earnings during the next 12 months. This reclassification would be due primarily to the interest rate variances related to the interest rate swap agreements.

For the three and nine months ended September 30, 2012 and 2011, there were no material reclassifications to earnings due to hedged firm commitments no longer deemed probable or due to hedged forecasted transactions that

had not occurred by the end of the originally specified time period.

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |      | For the Nine<br>Months Ended<br>September 30,<br>2011 |      |
|--|--|------|---|------|
| Gain (loss) recognized as a component of OCI with the offset to interest expense | \$ 1   | \$ 1 | \$ 3  | \$ 3 |

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

| As of September 30, 2012      |                           |                          |  |                             |                      |                                |
|-------------------------------|---------------------------|--------------------------|--|-----------------------------|----------------------|--------------------------------|
|                               | Reason<br>for<br>Entering | Nature<br>of<br>Recourse | Credit<br>Rating of<br>Underlying<br>Obligation<br>(1) | Number<br>of<br>Instruments | Fair<br>Value<br>(2) | Maximum<br>Potential<br>Payout |
| Maturity<br>12/20/2012<br>(3) | (5)                       | (6)                      | BBB+   | 4                           | \$ -                 | \$ 40                          |
| 12/20/2016<br>(4)             | (5)                       | (6)                      | BBB-   | 3                           | (6)                  | 68                             |
| 03/20/2017<br>(4)             | (5)                       | (6)                      | BBB-   | 4                           | (11)                 | 81                             |
|                               |                           |                          |  | 11                          | \$ (17)              | \$ 189                         |

| As of December 31, 2011       |                           |                          |  |                             |                      |                                |
|-------------------------------|---------------------------|--------------------------|--|-----------------------------|----------------------|--------------------------------|
|                               | Reason<br>for<br>Entering | Nature<br>of<br>Recourse | Credit<br>Rating of<br>Underlying<br>Obligation<br>(1) | Number<br>of<br>Instruments | Fair<br>Value<br>(2) | Maximum<br>Potential<br>Payout |
| Maturity<br>12/20/2012<br>(3) | (5)                       | (6)                      | BBB+   | 4                           | \$ -                 | \$ 40                          |
| 12/20/2016<br>(4)             | (5)                       | (6)                      | BBB+   | 3                           | (12)                 | 68                             |
| 03/20/2017<br>(4)             | (5)                       | (6)                      | BBB  | 2                           | (4)                  | 40                             |
|                               |                           |                          |  | 9                           | \$ (16)              | \$ 148                         |

- (1) Represents average credit ratings based on the midpoint of the applicable ratings among Moody's, S&P and Fitch Ratings, as scaled to the corresponding S&P ratings.
- (2) Broker quotes are used to determine the market value of credit default swaps.
- (3) These credit default swaps were sold to our contract holders prior to 2007, where we determined there was a spread versus premium mismatch.
- (4) These credit default swaps were sold to a counter-party of the consolidated VIEs as discussed in Note 4 in our 2011 Form 10-K.
- (5) Credit default swaps were entered into in order to generate income by providing default protection in return for a quarterly payment.
- (6)

Sellers do not have the right to demand indemnification or compensation from third parties in case of a loss (payment) on the contract.

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

|   | As of<br>September<br>30,<br>2012 | As of<br>December<br>31,<br>2011 |
|---|-----------------------------------|----------------------------------|
| Maximum potential payout                        | \$ 189                            | \$ 148                           |
| Less:   |                                   |                                  |
| Counterparty thresholds                         | -                                 | -                                |
| Maximum collateral potentially required to post | \$ 189                            | \$ 148                           |

Certain of our credit default swap agreements contain contractual provisions that allow for the netting of collateral with our counterparties related to all of our collateralized financing transactions that we have outstanding. If these netting agreements were not in place, we would have been required to post approximately \$16 million as of September 30, 2012, after considering the fair values of the associated investments counterparties' credit ratings as compared to ours and specified thresholds that once exceeded result in the payment of cash.

#### Credit Risk

We are exposed to credit loss in the event of nonperformance by our counterparties on various derivative contracts and reflect assumptions regarding the credit or nonperformance risk. The nonperformance risk is based upon assumptions for each counterparty's credit spread over the estimated weighted average life of the counterparty exposure less collateral held. As of September 30, 2012, the nonperformance risk adjustment was \$4 million. The credit risk associated with such agreements is minimized by purchasing such agreements from financial institutions with long-standing, superior performance records. Additionally, we maintain a policy of requiring all derivative contracts to be governed by an International Swaps and Derivatives Association ("ISDA") Master Agreement. We are required to maintain minimum ratings as a matter of routine practice in negotiating ISDA agreements. Under some ISDA agreements, our insurance subsidiaries have agreed to maintain certain financial strength or claims-paying ratings. A downgrade below these levels could result in termination of derivative contracts, at which time any amounts payable by us would be dependent on the market value of the underlying derivative contracts. In certain transactions, we and the counterparty have entered into a collateral support agreement requiring either party to post collateral when net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. The amount of such exposure is essentially the net replacement cost or market value less collateral held for such agreements with each counterparty if the net market value is in our favor. As of September 30, 2012, our exposure was \$50 million.

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

|  | As of September 30,<br>2012         |                                | As of December 31,<br>2011          |                                |
|--|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
|  | Collateral<br>Posted by<br>Counter- | Collateral<br>Posted by<br>LNC | Collateral<br>Posted by<br>Counter- | Collateral<br>Posted by<br>LNC |
| S&P<br>Credit<br>Rating of<br>Counterparty | Party<br>(Held by<br>LNC)           | (Held by<br>Counter-<br>Party) | Party<br>(Held by<br>LNC)           | (Held by<br>Counter-<br>Party) |
| AA   | \$ 46                               | \$ -                           | \$ 35                               | \$ -                           |



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|     |          |          |          |           |
|-----|----------|----------|----------|-----------|
| AA- | 76       | -        | 219      | -         |
| A+  | 668      | -        | 848      | -         |
| A   | 879      | (83 )    | 1,681    | (120 )    |
| A-  | 1,415    | -        | 387      | -         |
| BBB | 2        | -        | -        | -         |
|     | \$ 3,086 | \$ (83 ) | \$ 3,170 | \$ (120 ) |

24

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## 7. Federal Income Taxes

A reconciliation of the effective tax rate differences (in millions) was as follows:

|                                      | For the Three<br>Months Ended<br>September 30,<br>2012 |         | For the Nine<br>Months Ended<br>September 30,<br>2011 |        |
|--------------------------------------|--|---------|---|--------|
| Tax rate times pre-tax income        | \$ 146   | \$ 54   | \$ 409  | \$ 347 |
| Effect of:                           |  |         |   |        |
| Tax-preferred investment income      | (32 )  | (47 )   | (101)   | (107)  |
| Tax credits                          | (17 )  | (14 )   | (38 )   | (35 )  |
| Change in uncertain tax positions    | (83 )  | -       | (83 )   | -      |
| Other items                          | 31   | 1       | 37  | 9      |
| Federal income tax expense (benefit) | \$ 45  | \$ (6 ) | \$ 224  | \$ 214 |
| Effective tax rate                   | 11 %   | -4 %    | 19 %  | 22 %   |

The effective tax rate is the ratio of tax expense over pre-tax income (loss). The tax-preferred investment income relates primarily to separate account dividends-received deductions. The change in uncertain tax positions relates primarily to the lapse of statute of limitations for prior year tax returns and excludes amounts included in other items. Additional amounts related to uncertain tax positions are included in discontinued operations. See Note 3 for information on amounts reflected in discontinued operations. Other items include corrections of immaterial errors in prior period financial statements.

As of September 30, 2012 and 2011, \$94 million and \$231 million, respectively, of our unrecognized tax benefits presented below, if recognized, would have affected our income tax expense and effective tax rate. A reconciliation of the unrecognized tax benefits (in millions) was as follows:

|   | For the Nine<br>Months Ended<br>September 30,<br>2012 |        | 2011 |  |
|---|---|--------|------|--|
| Balance as of beginning-of-year               | \$ 316  | \$ 318 |      |  |
| Decreases for prior year tax positions        | (200)   | (12 )  |      |  |
| Increases for current year tax positions      | 27  | 2      |      |  |
| Decreases for lapse of statute of limitations | (74 )   | -      |      |  |
| Balance as of end-of-period                   | \$ 69   | \$ 308 |      |  |

## 8. Guaranteed Benefit Features

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

|  | As of<br>September<br>30,<br>2012 | As of<br>December<br>31,<br>2011 |
|--|-----------------------------------|----------------------------------|
| <b>Return of Net Deposits</b>            |                                   |                                  |
| Total account value                      | \$ 61,418                         | \$ 54,004                        |
| Net amount at risk (1)                   | 460                               | 1,379                            |
|  | 60                                | 59                               |
| Average attained age of contract holders | years                             | years                            |
| <b>Minimum Return</b>                    |                                   |                                  |
| Total account value                      | \$ 152                            | \$ 155                           |
| Net amount at risk (1)                   | 37                                | 48                               |
|  | 72                                | 72                               |
| Average attained age of contract holders | years                             | years                            |
| Guaranteed minimum return                | 5%                                | 5%                               |
| <b>Anniversary Contract Value</b>        |                                   |                                  |
| Total account value                      | \$ 22,968                         | \$ 21,648                        |
| Net amount at risk (1)                   | 1,305                             | 2,939                            |
|  | 67                                | 67                               |
| Average attained age of contract holders | years                             | years                            |

(1) Represents the amount of death benefit in excess of the account balance. The decrease in net amount at risk when comparing September 30, 2012, to December 31, 2011, was attributable primarily to the increase in the equity markets during the first nine months of 2012.

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

|                                 | For the Nine<br>Months Ended<br>September 30, |        |
|---------------------------------|---|--------|
|                                 | 2012  | 2011   |
| Balance as of beginning-of-year | \$ 84   | \$ 44  |
| Changes in reserves             | 54  | 108    |
| Benefits paid                   | (36 )   | (34 )  |
| Balance as of end-of-period     | \$ 102  | \$ 118 |

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

As of                      As of

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| Asset Type  | September<br>30,<br>2012 | December<br>31,<br>2011 |
|---|--------------------------|-------------------------|
| Domestic equity   | \$ 37,679                | \$ 34,286               |
| International equity  | 14,466                   | 13,095                  |
| Bonds   | 20,347                   | 17,735                  |
| Money market  | 7,225                    | 5,892                   |
| Total   | \$ 79,717                | \$ 71,008               |
| <br>Percent of total variable annuity separate account values | <br>98 %                 | <br>98 %                |

Future contract benefits also includes reserves for our products with secondary guarantees for our products sold through our Life Insurance segment. These UL and VUL products with secondary guarantees represented 38% of permanent life insurance in force as of September 30, 2012, and 26% and 31% of total sales for these products for the three and nine months ended September 30, 2012, respectively.

## 9. Contingencies and Commitments

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

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

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

We establish liabilities for litigation and regulatory loss contingencies when information related to the loss contingencies shows both that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. It is possible that some matters could require us to pay damages or make other expenditures or establish accruals in amounts that could not be estimated as of September 30, 2012. While the potential future charges could be material in the particular quarterly or annual periods in which they are recorded, based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LNC's financial position.

For some matters, the Company is able to estimate a reasonably possible range of loss. For such matters in which a loss is probable, an accrual has been made. For such matters where a loss is believed to be reasonably possible, but not probable, no accrual has been made. Accordingly, the estimate contained in this paragraph reflects two types of matters. For some matters included within this estimate, an accrual has been made, but there is a reasonable possibility that an exposure exists in excess of the amount accrued. In these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, while potentially estimable, is believed to be reasonably possible but not probable. In these cases, the estimate reflects the reasonably possible loss or range of loss. As of September 30, 2012, we estimate the aggregate range of reasonably possible losses, including amounts in excess of amounts accrued for these matters as of such date, to be up to approximately \$200 million.



On June 13, 2009, a single named plaintiff filed a putative national class action in the Circuit Court of Allen County, Indiana, captioned Peter S. Bezich v. LNL, No. 02C01-0906-PL73, asserting he was charged a cost-of-insurance fee that exceeded the applicable mortality charge, and that this fee breached the terms of the insurance contract. The parties are conducting fact discovery, and no class certification motion has yet been filed. We dispute the allegations and are vigorously defending this matter.

On July 23, 2012, The Lincoln National Life Insurance Company (“LNL”) was added as a noteholder defendant to a putative class action adversary proceeding (“Adversary Proceeding”) captioned Lehman Brothers Special Financing, Inc. v. Bank of America, N.A. et al., Adv. Pro. No. 10-03547 (JMP) and instituted under In re Lehman Brothers Holdings Inc. in the United States Bankruptcy Court in the Southern District of New York. Plaintiff Lehman Brothers Special Financing Inc. (“LBSF”) seeks to (i) overturn the application of certain priority of payment provisions in 47 collateralized debt obligation transactions on the basis such provisions are unenforceable under the Bankruptcy Code; and (ii) recover funds paid out to Noteholders in accordance with the Note agreements. The Adversary proceeding is stayed through January 20, 2013, and LNL’s response is currently due to be filed on March 5, 2013.

Our life insurance subsidiaries are currently being audited on behalf of multiple states’ treasury and controllers’ offices for compliance with laws and regulations concerning the identification, reporting and escheatment of unclaimed contract benefits or abandoned funds. The audits focus on insurance company processes and procedures for identifying unreported death claims, and their use of the Social Security Master Death File to identify deceased policy and contract holders. In addition, our life insurance subsidiaries are the subject of multiple regulatory inquiries and examinations with a similar focus on the handling of unreported claims and abandoned property. The audits and related examination activity may result in payments to beneficiaries, escheatment of funds deemed abandoned under state laws, administrative penalties and changes in our procedures for the identification of unreported claims and handling of escheatable property.

See Note 13 to the consolidated financial statements in our 2011 Form 10-K for additional discussion of commitments and contingencies, which information is incorporated herein by reference.

10. Shares and Stockholders' Equity

Common and Preferred Shares

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

|   | For the Three<br>Months Ended<br>September 30, |              | For the Nine<br>Months Ended<br>September 30, |               |
|---|--|--------------|---|---------------|
|   | 2012   | 2011         | 2012  | 2011          |
| <b>Series A Preferred Stock</b>               |  |              |   |               |
| Balance as of beginning-of-period             | 9,632  | 10,854       | 10,072  | 10,914        |
| Conversion of convertible preferred stock (1) | (100 )   | -            | (540 )  | (60 )         |
| Balance as of end-of-period                   | 9,532  | 10,854       | 9,532   | 10,854        |
| <b>Common Stock</b>                           |  |              |   |               |
| Balance as of beginning-of-period             | 279,168,971                                    | 308,339,163  | 291,319,222                                   | 315,718,554   |
| Conversion of convertible preferred stock (1) | 1,600  | -            | 8,640   | 960           |
| Stock compensation/issued for benefit plans   | 60,238   | 32,712       | 394,633                                       | 215,618       |
| Retirement/cancellation of shares             | (4,157,191 )                                   | (6,712,700 ) | (16,648,877 )                                 | (14,275,957 ) |
| Balance as of end-of-period                   | 275,073,618                                    | 301,659,175  | 275,073,618                                   | 301,659,175   |
| <b>Common Stock as of End-of-Period</b>       |  |              |   |               |
| Assuming conversion of preferred stock        | 275,226,130                                    | 301,832,839  | 275,226,130                                   | 301,832,839   |
| Diluted basis                                 | 282,361,186                                    | 306,899,902  | 282,361,186                                   | 306,899,902   |

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

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

Average Shares

A reconciliation of the denominator (number of shares) in the calculations of basic and diluted EPS was as follows:

|   | For the Three<br>Months Ended<br>September 30, |              | For the Nine<br>Months Ended<br>September 30, |              |
|---|--|--------------|---|--------------|
|   | 2012   | 2011         | 2012  | 2011         |
| Weighted-average shares, as used in basic calculation   | 277,883,878                                    | 304,779,641  | 282,989,766                                   | 310,357,508  |
| Shares to cover exercise of outstanding warrants  | 10,150,192                                     | 10,150,292   | 10,150,218                                    | 10,150,292   |
| Shares to cover conversion of preferred stock   | 153,886  | 173,664      | 154,165                                       | 174,293      |
| Shares to cover non-vested stock  | 1,141,821                                      | 815,594      | 1,087,724                                     | 801,261      |
| Average stock options outstanding during the period   | 513,722  | 500,578      | 540,976                                       | 698,054      |
| Assumed acquisition of shares with assumed proceeds from exercising outstanding warrants  | (4,840,576 )                                   | (5,153,660 ) | (4,787,407 )                                  | (4,223,290 ) |
| Assumed acquisition of shares with assumed proceeds and benefits from exercising stock options (at average market price for the period) | (352,501 )                                     | (342,848 )   | (371,115 )                                    | (459,168 )   |
|   | (210 )   | (31,025 )    | (5,553 )                                      | (80,317 )    |



Shares repurchaseable from measured but unrecognized  
stock option expense

|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Average deferred compensation shares                       | -           | 1,105,447   | -           | 1,070,549   |
| Weighted-average shares, as used in<br>diluted calculation | 284,650,212 | 311,997,683 | 289,758,774 | 318,489,182 |

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

The income used in the calculation of our diluted EPS is our net income (loss), reduced by preferred stock dividends and accretion of discount. These amounts are presented on our Consolidated Statements of Comprehensive Income (Loss).

## Accumulated OCI

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

|  | For the Nine<br>Months Ended<br>September 30, |          |
|--|---|----------|
|  | 2012  | 2011     |
| Unrealized Gain (Loss) on AFS Securities                                     |   |          |
| Balance as of beginning-of-year  | \$ 2,947                                      | \$ 1,072 |
| Cumulative effect from adoption of new accounting standards                  | -   | 105      |
| Unrealized holding gains (losses) arising during the period                  | 2,804   | 3,232    |
| Change in foreign currency exchange rate adjustment                          | 9   | 2        |
| Change in DAC, VOBA, DSI and other contract holder funds                     | (724)   | (791)    |
| Income tax benefit (expense)   | (779)   | (837)    |
| Less:  |   |          |
| Reclassification adjustment for gains (losses) included in net income (loss) | (148)   | (83)     |
| Associated amortization of DAC, VOBA, DSI and DFEL                           | 1   | (10)     |
| Income tax benefit (expense)   | 51  | 33       |
| Balance as of end-of-period  | \$ 4,353                                      | \$ 2,843 |
| Unrealized OTTI on AFS Securities  |   |          |
| Balance as of beginning-of-year  | \$ (110)                                      | \$ (129) |
| (Increases) attributable to:   |   |          |
| Cumulative effect from adoption of new accounting standards                  | -   | (5)      |
| Gross OTTI recognized in OCI during the period                               | (96)  | (48)     |
| Change in DAC, VOBA, DSI and DFEL  | 14  | 11       |
| Income tax benefit (expense)   | 31  | 13       |
| Decreases attributable to:   |   |          |
| Sales, maturities or other settlements of AFS securities                     | 112   | 91       |
| Change in DAC, VOBA, DSI and DFEL  | (14)  | (18)     |
| Income tax benefit (expense)   | (35)  | (25)     |
| Balance as of end-of-period  | \$ (98)                                       | \$ (110) |
| Unrealized Gain (Loss) on Derivative Instruments                             |   |          |
| Balance as of beginning-of-year  | \$ 119  | \$ (15)  |
| Cumulative effect from adoption of new accounting standards                  | -   | 4        |
| Unrealized holding gains (losses) arising during the period                  | 67  | 188      |
| Change in foreign currency exchange rate adjustment                          | (7)   | (1)      |
| Change in DAC, VOBA, DSI and DFEL  | 9   | (1)      |
| Transfers from derivative instruments to bonds through basis adjustment      | 13  | -        |
| Income tax benefit (expense)   | (30)  | (65)     |
| Less:  |   |          |
| Reclassification adjustment for gains (losses) included in net income (loss) | (11)  | (3)      |
| Associated amortization of DAC, VOBA, DSI and DFEL                           | 2   | -        |
| Income tax benefit (expense)   | 3   | 1        |
| Balance as of end-of-period  | \$ 177  | \$ 112   |
| Foreign Currency Translation Adjustment                                      |   |          |
| Balance as of beginning-of-year  | \$ 1  | \$ 1     |

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|   |          |          |
|---|----------|----------|
| Foreign currency translation adjustment arising during the period | (6)      | 3        |
| Income tax benefit (expense)                                      | 2        | (1)      |
| Balance as of end-of-period                                       | \$ (3)   | \$ 3     |
| <b>Funded Status of Employee Benefit Plans</b>                    |          |          |
| Balance as of beginning-of-year                                   | \$ (278) | \$ (181) |
| Adjustment arising during the period                              | (2)      | (3)      |
| Income tax benefit (expense)                                      | 1        | 1        |
| Balance as of end-of-period                                       | \$ (279) | \$ (183) |

## 11. Realized Gain (Loss)

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

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |           | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |
|---|--|-----------|---|----------|
| Total realized gain (loss) related to certain investments (1)         | \$ (54 )   | \$ (45 )  | \$ (153 )   | \$ (92 ) |
| Realized gain (loss) on the mark-to-market on certain instruments (2) | 59   | (105)     | 99  | (95 )    |
| Indexed annuity net derivative results: (3)                           |  |           |   |          |
| Gross gain (loss)   | (5 )   | (4 )      | 14  | 3        |
| Associated amortization of DAC, VOBA, DSI and DFEL                    | -  | 1         | (6 )  | (2 )     |
| Variable annuity net derivatives results: (4)                         |  |           |   |          |
| Gross gain (loss)   | 92   | (12 )     | 107   | 33       |
| Associated amortization of DAC, VOBA, DSI and DFEL                    | (22 )  | 2         | (33 )   | (17 )    |
| Total realized gain (loss)  | \$ 70  | \$ (163 ) | \$ 28   | \$ (170) |

- (1) See “Realized Gain (Loss) Related to Certain Investments” section in Note 5.
- (2) Represents changes in the fair values of certain derivative investments (including those associated with our consolidated VIEs), total return swaps (embedded derivatives that are theoretically included in our various modified coinsurance and coinsurance with funds withheld reinsurance arrangements that have contractual returns related to various assets and liabilities associated with these arrangements) and trading securities.
- (3) Represents the net difference between the change in the fair value of the S&P 500 call options that we hold and the change in the fair value of the embedded derivative liabilities of our indexed annuity products along with changes in the fair value of embedded derivative liabilities related to index call options we may purchase in the future to hedge contract holder index allocations applicable to future reset periods for our indexed annuity products.
- (4) Includes the net difference in the change in embedded derivative reserves of our GLB products and the change in the fair value of the derivative instruments we own to hedge GDB and GLB products, including the cost of purchasing the hedging instruments.

## 12. Stock-Based Incentive Compensation Plans

We sponsor various incentive plans for our employees and directors and for the employees and agents of our subsidiaries that provide for the issuance of stock options, performance shares (performance-vested shares as opposed to time-vested shares), stock appreciation rights (“SARs”) and restricted stock units. We have a policy of issuing new shares to satisfy option exercises.

LNC stock-based awards granted were as follows:

|                                 | For the<br>Three<br>Months<br>Ended<br>September<br>30,<br>2012 | For the<br>Nine<br>Months<br>Ended<br>September<br>30,<br>2012 |
|---------------------------------|---|--|
| Awards                          |   |  |
| 10-year LNC stock options       | 33,292  | 903,502  |
| Performance shares              | 11,698  | 306,456  |
| SARs                            | -   | 80,225   |
| Restricted stock units          | 44,191  | 730,421  |
| Non-employee:                   |   |  |
| Agent stock options             | -   | 99,113   |
| Director stock options          | -   | 51,140   |
| Director restricted stock units | 11,037  | 33,383   |

## 13. Fair Value of Financial Instruments

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

|   | As of September 30,<br>2012 |               | As of December 31,<br>2011 |               |
|---|-----------------------------|---------------|----------------------------|---------------|
|   | Carrying<br>Value           | Fair<br>Value | Carrying<br>Value          | Fair<br>Value |
| <b>Assets</b>                                       |                             |               |                            |               |
| <b>AFS securities:</b>                              |                             |               |                            |               |
| Fixed maturity securities                           | \$ 81,179                   | \$ 81,179     | \$ 75,433                  | \$ 75,433     |
| VIEs' fixed maturity securities                     | 706                         | 706           | 700                        | 700           |
| Equity securities                                   | 156                         | 156           | 139                        | 139           |
| Trading securities                                  | 2,650                       | 2,650         | 2,675                      | 2,675         |
| Mortgage loans on real estate                       | 6,690                       | 7,338         | 6,942                      | 7,608         |
| Derivative investments                              | 3,072                       | 3,072         | 3,151                      | 3,151         |
| Other investments                                   | 1,123                       | 1,123         | 1,069                      | 1,069         |
| Cash and invested cash                              | 4,373                       | 4,373         | 4,510                      | 4,510         |
| Separate account assets                             | 93,326                      | 93,326        | 83,477                     | 83,477        |
| <b>Liabilities</b>                                  |                             |               |                            |               |
| <b>Future contract benefits:</b>                    |                             |               |                            |               |
| Indexed annuity contracts embedded derivatives      | (733 )                      | (733 )        | (399 )                     | (399 )        |
| GLB reserves embedded derivatives                   | (1,411 )                    | (1,411 )      | (2,217 )                   | (2,217 )      |
| <b>Other contract holder funds:</b>                 |                             |               |                            |               |
| Remaining guaranteed interest and similar contracts | (914 )                      | (914 )        | (1,114 )                   | (1,114 )      |
| Account values of certain investment contracts      | (28,161)                    | (32,344)      | (27,468)                   | (30,812)      |
| Short-term debt (1)                                 | (200 )                      | (201 )        | (300 )                     | (309 )        |
| Long-term debt                                      | (5,494 )                    | (6,266 )      | (5,391 )                   | (5,345 )      |
| Reinsurance related embedded derivatives            | (215 )                      | (215 )        | (168 )                     | (168 )        |
| VIEs' liabilities - derivative instruments          | (174 )                      | (174 )        | (291 )                     | (291 )        |
| <b>Other liabilities:</b>                           |                             |               |                            |               |
| Deferred compensation plans                         | (378 )                      | (378 )        | (354 )                     | (354 )        |
| Credit default swaps                                | (16 )                       | (16 )         | (16 )                      | (16 )         |

(1) The difference between the carrying value and fair value of short-term debt as of September 30, 2012, and December 31, 2011, related to current maturities of long-term debt.

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

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

## Mortgage Loans on Real Estate

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

#### Other Investments

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

#### Other Contract Holder Funds

Other contract holder funds include remaining guaranteed interest and similar contracts and account values of certain investment contracts. The fair value for the remaining guaranteed interest and similar contracts is estimated using discounted cash flow calculations as of the balance sheet date. These calculations are based on interest rates currently offered on similar contracts with maturities that are consistent with those remaining for the contracts being valued. As of September 30, 2012, and December 31, 2011, the remaining guaranteed interest and similar contracts carrying value approximated fair value. The fair value of the account values of certain investment contracts is based on their approximate surrender value as of the balance sheet date. The inputs used to measure the fair value of our other contract holder funds are classified as Level 3 within the fair value hierarchy.

#### Short-Term and Long-Term Debt

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

#### Financial Instruments Carried at Fair Value

We did not have any assets or liabilities measured at fair value on a nonrecurring basis as of September 30, 2012, or December 31, 2011, and we noted no changes in our valuation methodologies between these periods.



The following summarizes our financial instruments carried at fair value (in millions) on a recurring basis by the fair value hierarchy levels described in "Summary of Significant Accounting Policies" in Note 1 of our 2011 Form 10-K:

|  | As of September 30, 2012  |  |  |                        |
|--|---|--|--|------------------------|
|  | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| <b>Assets</b>                                  |   |  |  |                        |
| <b>Investments:</b>                            |   |  |  |                        |
| Fixed maturity AFS securities:                 |   |  |  |                        |
| Corporate bonds                                | \$ 65   | \$ 64,556  | \$ 1,855   | \$ 66,476              |
| U.S. government bonds                          | 476   | 31   | 1  | 508                    |
| Foreign government bonds                       | -   | 585  | 76   | 661                    |
| RMBS   | -   | 6,734  | 3  | 6,737                  |
| CMBS   | -   | 1,083  | 43   | 1,126                  |
| CDOs   | -   | -  | 147  | 147                    |
| State and municipal bonds                      | -   | 4,305  | 33   | 4,338                  |
| Hybrid and redeemable preferred securities     | 20  | 1,053  | 113  | 1,186                  |
| VIEs' fixed maturity securities                | 111   | 595  | -  | 706                    |
| Equity AFS securities                          | 44  | 26   | 86   | 156                    |
| Trading securities                             | 2   | 2,588  | 60   | 2,650                  |
| Derivative investments                         | -   | 839  | 2,233  | 3,072                  |
| Cash and invested cash                         | -   | 4,373  | -  | 4,373                  |
| Separate account assets                        | -   | 93,326   | -  | 93,326                 |
| <b>Total assets</b>                            | <b>\$ 718</b>   | <b>\$ 180,094</b>                                | <b>\$ 4,650</b>                                    | <b>\$ 185,462</b>      |
| <b>Liabilities</b>                             |   |  |  |                        |
| <b>Future contract benefits:</b>               |   |  |  |                        |
| Indexed annuity contracts embedded derivatives | \$ -  | \$ -   | \$ (733)   | \$ (733)               |
| GLB reserves embedded derivatives              | -   | -  | (1,411)  | (1,411)                |
| Long-term debt                                 | -   | (1,203)  | -  | (1,203)                |
| Reinsurance related embedded derivatives       | -   | (215)  | -  | (215)                  |
| VIEs' liabilities - derivative instruments     | -   | -  | (174)  | (174)                  |
| <b>Other liabilities:</b>                      |   |  |  |                        |
| Deferred compensation plans                    | -   | -  | (378)  | (378)                  |
| Credit default swaps                           | -   | -  | (16)   | (16)                   |
| <b>Total liabilities</b>                       | <b>\$ -</b>   | <b>\$ (1,418)</b>                                | <b>\$ (2,712)</b>                                  | <b>\$ (4,130)</b>      |

|  | As of December 31, 2011   |  |  |                        |
|--|---|--|--|------------------------|
|  | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| <b>Assets</b>                                  |   |  |  |                        |
| <b>Investments:</b>                            |   |  |  |                        |
| Fixed maturity AFS securities:                 |   |  |  |                        |
| Corporate bonds                                | \$ 63   | \$ 57,310  | \$ 1,888   | \$ 59,261              |
| U.S. government bonds                          | 475   | 18   | 1  | 494                    |
| Foreign government bonds                       | -   | 636  | 97   | 733                    |
| RMBS   | -   | 7,881  | 158  | 8,039                  |
| CMBS   | -   | 1,566  | 34   | 1,600                  |
| CDOs   | -   | -  | 102  | 102                    |
| State and municipal bonds                      | -   | 4,047  | -  | 4,047                  |
| Hybrid and redeemable preferred securities     | 15  | 1,042  | 100  | 1,157                  |
| VIEs' fixed maturity securities                | 108   | 592  | -  | 700                    |
| Equity AFS securities                          | 37  | 46   | 56   | 139                    |
| Trading securities                             | 2   | 2,605  | 68   | 2,675                  |
| Derivative investments                         | -   | 681  | 2,470  | 3,151                  |
| Cash and invested cash                         | -   | 4,510  | -  | 4,510                  |
| Separate account assets                        | -   | 83,477   | -  | 83,477                 |
| Total assets                                   | \$ 700  | \$ 164,411                                       | \$ 4,974   | \$ 170,085             |
| <b>Liabilities</b>                             |   |  |  |                        |
| <b>Future contract benefits:</b>               |   |  |  |                        |
| Indexed annuity contracts embedded derivatives | \$ -  | \$ -   | \$ (399)   | \$ (399)               |
| GLB reserves embedded derivatives              | -   | -  | (2,217)  | (2,217)                |
| Long-term debt                                 | -   | (1,688)  | -  | (1,688)                |
| Reinsurance related embedded derivatives       | -   | (168)  | -  | (168)                  |
| VIEs' liabilities - derivative instruments     | -   | -  | (291)  | (291)                  |
| <b>Other liabilities:</b>                      |   |  |  |                        |
| Deferred compensation plans                    | -   | -  | (354)  | (354)                  |
| Credit default swaps                           | -   | -  | (16)   | (16)                   |
| Total liabilities                              | \$ -  | \$ (1,856)                                       | \$ (3,277)   | \$ (5,133)             |

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

|  | For the Three Months Ended September 30, 2012 |          |              |          |           |          |
|--|---|----------|--------------|----------|-----------|----------|
|  | Gains Issuances, Transfers                    |          |              |          |           |          |
|  | Items   | (Losses) | Sales,       | In or    |           |          |
|  | Included                                      | in       | Maturities,  | Out      |           |          |
|  | Beginning                                     | OCI      | Settlements, | Level    |           | Ending   |
|  | Fair  | Net      | Calls,       | 3,       |           | Fair     |
|  | Value   | Income   | Other        | Net      | Net (2)   | Value    |
|  |   | (1)      |              |          |           |          |
| Investments: (3)                               |   |          |              |          |           |          |
| Fixed maturity AFS securities:                 |   |          |              |          |           |          |
| Corporate bonds                                | \$ 1,678                                      | \$ 1     | \$ 24        | \$ 225   | \$ (73 )  | \$ 1,855 |
| U.S. government bonds                          | 1   | -        | -            | -        | -         | 1        |
| Foreign government bonds                       | 102   | -        | -            | (2 )     | (24 )     | 76       |
| RMBS   | 184   | -        | -            | -        | (181 )    | 3        |
| CMBS   | 39  | (2 )     | 4            | (2 )     | 4         | 43       |
| CDOs   | 120   | (2 )     | 2            | 27       | -         | 147      |
| State and municipal bonds                      | 32  | -        | 1            | -        | -         | 33       |
| Hybrid and redeemable preferred securities     | 129   | -        | 13           | -        | (29 )     | 113      |
| Equity AFS securities                          | 85  | -        | 1            | -        | -         | 86       |
| Trading securities                             | 72  | -        | 4            | (2 )     | (14 )     | 60       |
| Derivative investments                         | 2,517   | (268 )   | 47           | (63 )    | -         | 2,233    |
| Future contract benefits: (4)                  |   |          |              |          |           |          |
| Indexed annuity contracts embedded derivatives | (431 )  | (63 )    | -            | (239 )   | -         | (733 )   |
| GLB reserves embedded derivatives              | (1,926)                                       | 570      | -            | -        | -         | (1,356)  |
| VIEs' liabilities - derivative instruments (5) | (231 )  | 57       | -            | -        | -         | (174 )   |
| Other liabilities:                             |   |          |              |          |           |          |
| Deferred compensation plans (6)                | (358 )  | (18 )    | -            | (2 )     | -         | (378 )   |
| Credit default swaps (7)                       | (11 )   | (5 )     | -            | -        | -         | (16 )    |
| Total, net                                     | \$ 2,002                                      | \$ 270   | \$ 96        | \$ (58 ) | \$ (317 ) | \$ 1,993 |

For the Three Months Ended September 30, 2011

|  | Beginning<br>Fair<br>Value | Items<br>Included<br>in<br>Net<br>Income | Gains<br>(Losses)<br>in<br>OCI<br>and<br>Other<br>(1) | Issuances,<br>Sales<br>Maturities,<br>Settlements,<br>Calls,<br>Net | Transfers<br>In or<br>Out<br>of<br>Level 3,<br>Net (2) | Ending<br>Fair<br>Value |
|--|----------------------------|--|---|---|--|-------------------------|
| Investments: (3)                               |                            |  |   |   |  |                         |
| Fixed maturity AFS securities:                 |                            |  |   |   |  |                         |
| Corporate bonds                                | \$ 1,573                   | \$ (18 )                                 | \$ (33 )  | \$ (11 )  | \$ (11 )   | \$ 1,500                |
| U.S. government bonds                          | 2                          | -  | -   | (1 )  | -  | 1                       |
| Foreign government bonds                       | 96                         | 1  | 9   | (1 )  | -  | 105                     |
| RMBS   | 161                        | (1 )                                     | 2   | 24  | (47 )  | 139                     |
| CMBS   | 53                         | (7 )                                     | 3   | (12 )   | -  | 37                      |
| CDOs   | 126                        | 5  | (8 )  | (12 )   | -  | 111                     |
| Hybrid and redeemable preferred securities     | 106                        | -  | (12 )   | (18 )   | 16   | 92                      |
| Equity AFS securities                          | 96                         | -  | (14 )   | 10  | -  | 92                      |
| Trading securities                             | 71                         | 1  | 1   | (5 )  | 1  | 69                      |
| Derivative investments                         | 1,492                      | 684                                      | 340   | 10  | -  | 2,526                   |
| Future contract benefits: (4)                  |                            |  |   |   |  |                         |
| Indexed annuity contracts embedded derivatives | (506 )                     | 135                                      | -   | 29  | -  | (342 )                  |
| GLB reserves embedded derivatives              | (278 )                     | (2,065)                                  | -   | -   | -  | (2,343)                 |
| VIEs' liabilities - derivative instruments (5) | (198 )                     | (109 )                                   | -   | -   | -  | (307 )                  |
| Other liabilities:                             |                            |  |   |   |  |                         |
| Deferred compensation plans (6)                | (360 )                     | 22                                       | -   | 13  | -  | (325 )                  |
| Credit default swaps (7)                       | (7 )                       | (8 )                                     | -   | -   | -  | (15 )                   |
| Total, net                                     | \$ 2,427                   | \$ (1,360)                               | \$ 288  | \$ 26   | \$ (41 )   | \$ 1,340                |

For the Nine Months Ended September 30, 2012

|  | Beginning<br>Fair<br>Value | Items<br>Included<br>in<br>Net<br>Income | Gains<br>(Losses)<br>in<br>OCI<br>and<br>Other<br>(1) | Issuances,<br>Sales,<br>Maturities,<br>Settlements,<br>Calls,<br>Net | Transfers<br>In or<br>Out<br>of<br>Level 3,<br>Net (2) | Ending<br>Fair<br>Value |
|--|----------------------------|--|---|--|--|-------------------------|
| Investments: (3)                               |                            |  |   |  |  |                         |
| Fixed maturity AFS securities:                 |                            |  |   |  |  |                         |
| Corporate bonds                                | \$ 1,888                   | \$ (16 )                                 | \$ 14   | \$ 327   | \$ (358 )  | \$ 1,855                |
| U.S. government bonds                          | 1                          | -  | -   | -  | -  | 1                       |
| Foreign government bonds                       | 97                         | -  | -   | (4 )   | (17 )  | 76                      |
| RMBS   | 158                        | (3 )                                     | 3   | (8 )   | (147 )   | 3                       |
| CMBS   | 34                         | (9 )                                     | 15  | (10 )  | 13   | 43                      |
| CDOs   | 102                        | (2 )                                     | 7   | 34   | 6  | 147                     |
| State and municipal bonds                      | -                          | -  | 1   | 32   | -  | 33                      |
| Hybrid and redeemable preferred securities     | 100                        | (1 )                                     | 19  | -  | (5 )   | 113                     |
| Equity AFS securities                          | 56                         | -  | 5   | 25   | -  | 86                      |
| Trading securities                             | 68                         | 2  | 3   | (2 )   | (11 )  | 60                      |
| Derivative investments                         | 2,470                      | (557 )                                   | 114   | 206  | -  | 2,233                   |
| Future contract benefits: (4)                  |                            |  |   |  |  |                         |
| Indexed annuity contracts embedded derivatives | (399 )                     | (143 )                                   | -   | (191 )   | -  | (733 )                  |
| GLB reserves embedded derivatives              | (2,217)                    | 861                                      | -   | -  | -  | (1,356)                 |
| VIEs' liabilities - derivative instruments (5) | (291 )                     | 117                                      | -   | -  | -  | (174 )                  |
| Other liabilities:                             |                            |  |   |  |  |                         |
| Deferred compensation plans (6)                | (354 )                     | (37 )                                    | -   | 13   | -  | (378 )                  |
| Credit default swaps (7)                       | (16 )                      | -  | -   | -  | -  | (16 )                   |
| Total, net                                     | \$ 1,697                   | \$ 212                                   | \$ 181  | \$ 422   | \$ (519 )  | \$ 1,993                |

## For the Nine Months Ended September 30, 2011

|  | Beginning<br>Fair<br>Value | Items<br>Included<br>in<br>Net<br>Income | Gains<br>(Losses)<br>in<br>OCI<br>and<br>Other<br>(1) | Issuances,<br>Sales,<br>Maturities,<br>Settlements,<br>Calls,<br>Net | Transfers<br>In or<br>Out<br>of<br>Level 3,<br>Net (2) | Ending<br>Fair<br>Value |
|--|----------------------------|--|---|--|--|-------------------------|
| Investments: (3)                               |                            |  |   |  |  |                         |
| Fixed maturity AFS securities:                 |                            |  |   |  |  |                         |
| Corporate bonds                                | \$ 1,816                   | \$ 5                                     | \$ 10   | \$ (247 )  | \$ (84 )   | \$ 1,500                |
| U.S. government bonds                          | 2                          | -  | -   | (1 )   | -  | 1                       |
| Foreign government bonds                       | 113                        | -  | 12  | (3 )   | (17 )  | 105                     |
| RMBS   | 119                        | (3 )                                     | 7   | 16   | -  | 139                     |
| CMBS   | 109                        | (53 )                                    | 57  | (75 )  | (1 )   | 37                      |
| CDOs   | 172                        | 19                                       | (17 )   | (63 )  | -  | 111                     |
| Hybrid and redeemable preferred securities     | 119                        | -  | (5 )  | (18 )  | (4 )   | 92                      |
| Equity AFS securities                          | 92                         | 8  | (13 )   | 3  | 2  | 92                      |
| Trading securities                             | 76                         | -  | 4   | (8 )   | (3 )   | 69                      |
| Derivative investments                         | 1,495                      | 600                                      | 335   | 96   | -  | 2,526                   |
| Future contract benefits: (4)                  |                            |  |   |  |  |                         |
| Indexed annuity contracts embedded derivatives | (497 )                     | 80                                       | -   | 75   | -  | (342 )                  |
| GLB reserves embedded derivatives              | (408 )                     | (1,935)                                  | -   | -  | -  | (2,343)                 |
| VIEs' liabilities - derivative instruments (5) | (209 )                     | (98 )                                    | -   | -  | -  | (307 )                  |
| Other liabilities:                             |                            |  |   |  |  |                         |
| Deferred compensation plans (6)                | (363 )                     | 10                                       | -   | 28   | -  | (325 )                  |
| Credit default swaps (7)                       | (16 )                      | (5 )                                     | -   | 6  | -  | (15 )                   |
| Total, net                                     | \$ 2,620                   | \$ (1,372)                               | \$ 390  | \$ (191 )  | \$ (107 )  | \$ 1,340                |

- (1) The changes in fair value of the interest rate swaps are offset by an adjustment to derivative investments (see Note 5).
- (2) Transfers in or out of Level 3 for AFS and trading securities are displayed at amortized cost as of the beginning-of-period. For AFS and trading securities, the difference between beginning-of-period amortized cost and beginning-of-period fair value was included in OCI and earnings, respectively, in prior periods.
- (3) Amortization and accretion of premiums and discounts are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss). Gains (losses) from sales, maturities, settlements and calls and OTTI are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (4) Gains (losses) from sales, maturities, settlements and calls are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (5) The changes in fair value of the credit default swaps and contingency forwards are included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).
- (6) Deferrals and subsequent changes in fair value for the participants' investment options are reported in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).
- (7) Gains (losses) from sales, maturities, settlements and calls are included in net investment income on our Consolidated Statements of Comprehensive Income (Loss).



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

|  | For the Three Months Ended September 30, 2012 |          |            |             |         |          |
|--|---|----------|------------|-------------|---------|----------|
|  | Issuances                                     | Sales    | Maturities | Settlements | Calls   | Total    |
| <b>Investments:</b>                            |   |          |            |             |         |          |
| <b>Fixed maturity AFS securities:</b>          |   |          |            |             |         |          |
| Corporate bonds                                | \$ 247  | \$ -     | \$ (7 )    | \$ (14 )    | \$ (1 ) | \$ 225   |
| Foreign government bonds                       | -   | -        | -          | (2 )        | -       | (2 )     |
| CMBS   | -   | -        | -          | (2 )        | -       | (2 )     |
| CDOs   | 30  | -        | -          | (3 )        | -       | 27       |
| Trading securities                             | -   | (1 )     | -          | (1 )        | -       | (2 )     |
| Derivative investments                         | 55  | (43 )    | (75 )      | -           | -       | (63 )    |
| <b>Future contract benefits:</b>               |   |          |            |             |         |          |
| Indexed annuity contracts embedded derivatives | (31 )   | -        | -          | (208 )      | -       | (239)    |
| <b>Other liabilities:</b>                      |   |          |            |             |         |          |
| Deferred compensation plans                    | -   | -        | -          | (2 )        | -       | (2 )     |
| Total, net                                     | \$ 301  | \$ (44 ) | \$ (82 )   | \$ (232 )   | \$ (1 ) | \$ (58 ) |

|  | For the Three Months Ended September 30, 2011 |          |            |             |         |          |
|--|---|----------|------------|-------------|---------|----------|
|  | Issuances                                     | Sales    | Maturities | Settlements | Calls   | Total    |
| <b>Investments:</b>                            |   |          |            |             |         |          |
| <b>Fixed maturity AFS securities:</b>          |   |          |            |             |         |          |
| Corporate bonds                                | \$ 22   | \$ (14 ) | \$ (10 )   | \$ (9 )     | \$ -    | \$ (11 ) |
| U.S. government bonds                          | -   | -        | -          | (1 )        | -       | (1 )     |
| Foreign government bonds                       | -   | -        | -          | -           | (1 )    | (1 )     |
| RMBS   | 28  | (1 )     | -          | (3 )        | -       | 24       |
| CMBS   | -   | -        | -          | (12 )       | -       | (12 )    |
| CDOs   | -   | -        | -          | (12 )       | -       | (12 )    |
| Hybrid and redeemable preferred securities     | -   | (18 )    | -          | -           | -       | (18 )    |
| Equity AFS securities                          | 10  | -        | -          | -           | -       | 10       |
| Trading securities                             | -   | (2 )     | -          | (3 )        | -       | (5 )     |
| Derivative investments                         | 87  | 6        | (83 )      | -           | -       | 10       |
| <b>Future contract benefits:</b>               |   |          |            |             |         |          |
| Indexed annuity contracts embedded derivatives | (11 )   | -        | -          | 40          | -       | 29       |
| <b>Other liabilities:</b>                      |   |          |            |             |         |          |
| Deferred compensation plans                    | -   | -        | -          | 13          | -       | 13       |
| Total, net                                     | \$ 136  | \$ (29 ) | \$ (93 )   | \$ 13       | \$ (1 ) | \$ 26    |



For the Nine Months Ended September 30, 2012  
 Issuances Sales Maturities Settlements Calls Total

|  |        |          |           |           |         |        |
|--|--------|----------|-----------|-----------|---------|--------|
| Investments:                                   |        |          |           |           |         |        |
| Fixed maturity AFS securities:                 |        |          |           |           |         |        |
| Corporate bonds                                | \$ 404 | \$ (27 ) | \$ (5 )   | \$ (41 )  | \$ (4 ) | \$ 327 |
| Foreign government bonds                       | -      | -        | -         | (4 )      | -       | (4 )   |
| RMBS   | -      | -        | (7 )      | (1 )      | -       | (8 )   |
| CMBS   | -      | -        | -         | (10 )     | -       | (10 )  |
| CDOs   | 47     | -        | -         | (13 )     | -       | 34     |
| State and municipal bonds                      | 32     | -        | -         | -         | -       | 32     |
| Equity AFS securities                          | 25     | -        | -         | -         | -       | 25     |
| Trading securities                             | -      | -        | -         | (2 )      | -       | (2 )   |
| Derivative investments                         | 428    | (40 )    | (182 )    | -         | -       | 206    |
| Future contract benefits:                      |        |          |           |           |         |        |
| Indexed annuity contracts embedded derivatives | (66 )  | -        | -         | (125 )    | -       | (191)  |
| Other liabilities:                             |        |          |           |           |         |        |
| Deferred compensation plans                    | -      | -        | -         | 13        | -       | 13     |
| Total, net                                     | \$ 870 | \$ (67 ) | \$ (194 ) | \$ (183 ) | \$ (4 ) | \$ 422 |

For the Nine Months Ended September 30, 2011  
 Issuances Sales Maturities Settlements Calls Total

|  |        |          |           |          |          |          |
|--|--------|----------|-----------|----------|----------|----------|
| Investments:                                   |        |          |           |          |          |          |
| Fixed maturity AFS securities:                 |        |          |           |          |          |          |
| Corporate bonds                                | \$ 45  | \$ (146) | \$ (11 )  | \$ (46 ) | \$ (89 ) | \$ (247) |
| U.S. government bonds                          | -      | -        | -         | (1 )     | -        | (1 )     |
| Foreign government bonds                       | -      | (2 )     | -         | -        | (1 )     | (3 )     |
| RMBS   | 28     | (1 )     | -         | (11 )    | -        | 16       |
| CMBS   | -      | (53 )    | -         | (22 )    | -        | (75 )    |
| CDOs   | -      | (34 )    | -         | (29 )    | -        | (63 )    |
| Hybrid and redeemable preferred securities     | -      | (18 )    | -         | -        | -        | (18 )    |
| Equity AFS securities                          | 18     | (15 )    | -         | -        | -        | 3        |
| Trading securities                             | -      | (3 )     | -         | (5 )     | -        | (8 )     |
| Derivative investments                         | 362    | (27 )    | (239 )    | -        | -        | 96       |
| Future contract benefits:                      |        |          |           |          |          |          |
| Indexed annuity contracts embedded derivatives | (49 )  | -        | -         | 124      | -        | 75       |
| Other liabilities:                             |        |          |           |          |          |          |
| Deferred compensation plans                    | -      | -        | -         | 28       | -        | 28       |
| Credit default swaps                           | -      | 6        | -         | -        | -        | 6        |
| Total, net                                     | \$ 404 | \$ (293) | \$ (250 ) | \$ 38    | \$ (90 ) | \$ (191) |

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |            | For the Nine<br>Months Ended<br>September 30,<br>2011 |            |
|--|--|------------|---|------------|
| Investments: (1)                               |  |            |   |            |
| Derivative investments                         | \$ (279)   | \$ 696     | \$ (618)  | \$ 574     |
| Future contract benefits: (1)                  |  |            |   |            |
| Indexed annuity contracts embedded derivatives | 4  | (4 )       | 22  | -          |
| GLB reserves embedded derivatives              | 556  | (2,011)    | 924   | (1,781)    |
| VIEs' liabilities - derivative instruments (1) | 57   | (108 )     | 117   | (98 )      |
| Other liabilities:                             |  |            |   |            |
| Deferred compensation plans (2)                | (18 )  | 22         | (37 )   | 10         |
| Credit default swaps (3)                       | (5 )   | (8 )       | -   | (7 )       |
| Total, net                                     | \$ 315   | \$ (1,413) | \$ 408  | \$ (1,302) |

- (1) Included in realized gain (loss) on our Consolidated Statements of Comprehensive Income (Loss).  
(2) Included in commissions and other expenses on our Consolidated Statements of Comprehensive Income (Loss).  
(3) Included in net investment income on our Consolidated Statements of Comprehensive Income (Loss).

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

|  | For the Three Months<br>Ended September 30, 2012 |                                |          | For the Three Months<br>Ended September 30, 2011 |                                |          |
|--|--|--------------------------------|----------|--|--------------------------------|----------|
|  | Transfers<br>In to<br>Level<br>3                 | Transfers<br>Out of<br>Level 3 | Total    | Transfers<br>In to<br>Level<br>3                 | Transfers<br>Out of<br>Level 3 | Total    |
| Investments:                               |  |                                |          |  |                                |          |
| Fixed maturity AFS securities:             |  |                                |          |  |                                |          |
| Corporate bonds                            | \$ 241   | \$ (314 )                      | \$ (73 ) | \$ 4   | \$ (15 )                       | \$ (11 ) |
| Foreign government bonds                   | 27   | (51 )                          | (24 )    | -  | -                              | -        |
| RMBS                                       | -  | (181 )                         | (181)    | -  | (47 )                          | (47 )    |
| CMBS                                       | 4  | -                              | 4        | -  | -                              | -        |
| Hybrid and redeemable preferred securities | -  | (29 )                          | (29 )    | 16   | -                              | 16       |
| Trading securities                         | 3  | (17 )                          | (14 )    | 1  | -                              | 1        |
| Total, net                                 | \$ 275   | \$ (592 )                      | \$ (317) | \$ 21  | \$ (62 )                       | \$ (41 ) |

|  | For the Nine Months<br>Ended September 30, 2012 |                                |          | For the Nine Months<br>Ended September 30, 2011 |                                |          |
|--|---|--------------------------------|----------|---|--------------------------------|----------|
|  | Transfers<br>In to<br>Level<br>3                | Transfers<br>Out of<br>Level 3 | Total    | Transfers<br>In to<br>Level<br>3                | Transfers<br>Out of<br>Level 3 | Total    |
|  | Investments:                                    |                                |          |   |                                |          |
| Fixed maturity AFS securities:             |   |                                |          |   |                                |          |
| Corporate bonds                            | \$ 163  | \$ (521 )                      | \$ (358) | \$ 33   | \$ (117 )                      | \$ (84 ) |
| Foreign government bonds                   | 29  | (46 )                          | (17 )    | -   | (17 )                          | (17 )    |
| RMBS                                       | -   | (147 )                         | (147)    | -   | -                              | -        |
| CMBS                                       | 13  | -                              | 13       | -   | (1 )                           | (1 )     |
| CDOs                                       | 6   | -                              | 6        | -   | -                              | -        |
| Hybrid and redeemable preferred securities | 35  | (40 )                          | (5 )     | 18  | (22 )                          | (4 )     |
| Equity AFS securities                      | -   | -                              | -        | 2   | -                              | 2        |
| Trading securities                         | 5   | (16 )                          | (11 )    | 1   | (4 )                           | (3 )     |
| Total, net                                 | \$ 251  | \$ (770 )                      | \$ (519) | \$ 54   | \$ (161 )                      | \$ (107) |

Transfers in and out of Level 3 are generally the result of observable market information on a security no longer being available or becoming available to our pricing vendors. For the three and nine months ended September 30, 2012 and 2011, our corporate bonds transfers in and out were attributable primarily to the securities' observable market information no longer being available or becoming available, respectively. Transfers in and out of Levels 1 and 2 are generally the result of a change in the type of input used to measure the fair value of an asset or liability at the end of the reporting period. When quoted prices in active markets become available or when these prices become unavailable, but we are able to employ a valuation methodology using significant observable inputs, transfers between Levels 1 and 2 will result. For the three and nine months ended September 30, 2012 and 2011, the transfers between Levels 1 and 2 of the fair value hierarchy were less than \$1 million for our financial instruments carried at fair value.

The following summarizes the fair value (in millions), valuation techniques and significant unobservable inputs of the Level 3 fair value measurements that were developed as of September 30, 2012:

|  | Fair Value | Valuation Technique  | Significant Unobservable Inputs          | Range          |
|--|------------|----------------------|--|----------------|
| <b>Assets</b>                                  |            |                      |  |                |
| <b>Investments:</b>                            |            |                      |  |                |
| Fixed maturity AFS and trading securities      |            |                      |  |                |
|  |            |                      | Liquidity/duration                       |                |
| Corporate bonds                                | \$ 1,065   | Discounted cash flow | adjustment (1)                           | 1.8% - 13.2%   |
|  |            |                      | Liquidity/duration                       |                |
| Foreign government bonds                       | 77         | Discounted cash flow | adjustment (1)                           | 1.8% - 6.1%    |
|  |            |                      | Liquidity/duration                       |                |
| Hybrid and redeemable preferred stock          | 21         | Discounted cash flow | adjustment (1)                           | 2.7% - 2.8%    |
|  |            |                      | Liquidity/duration                       |                |
| Equity AFS and trading securities              | 12         | Discounted cash flow | adjustment (1)                           | 4.3% - 4.5%    |
| <b>Liabilities</b>                             |            |                      |  |                |
| <b>Future contract benefits:</b>               |            |                      |  |                |
|  |            |                      | Discounted Lapse rate                    | 1.0% - 15.0%   |
| Indexed annuity contracts embedded derivatives | (733)      | cash flow            | (2)                                      |                |
|  |            |                      | Mortality rate (3)                       | (7)            |
|  |            |                      | Monte Carlo simulation                   |                |
| GLB reserves embedded derivatives              | (1,411)    |                      | Long-term lapse rate (2)                 | 1.0% - 27.0%   |
|  |            |                      | Utilization of guaranteed withdrawal (5) | 90.0% - 100.0% |
|  |            |                      | Non-performance risk ("NPR") (6)         | 0.04% - 0.47%  |
|  |            |                      | Mortality rate (3)                       | (7)            |
|  |            |                      | Volatility (4)                           | 1.0% - 35.0%   |

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

(2)

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

- (3) The mortality rate input represents the estimated probability of when an individual belonging to a particular group, categorized according to age or some other factor such as occupation, will die.
- (4) The volatility input represents overall volatilities assumed for the underlying variable annuity funds, which include a mixture of equity and fixed income assets. Fair value of the variable annuity GLB embedded derivatives would increase if higher volatilities were used for valuation.
- (5) The utilization of guaranteed withdrawals input represents the estimated percentage of contract holders that utilize the guaranteed withdrawal feature.
- (6) The NPR input represents the estimated additional credit spread that market participants would apply to the market observable discount rate when pricing a contract.
- (7) Based on the "Annuity 2000 Mortality Table" developed by the Society of Actuaries Committee on Life Insurance Research that was adopted by the National Association of Insurance Commissioners in 1996 for our mortality input.

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

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

- Investments – An increase in the liquidity/duration adjustment input would result in a decrease in the fair value measurement.
- Indexed annuity contracts embedded derivatives – An increase in the lapse rate or mortality rate inputs would result in a decrease in the fair value measurement.
- GLB reserves embedded derivatives – An increase in our lapse rate, wait period, NPR or mortality rate inputs would result in a decrease in the fair value measurement. An increase in the percent of maximum withdrawal amount input would result in an increase in the fair value measurement.

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

As part of our on-going valuation process, we assess the reasonableness of our valuation techniques or models and make adjustments as necessary. For more information, see “Summary of Significant Accounting Policies” in Note 1 of our 2011 Form 10-K.

#### 14. Segment Information

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations, which includes the financial data for operations that are not directly related to the business segments. Our reporting segments reflect the manner by which our chief operating decision makers view and manage the business. See Note 22 of our 2011 Form 10-K for a brief description of these segments and Other Operations.

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

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

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

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

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

Segment information (in millions) was as follows:

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |          | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |
|---|--|----------|---|----------|
| Revenues  |  |          |   |          |
| Operating revenues:   |  |          |   |          |
| Annuities   | \$ 745   | \$ 711   | \$ 2,210  | \$ 2,179 |
| Retirement Plan Services  | 255  | 247      | 765   | 771      |
| Life Insurance  | 1,296  | 1,176    | 3,765   | 3,552    |
| Group Protection  | 517  | 479      | 1,560   | 1,458    |
| Other Operations  | 101  | 122      | 321   | 352      |
| Excluded realized gain (loss), pre-tax  | 39   | (186 )   | (55 )   | (239 )   |
| Amortization of deferred gain arising from reserve changes on business sold through reinsurance, pre-tax            | 1  | 1        | 2   | 2        |
| Amortization of DFEL associated with benefit ratio unlocking, pre-tax   | -  | (3 )     | -   | (2 )     |
| Total revenues  | \$ 2,954   | \$ 2,547 | \$ 8,568  | \$ 8,073 |
|   |  |          |   |          |
|   | For the Three<br>Months Ended<br>September 30,<br>2012 |          | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |
| Net Income (Loss)   |  |          |   |          |
| Income (loss) from operations:  |  |          |   |          |
| Annuities   | \$ 139   | \$ 153   | \$ 433  | \$ 442   |
| Retirement Plan Services  | 29   | 39       | 101   | 129      |
| Life Insurance  | 154  | 154      | 434   | 433      |
| Group Protection  | 16   | 27       | 59  | 77       |
| Other Operations  | (3 )   | (44 )    | (75 )   | (104 )   |
| Excluded realized gain (loss), after-tax  | 25   | (121)    | (35 )   | (156)    |
| Gain (loss) on early extinguishment of debt, after-tax  | -  | (5 )     | -   | (5 )     |
| Income (expense) from reserve changes (net of related amortization) on business sold through reinsurance, after-tax | 1  | -        | 1   | 1        |
| Impairment of intangibles, after-tax  | 2  | -        | 2   | -        |
| Benefit ratio unlocking, after-tax  | 10   | (42 )    | 24  | (39 )    |
| Income (loss) from continuing operations, after-tax   | 373  | 161      | 944   | 778      |
| Income (loss) from discontinued operations, after-tax   | 29   | (8 )     | 27  | (8 )     |
| Net income (loss)   | \$ 402   | \$ 153   | \$ 971  | \$ 770   |



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

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the financial condition as of September 30, 2012, compared with December 31, 2011, and the results of operations for the three and nine months ended September 30, 2012, compared with the corresponding periods in 2011 of Lincoln National Corporation and its consolidated subsidiaries. Unless otherwise stated or the context otherwise requires, "LNC," "Lincoln," "Company," "we," "our" or "us" refers to Lincoln National Corporation and its consolidated subsidiaries. The MD&A is provided as a supplement to, and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements ("Notes") presented in "Part I – Item 1. Financial Statements"; our Form 10-K for the year ended December 31, 2011 ("2011 Form 10-K"), including the sections entitled "Part I – Item 1A. Risk Factors," as updated in "Part II – Item 1A. Risk Factors" below, "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II – Item 8. Financial Statements and Supplementary Data"; our quarterly reports on Form 10-Q filed in 2012; and our current reports on Form 8-K filed in 2012.

In this report, in addition to providing consolidated revenues and net income (loss), we also provide segment operating revenues and income (loss) from operations because we believe they are meaningful measures of revenues and the profitability of our operating segments. Financial information that follows is presented in conformity with accounting principles generally accepted in the United States of America ("GAAP"), unless otherwise indicated. See Note 1 in our 2011 Form 10-K for a discussion of GAAP.

Operating revenues and income (loss) from operations are the financial performance measures we use to evaluate and assess the results of our segments. Accordingly, we define and report operating revenues and income (loss) from operations by segment in Note 14. Our management believes that operating revenues and income (loss) from operations explain the results of our ongoing businesses in a manner that allows for a better understanding of the underlying trends in our current businesses because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in many instances, decisions regarding these items do not necessarily relate to the operations of the individual segments. In addition, we believe that our definitions of operating revenues and income (loss) from operations will provide investors with a more valuable measure of our performance because it better reveals trends in our business.

Certain reclassifications have been made to prior periods' financial information.

### FORWARD-LOOKING STATEMENTS – CAUTIONARY LANGUAGE

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

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

- Deterioration in general economic and business conditions that may affect account values, investment results, guaranteed benefit liabilities, premium levels, claims experience and the level of pension benefit costs, funding and investment results;
- Adverse global capital and credit market conditions could affect our ability to raise capital, if necessary, and may cause us to realize impairments on investments and certain intangible assets, including goodwill and the valuation allowance against deferred tax assets, which may reduce future earnings and/or affect our financial condition and ability to raise additional capital or refinance existing debt as it matures;
- Because of our holding company structure, the inability of our subsidiaries to pay dividends to the holding company in sufficient amounts could harm the holding company's ability to meet its obligations;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, our subsidiaries' products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserve requirements related to secondary guarantee universal life and annuities; regulations regarding captive reinsurance arrangements; restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. federal tax reform;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits ("EGPs") and demand for our products;

- Uncertainty about the effect of rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us and the economy and the financial services sector in particular;
- The initiation of legal or regulatory proceedings against us, and the outcome of any legal or regulatory proceedings, such as: adverse actions related to present or past business practices common in businesses in which we compete; adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and class action cases; new decisions that result in changes in law; and unexpected trial court rulings;
- A decline in the equity markets causing a reduction in the sales of our subsidiaries' products, a reduction of asset-based fees that our subsidiaries charge on various investment and insurance products, an acceleration of the net amortization of deferred acquisition costs ("DAC"), value of business acquired ("VOBA"), deferred sales inducements ("DSI") and deferred front-end loads ("DFEL") and an increase in liabilities related to guaranteed benefit features of our subsidiaries' variable annuity products;
- Ineffectiveness of our risk management policies and procedures, including various hedging strategies used to offset the effect of changes in the value of liabilities due to changes in the level and volatility of the equity markets and interest rates;
- A deviation in actual experience regarding future persistency, mortality, morbidity, interest rates or equity market returns from the assumptions used in pricing our subsidiaries' products, in establishing related insurance reserves and in the net amortization of DAC, VOBA, DSI and DFEL, which may reduce future earnings;
- Changes in GAAP, including the potential incorporation of International Financial Reporting Standards ("IFRS") into the U.S. financial reporting system, that may result in unanticipated changes to our net income;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios, as well as counterparties to which we are exposed to credit risk, requiring that we realize losses on investments;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
- Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems;
  - The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items;
    - The adequacy and collectibility of reinsurance that we have purchased;
- Acts of terrorism, a pandemic, war or other man-made and natural catastrophes that may adversely affect our businesses and the cost and availability of reinsurance;
- Competitive conditions, including pricing pressures, new product offerings and the emergence of new competitors, that may affect the level of premiums and fees that our subsidiaries can charge for their products;
- The unknown effect on our subsidiaries' businesses resulting from changes in the demographics of their client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
  - Loss of key management, financial planners or wholesalers.

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

Further, it is not possible to assess the effect of all risk factors on our businesses or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking

statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

## INTRODUCTION

### Executive Summary

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

We provide products and services and report results through our Annuities, Retirement Plan Services, Life Insurance and Group Protection segments. We also have Other Operations. These segments and Other Operations are described in “Part I – Item 1. Business” of our 2011 Form 10-K.

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

Our current market conditions, significant operational matters, industry trends, issues and outlook are described in “Introduction – Executive Summary” of our 2011 Form 10-K.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

### Critical Accounting Policies and Estimates

The MD&A included in our 2011 Form 10-K contains a detailed discussion of our critical accounting policies and estimates. The following information updates the “Critical Accounting Policies and Estimates” provided in our 2011 Form 10-K and, accordingly, should be read in conjunction with the “Critical Accounting Policies and Estimates” discussed in our 2011 Form 10-K.

#### DAC, VOBA, DSI and DFEL

##### New DAC Methodology

In October 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2010-26, “Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts” (referred to herein as the “new DAC methodology”), which clarifies the types of costs incurred by an insurance entity that can be capitalized in the acquisition of insurance contracts. Only those costs incurred that result directly from and are essential to the successful acquisition of new or renewal insurance contracts may be capitalized as deferrable acquisition costs. This determination of deferability must be made on a contract-level basis. This new DAC methodology contrasts to the prior guidance we followed that defined deferrable acquisition costs as costs that vary with and are related primarily to new or renewal business, regardless of whether the acquisition efforts were successful or unsuccessful.

Some examples of acquisition costs that remain subject to deferral as part of the new DAC methodology include the following:

- Employee, agent or broker commissions for successful contract acquisitions;
  - Wholesaler production bonuses for successful contract acquisitions;
    - Renewal commissions and bonuses to agents or brokers;
  - Medical and inspection fees for successful contract acquisitions;
    - Premium-related taxes and assessments; and
- A portion of the salaries and benefits of certain employees involved in the underwriting, contract issuance and processing, medical and inspection and sales force contract selling functions related to the successful issuance or renewal of an insurance contract.

All other acquisition-related costs, including costs incurred by the insurer for soliciting potential customers, market research, training, administration, management of distribution and underwriting functions, unsuccessful acquisition or renewal efforts and product development, are considered non-deferrable acquisition costs and must be expensed in the period incurred.

In addition, the following indirect costs are considered non-deferrable acquisition costs as part of the new DAC methodology and must be charged to expense in the period incurred:

- Administrative costs;
  - Rent;
  - Depreciation;
  - Occupancy costs;
- Equipment costs (including data processing equipment dedicated to acquiring insurance contracts); and
- Other general overhead.

We adopted the new DAC methodology as of January 1, 2012, and elected to apply the guidance retrospectively. The retrospective adoption resulted in the restatement of all periods presented with a cumulative effect adjustment to the opening balance of retained earnings and accumulated other comprehensive income (loss) (“AOCI”) for the earliest period presented. Further, our adoption of

the new DAC methodology resulted in an overall reduction in deferrable acquisition costs, partially offset by lower DAC amortization, in each of our business segments. See Note 2 for more discussion of the effect of adoption.

### Unlocking

As discussed in our 2011 Form 10-K, we conduct an annual comprehensive review of the assumptions and the projection models used for our estimates of future gross profits underlying the amortization of DAC, VOBA, DSI and DFEL and the calculations of the embedded derivatives and reserves for life insurance and annuity products with living benefit and death benefit guarantees in the third quarter of each year. As a result of this review, we may record prospective unlocking on an annual basis that result in increases or decreases to the carrying values of these items. Prospective unlocking is driven by changes in assumptions or projection models related to our expectations of future EGPs.

Details underlying the increase (decrease) to income (loss) from continuing operations from our prospective unlocking as a result of our annual comprehensive review (in millions) were as follows:

|  | For the Three<br>Months Ended<br>September 30, |          |        |
|--|--|----------|--------|
|  | 2012   | 2011     | Change |
| Income (loss) from operations:           |  |          |        |
| Annuities                                | \$ (5 )  | \$ (18 ) | 72 %   |
| Retirement Plan Services                 | (3 )   | (2 )     | -50 %  |
| Life Insurance                           | 36   | 51       | -29 %  |
| Excluded realized gain (loss) (1)        | 76   | (78 )    | 197 %  |
| Income (loss) from continuing operations | \$ 104   | \$ (47 ) | NM     |

(1) Includes unlocking related to the non-performance risk (“NPR”) component of our guaranteed living benefit (“GLB”) embedded derivative reserves (see “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivative Results” below for more information).

Our prospective unlocking – assumption changes were attributable primarily to the following:

#### 2012

During the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates. This reduction in the interest rate assumption resulted in resetting the current new money investment rate followed by a gradual annual recovery over seven years to a rate 50 basis points below our previous ultimate long-term assumption. As a result of this assumption revision, we recorded unfavorable prospective unlocking of \$110 million, after-tax, for Life Insurance, \$4 million, after-tax, for Annuities, and \$6 million, after-tax, for Retirement Plan Services.

- For Annuities and Retirement Plan Services, we modified our policyholder behavior assumptions and lowered our new money investment yield assumption as discussed above;
- For Life Insurance, we modified our policyholder behavior assumptions, partially offset by lowering our new money investment yield assumption as discussed above; and
  - For excluded realized gain (loss), we modified our policyholder behavior assumptions for GLB riders.

#### 2011

- For Annuities, we lowered our long-term equity market growth rate and interest margin assumptions, partially offset by lowering our lapse assumptions;
- For Life Insurance, we updated our crediting rate assumptions to reflect actions implemented to reduce interest crediting rates; and
- For excluded realized gain (loss), we lowered our assumptions for long-term volatility, partially offset by lowering our lapse assumptions.



## Reversion to the Mean (“RTM”)

As equity markets do not move in a systematic manner, we reset the baseline of account values from which EGPs are projected, which we refer to as our RTM process, as discussed in our 2011 Form 10-K.

Our long-term variable fund growth rate assumption, which is used in the determination of DAC, VOBA, DSI and DFEL amortization for our variable annuity and VUL products, is an immediate drop of approximately 11% followed by growth going forward of 8% to 9% depending on the block of business and reflecting differences in contract holder fund allocations between fixed income and equity-type investments. If we were to have unlocked our RTM assumption in the corridor as of September 30, 2012, we would have recorded a favorable prospective unlocking of approximately \$215 million, pre-tax, for Annuities, approximately \$20 million, pre-tax, for Retirement Plan Services, and approximately \$20 million, pre-tax, for Life Insurance.

## Investments

## Investment Valuation

The following summarizes our available-for-sale (“AFS”) and trading securities and derivative investments carried at fair value by pricing source and fair value hierarchy level (in millions):

|   | As of September 30, 2012  |  |  |                        |
|---|---|--|--|------------------------|
|   | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
| Priced by third party pricing services  | \$ 719  | \$ 71,629  | \$ -   | \$ 72,348              |
| Priced by independent broker quotations | -   | -  | 3,475  | 3,475                  |
| Priced by matrices                      | -   | 10,766   | -  | 10,766                 |
| Priced by other methods (1)             | -   | -  | 1,175  | 1,175                  |
| <b>Total</b>                            | <b>\$ 719</b>   | <b>\$ 82,395</b>                                 | <b>\$ 4,650</b>                                    | <b>\$ 87,764</b>       |
| Percent of total                        | 1%  | 94%  | 5%   | 100%                   |

(1) Represents primarily securities for which pricing models were used to compute fair value.

For more information about the valuation of our financial instruments carried at fair value, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – Investments – Investment Valuation” in our 2011 Form 10-K and Note 13.

As of September 30, 2012, we evaluated the markets that our securities trade in and concluded that none were inactive. We will continue to re-evaluate this conclusion, as needed, based on market conditions. We use unobservable inputs to measure the fair value of securities trading in less liquid or illiquid markets with limited or no pricing information. We obtain broker quotes for securities such as synthetic convertibles, index-linked certificates of

deposit and collateralized debt obligations (“CDOs”) when sufficient security structure or other market information is not available to produce an evaluation. For broker-quoted only securities, non-binding quotes from market makers or broker-dealers are obtained from sources recognized as market participants. Broker-quoted securities are based solely on receipt of updated quotes from a single market maker or a broker-dealer recognized as a market participant. Our broker-quoted only securities are generally classified as Level 3 of the fair value hierarchy. As of September 30, 2012, we used broker quotes for 74 securities as our final price source, representing 1% of total securities owned.

#### Derivatives

Our accounting policies for derivatives and the potential effect on interest spreads in a falling rate environment are discussed in Note 6 of this report and “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2011 Form 10-K.

## Guaranteed Living Benefits

Within our individual annuity business, approximately 50% of our variable annuity account values contained a guaranteed withdrawal benefit (“GWB”) rider as of September 30, 2012. Declines in the equity markets increase our exposure to potential benefits under the GWB contracts, leading to an increase in our existing liability for those benefits. For example, a GWB contract is “in the money” if the contract holder’s account balance falls below the guaranteed amount. As of September 30, 2012 and 2011,

44% and 91%, respectively, of all GWB in-force contracts were “in the money,” and our exposure to the guaranteed amounts, after reinsurance, as of September 30, 2012 and 2011, was \$1.1 billion and \$3.8 billion, respectively. Our exposure before reinsurance for these same periods was \$1.2 billion and \$4.1 billion, respectively. However, the only way the GWB contract holder can monetize the excess of the guaranteed amount over the account value of the contract is upon death or through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for our lifetime GWB products, the annuity payments can continue beyond the guaranteed amount. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the guaranteed amount over account value.

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

## Acquisitions and Dispositions

For information about acquisitions and divestitures, see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Acquisitions and Dispositions” and Note 3.

## RESULTS OF CONSOLIDATED OPERATIONS

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |        |       | For the Nine<br>Months Ended<br>September 30,<br>2011 |        |       | Change |  |  |
|--|--|--------|-------|---|--------|-------|--------|--|--|
| Net Income (Loss)  |  |        |       |   |        |       |        |  |  |
| Income (loss) from operations:   |  |        |       |   |        |       |        |  |  |
| Annuities  | \$ 139   | \$ 153 | -9 %  | \$ 433  | \$ 442 | -2 %  |        |  |  |
| Retirement Plan Services   | 29   | 39     | -26 % | 101   | 129    | -22 % |        |  |  |
| Life Insurance   | 154  | 154    | 0 %   | 434   | 433    | 0 %   |        |  |  |
| Group Protection   | 16   | 27     | -41 % | 59  | 77     | -23 % |        |  |  |
| Other Operations   | (3 )   | (44 )  | 93 %  | (75 )   | (104)  | 28 %  |        |  |  |
| Excluded realized gain (loss), after-tax   | 25   | (121)  | 121 % | (35 )   | (156)  | 78 %  |        |  |  |
| Gain (loss) on early extinguishment of debt, after-tax   | -  | (5 )   | 100 % | -   | (5 )   | 100 % |        |  |  |
| Income (expense) from reserve changes (net of related amortization)<br>on business sold through reinsurance, after-tax | 1  | -      | NM    | 1   | 1      | 0 %   |        |  |  |
| Impairment of intangibles, after-tax   | 2  | -      | NM    | 2   | -      | NM    |        |  |  |
| Benefit ratio unlocking, after-tax   | 10   | (42 )  | 124 % | 24  | (39 )  | 162 % |        |  |  |
|  | 373  | 161    | 132 % | 944   | 778    | 21 %  |        |  |  |

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Income (loss) from continuing operations,  
after-tax

Income (loss) from discontinued operations,  
after-tax

|                   |        |        |       |        |        |      |
|-------------------|--------|--------|-------|--------|--------|------|
|                   | 29     | (8 )   | NM    | 27     | (8 )   | NM   |
| Net income (loss) | \$ 402 | \$ 153 | 163 % | \$ 971 | \$ 770 | 26 % |

|                          | For the Three<br>Months Ended<br>September 30, |          |        | For the Nine<br>Months Ended<br>September 30, |            |        |
|--------------------------|--|----------|--------|---|------------|--------|
|                          | 2012   | 2011     | Change | 2012  | 2011       | Change |
| <b>Deposits</b>          |  |          |        |   |            |        |
| Annuities                | \$ 2,677                                       | \$ 2,709 | -1 %   | \$ 8,025                                      | \$ 8,274   | -3 %   |
| Retirement Plan Services | 1,717  | 1,456    | 18 %   | 4,519   | 3,996      | 13 %   |
| Life Insurance           | 1,106  | 1,343    | -18 %  | 3,403   | 3,887      | -12 %  |
| Total deposits           | \$ 5,500                                       | \$ 5,508 | 0 %    | \$ 15,947                                     | \$ 16,157  | -1 %   |
| <b>Net Flows</b>         |  |          |        |   |            |        |
| Annuities                | \$ 396   | \$ 663   | -40 %  | \$ 1,391                                      | \$ 1,845   | -25 %  |
| Retirement Plan Services | 232  | 329      | -29 %  | 638   | 285        | 124 %  |
| Life Insurance           | 695  | 963      | -28 %  | 2,169   | 2,652      | -18 %  |
| Total net flows          | \$ 1,323                                       | \$ 1,955 | -32 %  | \$ 4,198                                      | \$ 4,782   | -12 %  |
| <b>Account Values</b>    |  |          |        |   |            |        |
|                          |  |          |        | As of September 30,                           |            |        |
|                          |  |          |        | 2012  | 2011       | Change |
| Annuities                |  |          |        | \$ 94,158                                     | \$ 81,229  | 16 %   |
| Retirement Plan Services |  |          |        | 43,103  | 37,020     | 16 %   |
| Life Insurance           |  |          |        | 36,589  | 34,419     | 6 %    |
| Total account values     |  |          |        | \$ 173,850                                    | \$ 152,668 | 14 %   |

#### Comparison of the Three and Nine Months Ended September 30, 2012 to 2011

Net income increased due primarily to the following:

- The effect of favorable prospective unlocking;
- Favorable tax adjustments during 2012 due primarily to the release of reserves associated with prior tax years that were closed in the third quarter;
- Realized gains on the mark-to-market on certain instruments during 2012 as compared to realized losses during 2011 attributable to spreads narrowing on corporate credit default swaps; and
  - Growth in account values, insurance in force and group earned premiums.

The increase in net income was partially offset by the following:

- Higher gross realized gains during 2011 originating from asset sales to reposition the investment portfolio;
- Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and
- Strategic investments in technology platforms and distribution processes, partially offset by aggressively managing expenses.

## RESULTS OF ANNUITIES

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |        |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |        |        |
|--|--|--------|--------|---|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011   | Change |
| Operating Revenues                         |  |        |        |   |        |        |
| Insurance premiums (1)                     | \$ 29  | \$ 15  | 93 %   | \$ 64   | \$ 60  | 7 %    |
| Insurance fees                             | 332  | 317    | 5 %    | 980   | 948    | 3 %    |
| Net investment income                      | 268  | 271    | -1 %   | 819   | 837    | -2 %   |
| Operating realized gain (loss)             | 30   | 23     | 30 %   | 82  | 69     | 19 %   |
| Other revenues and fees (2)                | 86   | 85     | 1 %    | 265   | 265    | 0 %    |
| Total operating revenues                   | 745  | 711    | 5 %    | 2,210   | 2,179  | 1 %    |
| Operating Expenses                         |  |        |        |   |        |        |
| Interest credited                          | 146  | 177    | -18 %  | 480   | 530    | -9 %   |
| Benefits                                   | 131  | 87     | 51 %   | 226   | 165    | 37 %   |
| Commissions and other expenses             | 295  | 287    | 3 %    | 974   | 961    | 1 %    |
| Total operating expenses                   | 572  | 551    | 4 %    | 1,680   | 1,656  | 1 %    |
| Income (loss) from operations before taxes | 173  | 160    | 8 %    | 530   | 523    | 1 %    |
| Federal income tax expense (benefit)       | 34   | 7      | NM     | 97  | 81     | 20 %   |
| Income (loss) from operations              | \$ 139   | \$ 153 | -9 %   | \$ 433  | \$ 442 | -2 %   |

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

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

## Comparison of the Three Months Ended September 30, 2012 to 2011

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

- More favorable tax return true-ups recorded in 2011 than in 2012 driven by the separate account dividends-received deduction (“DRD”) and other items;
- Higher benefits attributable to the effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information); and
- Higher commissions and other expenses driven by higher account values driving higher trail commissions and strategic investments in technology platforms and distribution processes.

The decrease in income from operations was partially offset by the following:

- Higher net investment income, net of interest credited, driven by:
  - § The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
  - § Higher average fixed account values since the third quarter of 2011 (see the “Other Information” table within “Net Investment Income and Interest Credited” below for drivers of changes in our account values); and

- § More favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Alternative Investments” below for more information);
- partially offset by:
- § Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and
- § Lower prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and

- Higher insurance fees driven by higher average daily variable account values since the third quarter of 2011 (see the “Account Value Information” table within “Insurance Fees” below for drivers of changes in our account values).

#### Comparison of the Nine Months Ended September 30, 2012 to 2011

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

- Higher benefits attributable to the following:
  - § The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
  - § Unfavorable mortality experience on SPIA during 2012 as compared to favorable experience during 2011; and
    - § An increase in the growth in benefit reserves from higher than expected GLB payments;
- More favorable tax return true-ups recorded in 2011 than in 2012 driven by the separate account DRD and other items; and
- Higher commissions and other expenses driven by higher account values driving higher trail commissions and strategic investments in technology platforms and distribution processes.

The decrease in income from operations was partially offset by the following:

- Higher insurance fees driven by higher average daily variable account values since the third quarter of 2011 (see the “Account Value Information” table within “Insurance Fees” below for drivers of changes in our account values); and
    - Higher net investment income, net of interest credited, driven by:
      - § The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information);
        - § Higher average fixed account values since the third quarter of 2011 (see the “Other Information” table within “Net Investment Income and Interest Credited” below for drivers of changes in our account values); and
      - § More favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Alternative Investments” below for more information);
- partially offset by:
- § Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates; and
  - § Lower prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information).

#### Additional Information

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they are an important indicator of future profitability.

The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity products was 8% for the three and nine months ended September 30, 2012 and 2011.

Our fixed annuity business includes products with discretionary crediting rates that are reset on an annual basis and are not subject to surrender charges. Our ability to retain annual reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate



spreads to differ from our expectations. As mentioned in “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” above, during the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates.

For information on interest rate spreads, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein. For information on the interest rate risk due to falling interest rates, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2011 Form 10-K.

We provide information about this segment’s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain (loss), see “Realized Gain (Loss) and Benefit Ratio Unlocking” below.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

### Insurance Fees

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

|  | For the Three Months Ended |        |        | For the Nine Months Ended |        |        |
|--|----------------------------|--------|--------|---------------------------|--------|--------|
|  | September 30, 2012         | 2011   | Change | September 30, 2012        | 2011   | Change |
| Insurance Fees                                     |                            |        |        |                           |        |        |
| Mortality, expense and other assessments           | \$ 337                     | \$ 316 | 7 %    | \$ 979                    | \$ 950 | 3 %    |
| Surrender charges                                  | 2                          | 8      | -75 %  | 12                        | 29     | -59 %  |
| DFEL:  |                            |        |        |                           |        |        |
| Deferrals  | (5 )                       | (16 )  | 69 %   | (18 )                     | (51 )  | 65 %   |
| Amortization, net of interest:                     |                            |        |        |                           |        |        |
| Prospective unlocking                              | (6 )                       | 6      | NM     | (6 )                      | 6      | NM     |
| Amortization, net of interest, excluding unlocking | 4                          | 3      | 33 %   | 13                        | 14     | -7 %   |
| Total insurance fees                               | \$ 332                     | \$ 317 | 5 %    | \$ 980                    | \$ 948 | 3 %    |

|  | As of or For the Three Months Ended |          |        | As of or For the Nine Months Ended |          |        |
|--|-------------------------------------|----------|--------|------------------------------------|----------|--------|
|  | September 30, 2012                  | 2011     | Change | September 30, 2012                 | 2011     | Change |
| Account Value Information  |                                     |          |        |                                    |          |        |
| Variable annuity deposits (1)  | \$ 1,518                            | \$ 1,415 | 7 %    | \$ 4,621                           | \$ 4,558 | 1 %    |
| Increases (decreases) in variable annuity account values:  |                                     |          |        |                                    |          |        |
| Net flows (1)  | (97 )                               | (41 )    | NM     | (251 )                             | (243 )   | -3 %   |
| Change in market value (1)   | 3,186                               | (8,345 ) | 138 %  | 6,576                              | (5,981 ) | 210 %  |
| Transfers to the variable portion of variable annuity products from the fixed portion of variable annuity products | 696                                 | 609      | 14 %   | 2,064                              | 2,140    | -4 %   |
| Variable annuity account values (1)  | 73,400                              | 60,774   | 21 %   | 73,400                             | 60,774   | 21 %   |
| Average daily variable annuity account values (1)  | 71,535                              | 65,169   | 10 %   | 69,926                             | 66,625   | 5 %    |
| Average daily S&P 500  | 1,402.14                            | 1,227.42 | 14 %   | 1,366.26                           | 1,282.45 | 7 %    |

(1) Excludes the fixed portion of variable.

We charge contract holders mortality and expense assessments on variable annuity accounts to cover insurance and administrative expenses. These assessments are a function of the rates priced into the product and the average daily variable account values. Average daily account values are driven by net flows and the equity markets. In addition, for our fixed annuity contracts and for some variable contracts, we collect surrender charges when contract holders surrender their contracts during their surrender charge periods to protect us from premature withdrawals. Insurance fees include charges on both our variable and fixed annuity products, but exclude the attributed fees on our GLB

products; see “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)” in our 2011 Form 10-K for discussion of these attributed fees.

## Net Investment Income and Interest Credited

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|--|--|--------|--------|---|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011   | Change |
| <b>Net Investment Income</b>   |  |        |        |   |        |        |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | \$ 236   | \$ 243 | -3 %   | \$ 711  | \$ 735 | -3 %   |
| Commercial mortgage loan prepayment and bond makewhole premiums (1)                            | 2  | 6      | -67 %  | 8   | 23     | -65 %  |
| Alternative investments (2)  | -  | -      | NM     | 1   | -      | NM     |
| Surplus investments (3)  | 30   | 22     | 36 %   | 99  | 79     | 25 %   |
| Total net investment income  | \$ 268   | \$ 271 | -1 %   | \$ 819  | \$ 837 | -2 %   |
| <b>Interest Credited</b>   |  |        |        |   |        |        |
| Amount provided to contract holders  | \$ 160   | \$ 176 | -9 %   | \$ 491  | \$ 525 | -6 %   |
| DSI deferrals  | (11 )  | (10 )  | -10 %  | (30 )   | (29 )  | -3 %   |
| Interest credited before DSI amortization  | 149  | 166    | -10 %  | 461   | 496    | -7 %   |
| <b>DSI amortization:</b>   |  |        |        |   |        |        |
| Prospective unlocking  | (14 )  | 2      | NM     | (14 )   | 2      | NM     |
| Amortization, excluding unlocking  | 11   | 9      | 22 %   | 33  | 32     | 3 %    |
| Total interest credited  | \$ 146   | \$ 177 | -18 %  | \$ 480  | \$ 530 | -9 %   |

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

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

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

|  | For the Three<br>Months Ended<br>September 30, |        |                          | For the Nine<br>Months Ended<br>September 30, |        |                          |
|--|--|--------|--------------------------|---|--------|--------------------------|
|  | 2012   | 2011   | Basis<br>Point<br>Change | 2012  | 2011   | Basis<br>Point<br>Change |
| <b>Interest Rate Spread</b>  |  |        |                          |   |        |                          |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 4.83 %   | 5.08 % | (25 )                    | 4.88 %  | 5.18 % | (30 )                    |
| Commercial mortgage loan prepayment and bond makewhole premiums                                | 0.04 %   | 0.12 % | (8 )                     | 0.05 %  | 0.16 % | (11 )                    |
| Net investment income yield on reserves  | 4.87 %   | 5.20 % | (33 )                    | 4.93 %  | 5.34 % | (41 )                    |
| <b>Interest rate credited to contract holders</b>  |  |        |                          |   |        |                          |
| Interest rate spread   | 2.94 %   | 3.33 % | (39 )                    | 3.04 %  | 3.34 % | (30 )                    |
|  | 1.93 %   | 1.87 % | 6                        | 1.89 %  | 2.00 % | (11 )                    |



|   | As of or For the<br>Three<br>Months Ended<br>September 30, |          |        | As of or For the<br>Nine<br>Months Ended<br>September 30, |          |        |
|---|--|----------|--------|---|----------|--------|
|   | 2012   | 2011     | Change | 2012  | 2011     | Change |
| Other Information   |  |          |        |   |          |        |
| Fixed annuity deposits (1)  | \$ 1,159   | \$ 1,294 | -10 %  | \$ 3,403  | \$ 3,717 | -8 %   |
| Increases (decreases) in fixed annuity account values:  |  |          |        |   |          |        |
| Net flows (1)   | 493  | 704      | -30 %  | 1,641   | 2,089    | -21 %  |
| Transfers from the fixed portion of<br>variable annuity products to the<br>variable portion of variable annuity<br>products | (696 )   | (609 )   | -14 %  | (2,064 )  | (2,140 ) | 4 %    |
| Reinvested interest credited (1)  | 201  | 45       | NM     | 609   | 445      | 37 %   |
| Fixed annuity account values (1)  | 20,757   | 20,455   | 1 %    | 20,757  | 20,455   | 1 %    |
| Average fixed account values (1)  | 20,788   | 20,415   | 2 %    | 20,678  | 20,190   | 2 %    |
| Average invested assets on reserves   | 19,493   | 19,160   | 2 %    | 19,523  | 18,947   | 3 %    |

(1) Includes the fixed portion of variable.

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

## Benefits

Details underlying benefits (in millions) were as follows:

|   | For the Three<br>Months Ended<br>September 30, |       |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|---|--|-------|--------|---|--------|--------|
|   | 2012   | 2011  | Change | 2012  | 2011   | Change |
| Benefits  |  |       |        |   |        |        |
| Prospective unlocking                             | \$ 73  | \$ 43 | 70 %   | \$ 73   | \$ 43  | 70 %   |
| Net death and other benefits, excluding unlocking | 58   | 44    | 32 %   | 153   | 122    | 25 %   |
| Total benefits                                    | \$ 131   | \$ 87 | 51 %   | \$ 226  | \$ 165 | 37 %   |

Benefits for this segment include changes in reserves of immediate annuity account values driven by premiums, changes in benefit reserves and our expected costs associated with purchases of derivatives used to hedge our benefit ratio unlocking.

## Commissions and Other Expenses

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|--|--|--------|--------|---|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011   | Change |
| Commissions and Other Expenses   |  |        |        |   |        |        |
| Commissions:   |  |        |        |   |        |        |
| Deferrable   | \$ 124   | \$ 121 | 2 %    | \$ 367  | \$ 357 | 3 %    |
| Non-deferrable   | 79   | 61     | 30 %   | 221   | 195    | 13 %   |
| General and administrative expenses  | 97   | 85     | 14 %   | 292   | 265    | 10 %   |
| Inter-segment reimbursement associated with reserve financing and LOC expenses (1) | -  | (1 )   | 100 %  | -   | (1 )   | 100 %  |
| Taxes, licenses and fees   | 9  | 5      | 80 %   | 23  | 20     | 15 %   |
| Total expenses incurred, excluding broker-dealer DAC deferrals                     | 309  | 271    | 14 %   | 903   | 836    | 8 %    |
| Total pre-broker-dealer expenses incurred, excluding amortization, net of interest | (138)  | (137)  | -1 %   | (411)   | (405)  | -1 %   |
| DAC and VOBA amortization, net of interest:  |  |        |        |   |        |        |
| Prospective unlocking  | 171  | 134    | 28 %   | 492   | 431    | 14 %   |
| Amortization, net of interest, excluding unlocking                                 | (57 )  | (11 )  | NM     | (57 )   | (11 )  | NM     |
| Broker-dealer expenses incurred  | 96   | 78     | 23 %   | 280   | 272    | 3 %    |
| Total commissions and other expenses   | 85   | 86     | -1 %   | 259   | 269    | -4 %   |
|  | \$ 295   | \$ 287 | 3 %    | \$ 974  | \$ 961 | 1 %    |
| DAC Deferrals  |  |        |        |   |        |        |
| As a percentage of sales/deposits  | 5.2 %  | 5.1 %  |        | 5.1 %   | 4.9 %  |        |

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

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain of our commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized.

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

## RESULTS OF RETIREMENT PLAN SERVICES

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |       |      | Change | For the Nine<br>Months Ended<br>September 30,<br>2012 |        |      | Change |
|--|--|-------|------|--------|---|--------|------|--------|
|  | 2011   |       |      |        | 2011  |        |      |        |
| Operating Revenues                         |  |       |      |        |   |        |      |        |
| Insurance fees                             | \$ 53  | \$ 51 | 4    | %      | \$ 158  | \$ 161 | -2   | %      |
| Net investment income                      | 199  | 193   | 3    | %      | 598   | 598    | 0    | %      |
| Other revenues and fees (1)                | 3  | 3     | 0    | %      | 9   | 12     | -25  | %      |
| Total operating revenues                   | 255  | 247   | 3    | %      | 765   | 771    | -1   | %      |
| Operating Expenses                         |  |       |      |        |   |        |      |        |
| Interest credited                          | 114  | 109   | 5    | %      | 337   | 326    | 3    | %      |
| Benefits                                   | -  | 2     | -100 | %      | -   | 2      | -100 | %      |
| Commissions and other expenses             | 102  | 83    | 23   | %      | 293   | 262    | 12   | %      |
| Total operating expenses                   | 216  | 194   | 11   | %      | 630   | 590    | 7    | %      |
| Income (loss) from operations before taxes | 39   | 53    | -26  | %      | 135   | 181    | -25  | %      |
| Federal income tax expense (benefit)       | 10   | 14    | -29  | %      | 34  | 52     | -35  | %      |
| Income (loss) from operations              | \$ 29  | \$ 39 | -26  | %      | \$ 101  | \$ 129 | -22  | %      |

(1) Consists primarily of mutual fund account program fees for mid to large employers.

## Comparison of the Three Months Ended September 30, 2012 to 2011

Income from operations for this segment decreased due primarily to higher commissions and other expenses driven by the following:

- Strategic investments in technology platforms and distribution expansion efforts; and
- The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information).

## Comparison of the Nine Months Ended September 30, 2012 to 2011

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

- Higher commissions and other expenses driven by strategic investments in technology platforms and distribution expansion efforts;
  - Lower net investment income, net of interest credited, driven by:
    - § Lower prepayment and bond makewhole premiums (see “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and
    - § Spread compression due to new money rates averaging below our portfolio yields, partially offset by actions implemented to reduce interest crediting rates;
- partially offset by:
  - § Higher average fixed account values since the third quarter of 2011 (see the “Other Information” table within “Net Investment Income and Interest Credited” below for drivers of changes in our account values); and



- § More favorable investment income on alternative investments within our surplus portfolio (see “Consolidated Investments – Alternative Investments” below for more information); and
- Lower insurance fees driven by lower average daily variable account values since the third quarter of 2011 (see the “Account Value Information” table within “Insurance Fees” below for drivers of changes in our account values).

## Additional Information

Net flows in this business fluctuate based on the timing of larger plans implementing on our platform and terminating over the course of the year, and we expect this trend will continue for the remainder of 2012.

New deposits are an important component of net flows and key to our efforts to grow our business. Although deposits do not significantly affect current period income from operations, they are an important indicator of future profitability. The other component of net flows relates to the retention of the business. An important measure of retention is the lapse rate, which compares the amount of withdrawals to the average account values. The overall lapse rate for our annuity and mutual fund products was 14% and 12% for the three and nine months ended September 30, 2012, respectively, compared to 12% for the corresponding periods in 2011.

Our lapse rate is negatively affected by the continued net outflows from our oldest blocks of annuities business (as presented on our Account Value Roll Forward table below as “Total Multi-Fund® and Other Variable Annuities”), which are also our higher margin product lines in this segment, due to the fact that they are mature blocks with much of the account values out of their surrender charge period. The proportion of these products to our total account values was 37% and 41% as of September 30, 2012, and 2011, respectively. Due to this expected overall shift in business mix toward products with lower returns, a significant increase in new deposit production will be necessary to maintain earnings at current levels.

Our fixed annuity business includes products with discretionary and index-based crediting rates that are reset on a quarterly basis. Our ability to retain quarterly reset annuities will be subject to current competitive conditions at the time interest rates for these products reset. We expect to manage the effects of spreads on near-term income from operations through portfolio management and, to a lesser extent, crediting rate actions, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. As mentioned in “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” above, during the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates.

For information on interest rate spreads, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein. For information on the interest rate risk due to falling interest rates, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2011 Form 10-K.

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

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

## Insurance Fees

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

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|                             | For the Three<br>Months Ended<br>September 30, |       |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|-----------------------------|--|-------|--------|---|--------|--------|
|                             | 2012   | 2011  | Change | 2012  | 2011   | Change |
| Insurance Fees              |  |       |        |   |        |        |
| Annuity expense assessments | \$ 45  | \$ 43 | 5 %    | \$ 133  | \$ 136 | -2 %   |
| Mutual fund fees            | 8  | 7     | 14 %   | 24  | 23     | 4 %    |
| Total expense assessments   | 53   | 50    | 6 %    | 157   | 159    | -1 %   |
| Surrender charges           | -  | 1     | -100%  | 1   | 2      | -50 %  |
| Total insurance fees        | \$ 53  | \$ 51 | 4 %    | \$ 158  | \$ 161 | -2 %   |

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|  | For the Three<br>Months Ended<br>September 30,<br>2012 |           |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |           |        |
|--|--|-----------|--------|---|-----------|--------|
|  | 2012   | 2011      | Change | 2012  | 2011      | Change |
| <b>Account Value Roll Forward – By Product</b>         |  |           |        |   |           |        |
| <b>Total Micro – Small Segment:</b>                    |  |           |        |   |           |        |
| Balance as of beginning-of-period                      | \$ 6,470   | \$ 6,566  | -1 %   | \$ 6,168  | \$ 6,396  | -4 %   |
| Gross deposits   | 362  | 312       | 16 %   | 1,152   | 953       | 21 %   |
| Withdrawals and deaths                                 | (330 )   | (336 )    | 2 %    | (1,110 )  | (1,045 )  | -6 %   |
| Net flows  | 32   | (24 )     | 233 %  | 42  | (92 )     | 146 %  |
| Transfers between fixed and variable accounts          | (5 )   | -         | NM     | (16 )   | (6 )      | NM     |
| Investment increase and change in market value         | 269  | (686 )    | 139 %  | 572   | (442 )    | 229 %  |
| Balance as of end-of-period                            | \$ 6,766   | \$ 5,856  | 16 %   | \$ 6,766  | \$ 5,856  | 16 %   |
| <b>Total Mid – Large Segment:</b>                      |  |           |        |   |           |        |
| Balance as of beginning-of-period                      | \$ 19,139  | \$ 17,333 | 10 %   | \$ 17,434   | \$ 16,207 | 8 %    |
| Gross deposits   | 1,186  | 969       | 22 %   | 2,852   | 2,504     | 14 %   |
| Withdrawals and deaths                                 | (798 )   | (408 )    | -96 %  | (1,697 )  | (1,463 )  | -16 %  |
| Net flows  | 388  | 561       | -31 %  | 1,155   | 1,041     | 11 %   |
| Transfers between fixed and variable accounts          | (17 )  | (19 )     | 11 %   | (24 )   | (57 )     | 58 %   |
| Investment increase and change in market value         | 783  | (1,769 )  | 144 %  | 1,728   | (1,085 )  | 259 %  |
| Balance as of end-of-period                            | \$ 20,293  | \$ 16,106 | 26 %   | \$ 20,293   | \$ 16,106 | 26 %   |
| <b>Total Multi-Fund® and Other Variable Annuities:</b> |  |           |        |   |           |        |
| Balance as of beginning-of-period                      | \$ 15,788  | \$ 16,388 | -4 %   | \$ 15,531   | \$ 16,221 | -4 %   |
| Gross deposits   | 169  | 175       | -3 %   | 515   | 539       | -4 %   |
| Withdrawals and deaths                                 | (357 )   | (383 )    | 7 %    | (1,074 )  | (1,203 )  | 11 %   |
| Net flows  | (188 )   | (208 )    | 10 %   | (559 )  | (664 )    | 16 %   |
| Investment increase and change in market value         | 444  | (1,122 )  | 140 %  | 1,072   | (499 )    | NM     |
| Balance as of end-of-period                            | \$ 16,044  | \$ 15,058 | 7 %    | \$ 16,044   | \$ 15,058 | 7 %    |
| <b>Total Annuities and Mutual Funds:</b>               |  |           |        |   |           |        |
| Balance as of beginning-of-period                      | \$ 41,397  | \$ 40,287 | 3 %    | \$ 39,133   | \$ 38,824 | 1 %    |
| Gross deposits   | 1,717  | 1,456     | 18 %   | 4,519   | 3,996     | 13 %   |
| Withdrawals and deaths                                 | (1,485 )   | (1,127 )  | -32 %  | (3,881 )  | (3,711 )  | -5 %   |
| Net flows  | 232  | 329       | -29 %  | 638   | 285       | 124 %  |
| Transfers between fixed and variable accounts          | (22 )  | (19 )     | -16 %  | (40 )   | (63 )     | 37 %   |
| Investment increase and change in market value         | 1,496  | (3,577 )  | 142 %  | 3,372   | (2,026 )  | 266 %  |
| Balance as of end-of-period (1)                        | \$ 43,103  | \$ 37,020 | 16 %   | \$ 43,103   | \$ 37,020 | 16 %   |

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

|  | As of or For the Three<br>Months Ended<br>September 30, |          |        | As of or For the Nine<br>Months Ended<br>September 30, |          |        |
|--|---|----------|--------|--|----------|--------|
|  | 2012  | 2011     | Change | 2012   | 2011     | Change |
| <b>Account Value Information</b>   |   |          |        |  |          |        |
| Variable annuity deposits (1)  | \$ 343  | \$ 391   | -12 %  | \$ 1,219   | \$ 1,199 | 2 %    |
| Increases (decreases) in variable annuity account values:  |   |          |        |  |          |        |
| Net flows (1)  | (103 )  | (120 )   | 14 %   | (291 )   | (415 )   | 30 %   |
| Change in market value (1)   | 632   | (1,888 ) | 133 %  | 1,405  | (1,176 ) | 219 %  |
| Transfers from the variable portion of variable annuity products to the fixed portion of variable annuity products | (79 )   | (124 )   | 36 %   | (193 )   | (214 )   | 10 %   |
| Variable annuity account values (1)  | 13,788  | 12,122   | 14 %   | 13,788   | 12,122   | 14 %   |
| Average daily variable annuity account values (1)  | 13,558  | 13,217   | 3 %    | 13,507   | 13,889   | -3 %   |
| Average daily S&P 500  | 1,402.14  | 1,227.42 | 14 %   | 1,366.26   | 1,282.45 | 7 %    |

(1) Excludes the fixed portion of variable.

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

#### Net Investment Income and Interest Credited

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|--|--|--------|--------|---|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011   | Change |
| <b>Net Investment Income</b>   |  |        |        |   |        |        |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | \$ 184   | \$ 180 | 2 %    | \$ 547  | \$ 536 | 2 %    |
| Commercial mortgage loan prepayment and bond makewhole premiums (1)                            | -  | 1      | -100 % | 3   | 20     | -85 %  |
| Alternative investments (2)  | -  | -      | NM     | 1   | 1      | 0 %    |
| Surplus investments (3)  | 15   | 12     | 25 %   | 47  | 41     | 15 %   |
| Total net investment income  | \$ 199   | \$ 193 | 3 %    | \$ 598  | \$ 598 | 0 %    |
| Interest Credited  | \$ 114   | \$ 109 | 5 %    | \$ 337  | \$ 326 | 3 %    |

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

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

(3)

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

|  | For the Three |        |        | For the Nine  |        |        |
|--|---------------|--------|--------|---------------|--------|--------|
|  | Months Ended  | Basis  | Point  | Months Ended  | Basis  | Point  |
|  | September 30, | Point  | Change | September 30, | Point  | Change |
|  | 2012          | 2011   |        | 2012          | 2011   |        |
| <b>Interest Rate Spread</b>  |               |        |        |               |        |        |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 5.23 %        | 5.53 % | (30 )  | 5.28 %        | 5.57 % | (29 )  |
| Commercial mortgage loan prepayment and bond makewhole premiums                                | 0.01 %        | 0.04 % | (3 )   | 0.02 %        | 0.20 % | (18 )  |
| Alternative investments  | 0.00 %        | 0.00 % | -      | 0.01 %        | 0.01 % | -      |
| Net investment income yield on reserves  | 5.24 %        | 5.57 % | (33 )  | 5.31 %        | 5.78 % | (47 )  |
| Interest rate credited to contract holders   | 3.22 %        | 3.31 % | (9 )   | 3.22 %        | 3.34 % | (12 )  |
| Interest rate spread   | 2.02 %        | 2.26 % | (24 )  | 2.09 %        | 2.44 % | (35 )  |

|  | As of or For the |        |       | As of or For the |          |       |
|--|------------------|--------|-------|------------------|----------|-------|
|  | Three            | Change | Point | Nine             | Change   | Point |
|  | Months Ended     | Change | Point | Months Ended     | Change   | Point |
|  | September 30,    |        |       | September 30,    |          |       |
|  | 2012             | 2011   |       | 2012             | 2011     |       |
| <b>Other Information</b>   |                  |        |       |                  |          |       |
| Fixed annuity deposits (1)   | \$ 489           | \$ 378 | 29 %  | \$ 1,206         | \$ 1,042 | 16 %  |
| Increases (decreases) in fixed annuity account values:   |                  |        |       |                  |          |       |
| Net flows (1)  | 44               | 22     | 100 % | (13 )            | (87 )    | 85 %  |
| Transfers to the fixed portion of variable annuity products from the variable portion of variable annuity products | 79               | 124    | -36 % | 193              | 214      | -10 % |
| Reinvested interest credited (1)   | 114              | 111    | 3 %   | 336              | 327      | 3 %   |
| Fixed annuity account values (1)   | 14,242           | 13,395 | 6 %   | 14,242           | 13,395   | 6 %   |
| Average fixed account values (1)   | 14,126           | 13,244 | 7 %   | 13,918           | 13,048   | 7 %   |
| Average invested assets on reserves  | 14,095           | 13,068 | 8 %   | 13,829           | 12,848   | 8 %   |

(1) Includes the fixed portion of variable.

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

#### Benefits

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





## Commissions and Other Expenses

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

|  | For the Three<br>Months Ended<br>September 30, |       |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|--|--|-------|--------|---|--------|--------|
|  | 2012   | 2011  | Change | 2012  | 2011   | Change |
| Commissions and Other Expenses                     |  |       |        |   |        |        |
| Commissions:                                       |  |       |        |   |        |        |
| Deferrable   | \$ 4   | \$ 5  | -20 %  | \$ 14   | \$ 15  | -7 %   |
| Non-deferrable                                     | 13   | 11    | 18 %   | 38  | 35     | 9 %    |
| General and administrative expenses                | 77   | 65    | 18 %   | 224   | 200    | 12 %   |
| Taxes, licenses and fees                           | 4  | 3     | 33 %   | 12  | 12     | 0 %    |
| Total expenses incurred                            | 98   | 84    | 17 %   | 288   | 262    | 10 %   |
| DAC deferrals                                      | (9 )   | (8 )  | -13 %  | (28 )   | (26 )  | -8 %   |
| Total expenses recognized before amortization      | 89   | 76    | 17 %   | 260   | 236    | 10 %   |
| DAC and VOBA amortization, net of interest:        |  |       |        |   |        |        |
| Prospective unlocking                              | 4  | 2     | 100 %  | 4   | 2      | 100 %  |
| Amortization, net of interest, excluding unlocking | 9  | 5     | 80 %   | 29  | 24     | 21 %   |
| Total commissions and other expenses               | \$ 102   | \$ 83 | 23 %   | \$ 293  | \$ 262 | 12 %   |

## DAC Deferrals

|   |       |       |       |       |
|---|-------|-------|-------|-------|
| As a percentage of annuity sales/deposits | 1.1 % | 1.0 % | 1.2 % | 1.2 % |
|---|-------|-------|-------|-------|

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized over the lives of the contracts in relation to EGPs. Certain of our commissions, such as trail commissions that are based on account values, are expensed as incurred rather than deferred and amortized. We do not pay commissions on sales of our mutual fund products, and distribution expenses associated with the sale of these mutual fund products are expensed as incurred.

## RESULTS OF LIFE INSURANCE

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|--|--|--------|--------|---|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011   | Change |
| Operating Revenues                         |  |        |        |   |        |        |
| Insurance premiums                         | \$ 103   | \$ 104 | -1 %   | \$ 326  | \$ 324 | 1 %    |
| Insurance fees                             | 605  | 498    | 21 %   | 1,645   | 1,473  | 12 %   |
| Net investment income                      | 578  | 569    | 2 %    | 1,773   | 1,736  | 2 %    |
| Operating realized gain                    | 1  | -      | NM     | 1   | -      | NM     |
| Other revenues and fees                    | 9  | 5      | 80 %   | 20  | 19     | 5 %    |
| Total operating revenues                   | 1,296  | 1,176  | 10 %   | 3,765   | 3,552  | 6 %    |
| Operating Expenses                         |  |        |        |   |        |        |
| Interest credited                          | 319  | 312    | 2 %    | 941   | 921    | 2 %    |
| Benefits                                   | 296  | 152    | 95 %   | 1,248   | 1,209  | 3 %    |
| Commissions and other expenses             | 465  | 493    | -6 %   | 951   | 791    | 20 %   |
| Total operating expenses                   | 1,080  | 957    | 13 %   | 3,140   | 2,921  | 7 %    |
| Income (loss) from operations before taxes | 216  | 219    | -1 %   | 625   | 631    | -1 %   |
| Federal income tax expense (benefit)       | 62   | 65     | -5 %   | 191   | 198    | -4 %   |
| Income (loss) from operations              | \$ 154   | \$ 154 | 0 %    | \$ 434  | \$ 433 | 0 %    |

## Comparison of the Three Months Ended September 30, 2012 to 2011

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

- Higher insurance fees due to the effect of prospective unlocking and growth in business in force; and
- Lower commissions and other expenses due to the effect of prospective unlocking, partially offset by a higher amortization rate as a result of higher gross profits than our model projections assumed and other reserve changes; entirely offset by:

- Higher benefits due to:

§ The effect of prospective unlocking; and

§ Continued growth in our secondary guarantee life insurance business;

partially offset by:

§ Lower death claims.

## Comparison of the Nine Months Ended September 30, 2012 to 2011

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

- Higher insurance fees due to the effect of prospective unlocking and growth in business in force; and
- Higher net investment income, net of interest credited, driven by:

§ Growth in business in force;

partially offset by:

§

Less favorable investment income on alternative investments and lower prepayment and bond makewhole premiums (see “Consolidated Investments – Alternative Investments” and “Consolidated Investments – Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for more information); and § Spread compression due to new money rates averaging below our portfolio yields, partially offset by lower interest crediting rates.

The increase in income from operations was partially offset by the following:

- Higher commissions and other expenses attributable to the effect of prospective unlocking and other reserve changes; and
- Higher benefits due to:

§ Higher death claims; and

§ Continued growth in our secondary guarantee life insurance business;

partially offset by:

§ The effect of prospective unlocking.

See “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information about our third quarter prospective unlocking.

#### Strategies to Address Statutory Reserve Strain

Term products and UL products containing secondary guarantees require reserves calculated pursuant to the Valuation of Life Insurance Policies Model Regulation (“XXX”) and Actuarial Guideline 38 (“AG38”), respectively. The calculated reserve levels exceed the expected economic levels of benefits that will arise under these products; therefore, our surplus is reduced to hold these higher reserve levels. Our insurance subsidiaries are employing strategies to reduce the surplus strain of holding the higher statutory reserves associated with term products and UL products containing secondary guarantees. As noted below, we have been successful in executing reinsurance solutions to release surplus to Other Operations. We will continue to manage our present reinsurance solutions and enter into new solutions to minimize the strain on our surplus.

Included in the LOCs issued as of September 30, 2012, was approximately \$2.3 billion of long-dated LOCs issued to support inter-company reinsurance arrangements, of which approximately \$65 million and \$1.4 billion was issued for UL products containing secondary guarantees that will expire in 2015 and 2031, respectively, and approximately \$855 million was issued for term business that will expire in 2023. We have also used the proceeds from senior note issuances of approximately \$875 million to execute long-term structured solutions supporting UL products containing secondary guarantees. LOCs and related capital market alternatives lower the capital effect of term and UL products containing secondary guarantees. An inability to obtain the necessary LOC capacity or other capital market alternatives could affect our returns on our in-force UL products containing secondary guarantees. However, we believe that our insurance subsidiaries have sufficient capital to support the increase in statutory reserves, based on our current reserve projections, if such structures are not available. See “Part II – Item 1A. Risk Factors – Legislative, Regulatory and Tax – Changes to the calculation of reserves and attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations” below for further information on XXX and AG38 reserves. See the table in “Commissions and Other Expenses” below for the presentation of our expenses associated with reserve financing.

#### Additional Information

We expect to manage the effects of spreads on near-term income from operations through portfolio management, which assumes no significant changes in net flows into or out of our fixed accounts or other changes that may cause interest rate spreads to differ from our expectations. As mentioned in “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” above, during the third quarter of 2012, we lowered our new money investment yield assumption to reflect the current new money rates and to approximate the forward curve for interest rates.

For information on interest rate spreads, see “Part I – Item 3. Quantitative and Qualitative Disclosures About Market

Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” herein. For information on the interest rate risk due to falling interest rates, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates” and “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2011 Form 10-K.

Sales are not recorded as a component of revenues (other than for traditional products) and do not have a significant effect on current quarter income from operations but are indicators of future profitability. Generally, we have higher sales during the second half of the year with the fourth quarter being our strongest. However, we face conditions in the marketplace as discussed in “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Executive Summary – Current Market Conditions” in our 2011 Form 10-K that may challenge our sales volume for the remainder of 2012. For example, we are implementing pricing changes to our products that reflect the current low interest rate environment that we believe will lower our sales volumes and could potentially reduce our market share until competitive conditions change.

We provide information about this segment’s operating revenue and operating expense line items, the period in which amounts are recognized, key drivers of changes and historical details underlying the line items and their associated drivers below. For detail on the operating realized gain (loss), see “Realized Gain (Loss) and Benefit Ratio Unlocking” below.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

### Insurance Premiums

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

### Insurance Fees

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |          |        |  |
|--|--|--------|--------|---|----------|--------|--|
|  | 2012   | 2011   | Change | 2012  | 2011     | Change |  |
| Insurance Fees                                     |  |        |        |   |          |        |  |
| Mortality assessments                              | \$ 324   | \$ 335 | -3 %   | \$ 991  | \$ 986   | 1 %    |  |
| Expense assessments                                | 197  | 230    | -14 %  | 608   | 694      | -12 %  |  |
| Surrender charges                                  | 25   | 21     | 19 %   | 68  | 73       | -7 %   |  |
| DFEL:  |  |        |        |   |          |        |  |
| Deferrals  | (73 )  | (119)  | 39 %   | (238 )  | (360 )   | 34 %   |  |
| Amortization, net of interest:                     |  |        |        |   |          |        |  |
| Prospective unlocking                              | 81   | (13 )  | NM     | 75  | (28 )    | NM     |  |
| Amortization, net of interest, excluding unlocking | 51   | 44     | 16 %   | 141   | 108      | 31 %   |  |
| Total insurance fees                               | \$ 605   | \$ 498 | 21 %   | \$ 1,645                                      | \$ 1,473 | 12 %   |  |

|                       | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |  |
|-----------------------|--|--------|--------|---|--------|--------|--|
|                       | 2012   | 2011   | Change | 2012  | 2011   | Change |  |
| Sales by Product      |  |        |        |   |        |        |  |
| UL:                   |  |        |        |   |        |        |  |
| Excluding MoneyGuard® | \$ 38  | \$ 74  | -49 %  | \$ 136  | \$ 242 | -44 %  |  |
| MoneyGuard®           | 40   | 48     | -17 %  | 121   | 121    | 0 %    |  |
| Total UL              | 78   | 122    | -36 %  | 257   | 363    | -29 %  |  |
| VUL                   | 9  | 13     | -31 %  | 31  | 34     | -9 %   |  |
| COLI and BOLI         | 9  | 8      | 13 %   | 31  | 35     | -11 %  |  |
| Term                  | 16   | 12     | 33 %   | 42  | 39     | 8 %    |  |
| Total sales           | \$ 112   | \$ 155 | -28 %  | \$ 361  | \$ 471 | -23 %  |  |

|                             |          |          |       |          |          |       |  |
|-----------------------------|----------|----------|-------|----------|----------|-------|--|
| Net Flows                   |          |          |       |          |          |       |  |
| Deposits                    | \$ 1,106 | \$ 1,343 | -18 % | \$ 3,403 | \$ 3,887 | -12 % |  |
| Withdrawals and deaths      | (411 )   | (380 )   | -8 %  | (1,234)  | (1,235)  | 0 %   |  |
| Net flows                   | \$ 695   | \$ 963   | -28 % | \$ 2,169 | \$ 2,652 | -18 % |  |
| Contract holder assessments | \$ 816   | \$ 819   | 0 %   | \$ 2,421 | \$ 2,441 | -1 %  |  |



|                               | As of September 30, |            |        |
|-------------------------------|---------------------|------------|--------|
|                               | 2012                | 2011       | Change |
| Account Values                |                     |            |        |
| UL                            | \$ 28,883           | \$ 27,485  | 5 %    |
| VUL                           | 5,450               | 4,658      | 17 %   |
| Interest-sensitive whole life | 2,256               | 2,276      | -1 %   |
| Total account values          | \$ 36,589           | \$ 34,419  | 6 %    |
| In-Force Face Amount          |                     |            |        |
| UL and other                  | \$ 308,470          | \$ 304,475 | 1 %    |
| Term insurance                | 275,992             | 269,969    | 2 %    |
| Total in-force face amount    | \$ 584,462          | \$ 574,444 | 2 %    |

Insurance fees relate only to interest-sensitive products and include mortality assessments, expense assessments (net of deferrals and amortization related to DFEL) and surrender charges. Mortality and expense assessments are deducted from our contract holders' account values. These amounts are a function of the rates priced into the product and premiums received, face amount in force and account values. Insurance in force, in turn, is driven by sales, persistency and mortality experience. In-force growth should be considered independently with respect to term products versus UL and other products, as term products have a lower profitability relative to face amount compared to interest-sensitive and other products.

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

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

The following table summarizes key information pertaining to our UL and VUL products with secondary guarantees:

|   | As of or For the<br>Three<br>Months Ended<br>September 30,<br>2012 |      | As of or For the<br>Nine<br>Months Ended<br>September 30,<br>2011 |      |
|---|--|------|---|------|
| As a percentage of interest sensitive life insurance in force | 38 %   | 38 % | 38 %  | 38 % |
| As a percentage of sales                                      | 26 %   | 46 % | 31 %  | 49 % |

Changes in the marketplace and continuing efforts to increase sales of higher return products are resulting in a shift in our business mix away from UL products with secondary guarantees to products like Indexed UL, VUL and term. Actuarial Guideline 37, or Variable Life Reserves for Guaranteed Minimum Death Benefits, and AG38 impose additional statutory reserve requirements for these products.





Net Investment Income and Interest Credited

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |        |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |        | Change |      |        |  |
|--|--|--------|--------|---|----------|--------|--------|------|--------|--|
|  | 2012   | 2011   | Change | 2012  | 2011     | Change | 2012   | 2011 | Change |  |
| <b>Net Investment Income</b>   |  |        |        |   |          |        |        |      |        |  |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | \$ 541   | \$ 524 | 3 %    | \$ 1,630  | \$ 1,563 | 4 %    |        |      |        |  |
| Commercial mortgage loan prepayment and bond makewhole premiums (1)                            | 2  | 5      | -60 %  | 10  | 21       | -52 %  |        |      |        |  |
| Alternative investments (2)  | 3  | 13     | -77 %  | 30  | 61       | -51 %  |        |      |        |  |
| Surplus investments (3)  | 32   | 27     | 19 %   | 103   | 91       | 13 %   |        |      |        |  |
| Total net investment income  | \$ 578   | \$ 569 | 2 %    | \$ 1,773  | \$ 1,736 | 2 %    |        |      |        |  |
| <b>Interest Credited</b>   | \$ 319   | \$ 312 | 2 %    | \$ 941  | \$ 921   | 2 %    |        |      |        |  |

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

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

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |        |                          | For the Nine<br>Months Ended<br>September 30,<br>2011 |        |                          | Change |      |                          |  |
|--|--|--------|--------------------------|---|--------|--------------------------|--------|------|--------------------------|--|
|  | 2012   | 2011   | Basis<br>Point<br>Change | 2012  | 2011   | Basis<br>Point<br>Change | 2012   | 2011 | Basis<br>Point<br>Change |  |
| <b>Interest Rate Yields and Spread</b>   |  |        |                          |   |        |                          |        |      |                          |  |
| Attributable to interest-sensitive products:   |  |        |                          |   |        |                          |        |      |                          |  |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 5.60 %   | 5.74 % | (14 )                    | 5.70 %  | 5.82 % | (12 )                    |        |      |                          |  |
| Commercial mortgage loan prepayment and bond makewhole premiums                                | 0.02 %   | 0.06 % | (4 )                     | 0.04 %  | 0.08 % | (4 )                     |        |      |                          |  |
| Alternative investments  | 0.03 %   | 0.16 % | (13 )                    | 0.12 %  | 0.26 % | (14 )                    |        |      |                          |  |
| Net investment income yield on reserves  | 5.65 %   | 5.96 % | (31 )                    | 5.86 %  | 6.16 % | (30 )                    |        |      |                          |  |
| Interest rate credited to contract holders   | 3.92 %   | 4.10 % | (18 )                    | 3.93 %  | 4.09 % | (16 )                    |        |      |                          |  |
| Interest rate spread   | 1.73 %   | 1.86 % | (13 )                    | 1.93 %  | 2.07 % | (14 )                    |        |      |                          |  |
| Attributable to traditional products:  |  |        |                          |   |        |                          |        |      |                          |  |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 5.67 %   | 5.90 % | (23 )                    | 5.73 %  | 5.93 % | (20 )                    |        |      |                          |  |
| Commercial mortgage loan prepayment and bond makewhole premiums                                | 0.00 %   | 0.03 % | (3 )                     | 0.01 %  | 0.04 % | (3 )                     |        |      |                          |  |
| Alternative investments  | 0.00 %   | 0.00 % | -                        | 0.01 %  | 0.01 % | -                        |        |      |                          |  |
| Net investment income yield on reserves  | 5.67 %   | 5.93 % | (26 )                    | 5.75 %  | 5.98 % | (23 )                    |        |      |                          |  |



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|  | For the Three<br>Months Ended<br>September 30, |           |        | For the Nine<br>Months Ended<br>September 30, |           |        |
|--|--|-----------|--------|---|-----------|--------|
|  | 2012   | 2011      | Change | 2012  | 2011      | Change |
| Averages                                     |  |           |        |   |           |        |
| Attributable to interest-sensitive products: |  |           |        |   |           |        |
| Invested assets on reserves                  | \$ 34,321                                      | \$ 32,080 | 7 %    | \$ 33,801                                     | \$ 31,454 | 7 %    |
| Account values - universal and whole life    | 31,666   | 30,237    | 5 %    | 31,442  | 29,832    | 5 %    |
| Attributable to traditional products:        |  |           |        |   |           |        |
| Invested assets on reserves                  | 4,374  | 4,311     | 1 %    | 4,310   | 4,290     | 0 %    |

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

### Benefits

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |          |        |
|--|--|--------|--------|---|----------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011     | Change |
| Benefits   |  |        |        |   |          |        |
| Death claims direct and assumed                                | \$ 703   | \$ 759 | -7 %   | \$ 2,283                                      | \$ 2,179 | 5 %    |
| Death claims ceded   | (317)  | (377)  | 16 %   | (1,102)                                       | (1,047)  | -5 %   |
| Reserves released on death                                     | (132)  | (108)  | -22 %  | (375 )  | (345 )   | -9 %   |
| Net death benefits   | 254  | 274    | -7 %   | 806   | 787      | 2 %    |
| Change in secondary guarantee life insurance product reserves: |  |        |        |   |          |        |
| Prospective unlocking  | (154)  | (355)  | 57 %   | (145 )  | (162 )   | 10 %   |
| Change in reserves, excluding unlocking                        | 111  | 128    | -13 %  | 356   | 362      | -2 %   |
| Other benefits:  |  |        |        |   |          |        |
| Prospective unlocking  | -  | 33     | -100%  | -   | 33       | -100%  |
| Other benefits, excluding unlocking (1)                        | 85   | 72     | 18 %   | 231   | 189      | 22 %   |
| Total benefits   | \$ 296   | \$ 152 | 95 %   | \$ 1,248                                      | \$ 1,209 | 3 %    |
| Death claims per \$1,000 of in-force                           | 1.74   | 1.91   | -9 %   | 1.85  | 1.85     | 0 %    |

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

Benefits for this segment includes claims incurred during the period in excess of the associated reserves for its interest-sensitive and traditional products. In addition, benefits includes the change in secondary guarantee life insurance product reserves. The reserve for secondary guarantees is affected by changes in expected future trends of expense assessments causing prospective unlocking adjustments to this liability similar to DAC, VOBA and DFEL. See “Future Contract Benefits and Other Contract Holder Funds” in Note 1 of our 2011 Form 10-K for additional information.

## Commissions and Other Expenses

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

|  | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|--|--|--------|--------|---|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011   | Change |
| Commissions and Other Expenses                     |  |        |        |   |        |        |
| Commissions  | \$ 115   | \$ 161 | -29 %  | \$ 371  | \$ 500 | -26 %  |
| General and administrative expenses                | 118  | 116    | 2 %    | 357   | 343    | 4 %    |
| Expenses associated with reserve financing         | 17   | 14     | 21 %   | 49  | 42     | 17 %   |
| Taxes, licenses and fees                           | 33   | 40     | -18 %  | 102   | 110    | -7 %   |
| Total expenses incurred                            | 283  | 331    | -15 %  | 879   | 995    | -12 %  |
| DAC and VOBA deferrals                             | (131 )   | (183 ) | 28 %   | (420 )  | (569 ) | 26 %   |
| Total expenses recognized before amortization      | 152  | 148    | 3 %    | 459   | 426    | 8 %    |
| DAC and VOBA amortization, net of interest:        |  |        |        |   |        |        |
| Prospective unlocking                              | 180  | 231    | -22 %  | 147   | 17     | NM     |
| Amortization, net of interest, excluding unlocking | 132  | 113    | 17 %   | 342   | 345    | -1 %   |
| Other intangible amortization                      | 1  | 1      | 0 %    | 3   | 3      | 0 %    |
| Total commissions and other expenses               | \$ 465   | \$ 493 | -6 %   | \$ 951  | \$ 791 | 20 %   |

## DAC and VOBA Deferrals

|                          |        |        |        |        |
|--------------------------|--------|--------|--------|--------|
| As a percentage of sales | 117.0% | 118.1% | 116.3% | 120.8% |
|--------------------------|--------|--------|--------|--------|

Commissions and costs that result directly from and are essential to successful acquisition of new or renewal business are deferred to the extent recoverable and for our interest-sensitive products are generally amortized over the lives of the contracts in relation to EGPs. For our traditional products, DAC and VOBA are amortized on either a straight-line basis or as a level percent of premium of the related contracts, depending on the block of business.

## RESULTS OF GROUP PROTECTION

## Income (Loss) from Operations

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

|  | For the Three<br>Months Ended<br>September 30,<br>2012 |        |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |        | Change |
|--|--|--------|--------|---|----------|--------|--------|
|  | 2012   | 2011   | Change | 2012  | 2011     | Change |        |
| Operating Revenues                         |  |        |        |   |          |        |        |
| Insurance premiums                         | \$ 473   | \$ 440 | 8 %    | \$ 1,431  | \$ 1,337 | 7 %    |        |
| Net investment income                      | 41   | 37     | 11 %   | 121   | 115      | 5 %    |        |
| Other revenues and fees                    | 3  | 2      | 50 %   | 8   | 6        | 33 %   |        |
| Total operating revenues                   | 517  | 479    | 8 %    | 1,560   | 1,458    | 7 %    |        |
| Operating Expenses                         |  |        |        |   |          |        |        |
| Interest credited                          | 1  | 1      | 0 %    | 3   | 2        | 50 %   |        |
| Benefits                                   | 360  | 319    | 13 %   | 1,078   | 991      | 9 %    |        |
| Commissions and other expenses             | 132  | 118    | 12 %   | 389   | 347      | 12 %   |        |
| Total operating expenses                   | 493  | 438    | 13 %   | 1,470   | 1,340    | 10 %   |        |
| Income (loss) from operations before taxes | 24   | 41     | -41 %  | 90  | 118      | -24 %  |        |
| Federal income tax expense (benefit)       | 8  | 14     | -43 %  | 31  | 41       | -24 %  |        |
| Income (loss) from operations              | \$ 16  | \$ 27  | -41 %  | \$ 59   | \$ 77    | -23 %  |        |

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |       |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |       |        | Change |
|---|--|-------|--------|---|-------|--------|--------|
|   | 2012   | 2011  | Change | 2012  | 2011  | Change |        |
| Income (Loss) from Operations by Product Line |  |       |        |   |       |        |        |
| Life  | \$ 6   | \$ 11 | -45 %  | \$ 18   | \$ 28 | -36 %  |        |
| Disability                                    | 7  | 15    | -53 %  | 37  | 48    | -23 %  |        |
| Dental  | 2  | -     | NM     | -   | (3 )  | 100 %  |        |
| Total non-medical                             | 15   | 26    | -42 %  | 55  | 73    | -25 %  |        |
| Medical                                       | 1  | 1     | 0 %    | 4   | 4     | 0 %    |        |
| Income (loss) from operations                 | \$ 16  | \$ 27 | -41 %  | \$ 59   | \$ 77 | -23 %  |        |

## Comparison of the Three and Nine Months Ended September 30, 2012 to 2011

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

- Unfavorable total non-medical loss ratio experience; and
- Higher commissions and other expenses attributable to strategic investments in sales and distribution processes and technology platforms as well as an increase in business.

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

## Additional Information

Management compares trends in actual loss ratios to pricing expectations because group-underwriting risks change over time. We expect normal fluctuations in our composite non-medical loss ratios of this segment, as claims experience is inherently uncertain. During the third quarter of 2012, our total non-medical loss ratio of 75.7% was above our long-term expectation of 71% to 74%



due primarily to unfavorable long-term disability claims severity and, to a lesser extent, adverse mortality experience. Non-medical loss ratios in general are likely to remain at the high end of our long-term expectation of 71% to 74% during the fourth quarter of 2012. For every one percent increase in the loss ratio above our expectation, we would expect an approximate annual \$10 million to \$12 million decrease to income from operations.

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

For information on the effects of current interest rates on our long-term disability claim reserves, see "Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk – Interest Rate Risk – Interest Rate Risk on Fixed Insurance Businesses – Falling Rates" in our 2011 Form 10-K.

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

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

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

### Insurance Premiums

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

| Insurance Premiums by<br>Product Line | For the<br>Three<br>Months<br>Ended<br>September<br>30,<br>2012 |        |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |  | Change |
|---------------------------------------|---|--------|--------|---|----------|--|--------|
|                                       | 2012  | 2011   | Change | 2012  | 2011     |  |        |
| Life                                  | \$ 194  | \$ 174 | 11 %   | \$ 570  | \$ 517   |  | 10 %   |
| Disability                            | 207   | 190    | 9 %    | 610   | 568      |  | 7 %    |
| Dental                                | 49  | 46     | 7 %    | 142   | 137      |  | 4 %    |
| Total non-medical                     | 450   | 410    | 10 %   | 1,322   | 1,222    |  | 8 %    |
| Medical                               | 23  | 30     | -23 %  | 109   | 115      |  | -5 %   |
| Total insurance premiums              | \$ 473  | \$ 440 | 8 %    | \$ 1,431  | \$ 1,337 |  | 7 %    |
| Sales                                 | \$ 97   | \$ 75  | 29 %   | \$ 252  | \$ 187   |  | 35 %   |

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

premiums for our life, disability and dental products.

#### Net Investment Income

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

75

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## Benefits and Interest Credited

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

|   | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|---|--|--------|--------|---|--------|--------|
|   | 2012   | 2011   | Change | 2012  | 2011   | Change |
| <b>Benefits and Interest Credited by Product Line</b> |  |        |        |   |        |        |
| Life  | \$ 149   | \$ 125 | 19 %   | \$ 437  | \$ 386 | 13 %   |
| Disability  | 158  | 134    | 18 %   | 440   | 396    | 11 %   |
| Dental  | 34   | 35     | -3 %   | 107   | 110    | -3 %   |
| Total non-medical                                     | 341  | 294    | 16 %   | 984   | 892    | 10 %   |
| Medical   | 20   | 26     | -23 %  | 97  | 101    | -4 %   |
| Total benefits and interest credited                  | \$ 361   | \$ 320 | 13 %   | \$ 1,081                                      | \$ 993 | 9 %    |

## Loss Ratios by Product Line

|                   |        |        |        |        |
|-------------------|--------|--------|--------|--------|
| Life              | 76.8 % | 72.1 % | 76.7 % | 74.7 % |
| Disability        | 76.3 % | 70.4 % | 72.0 % | 70.0 % |
| Dental            | 69.0 % | 76.2 % | 75.7 % | 80.0 % |
| Total non-medical | 75.7 % | 71.8 % | 74.4 % | 73.1 % |
| Medical           | 85.4 % | 86.9 % | 88.1 % | 87.8 % |

## Commissions and Other Expenses

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

|   | For the Three<br>Months Ended<br>September 30, |        |        | For the Nine<br>Months Ended<br>September 30, |        |        |
|---|--|--------|--------|---|--------|--------|
|   | 2012   | 2011   | Change | 2012  | 2011   | Change |
| <b>Commissions and Other Expenses</b>         |  |        |        |   |        |        |
| Commissions                                   | \$ 55  | \$ 50  | 10 %   | \$ 162  | \$ 150 | 8 %    |
| General and administrative expenses           | 70   | 60     | 17 %   | 200   | 169    | 18 %   |
| Taxes, licenses and fees                      | 12   | 12     | 0 %    | 37  | 32     | 16 %   |
| Total expenses incurred                       | 137  | 122    | 12 %   | 399   | 351    | 14 %   |
| DAC deferrals                                 | (15 )  | (13 )  | -15 %  | (43 )   | (32 )  | -34 %  |
| Total expenses recognized before amortization | 122  | 109    | 12 %   | 356   | 319    | 12 %   |
| DAC and VOBA amortization, net of interest    | 10   | 9      | 11 %   | 33  | 28     | 18 %   |
| Total commissions and other expenses          | \$ 132   | \$ 118 | 12 %   | \$ 389  | \$ 347 | 12 %   |

## DAC Deferrals

|                                       |       |       |       |       |
|---------------------------------------|-------|-------|-------|-------|
| As a percentage of insurance premiums | 3.2 % | 3.0 % | 3.0 % | 2.4 % |
|---------------------------------------|-------|-------|-------|-------|

Commissions and other costs that result directly from and are essential to the successful acquisition of new or renewal business are deferred to the extent recoverable and are amortized on either a straight-line basis or as a level percent of premium of the related contracts depending on the block of business. Certain broker commissions that vary with and are related to paid premiums are expensed as incurred. The level of expenses is an important driver of profitability for

this segment as group insurance contracts are offered within an environment that competes on the basis of price and service.

76

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## RESULTS OF OTHER OPERATIONS

## Income (Loss) from Operations

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

|   | For the Three<br>Months Ended<br>September 30, |          |        | For the Nine<br>Months Ended<br>September 30, |          |        |
|---|--|----------|--------|---|----------|--------|
|   | 2012   | 2011     | Change | 2012  | 2011     | Change |
| Operating Revenues  |  |          |        |   |          |        |
| Insurance premiums  | \$ -   | \$ 1     | -100%  | \$ 4  | \$ 1     | 300 %  |
| Net investment income   | 61   | 80       | -24 %  | 198   | 237      | -16 %  |
| Amortization of deferred gain on business sold through<br>reinsurance | 18   | 18       | 0 %    | 54  | 54       | 0 %    |
| Media revenues (net)  | 21   | 20       | 5 %    | 60  | 56       | 7 %    |
| Other revenues and fees   | 1  | 3        | -67 %  | 5   | 4        | 25 %   |
| Total operating revenues  | 101  | 122      | -17 %  | 321   | 352      | -9 %   |
| Operating Expenses  |  |          |        |   |          |        |
| Interest credited   | 30   | 27       | 11 %   | 91  | 85       | 7 %    |
| Benefits  | 43   | 34       | 26 %   | 105   | 95       | 11 %   |
| Media expenses  | 16   | 17       | -6 %   | 49  | 51       | -4 %   |
| Other expenses  | 33   | 34       | -3 %   | 69  | 62       | 11 %   |
| Interest and debt expense   | 68   | 71       | -4 %   | 203   | 215      | -6 %   |
| Total operating expenses  | 190  | 183      | 4 %    | 517   | 508      | 2 %    |
| Income (loss) from operations before taxes                            | (89 )  | (61 )    | -46 %  | (196)   | (156)    | -26 %  |
| Federal income tax expense (benefit)                                  | (86 )  | (17 )    | NM     | (121)   | (52 )    | NM     |
| Income (loss) from operations   | \$ (3 )  | \$ (44 ) | 93 %   | \$ (75 )                                      | \$ (104) | 28 %   |

## Comparison of the Three and Nine Months Ended September 30, 2012 to 2011

Loss from operations for Other Operations decreased due primarily to favorable tax adjustments during 2012 related to the release of reserves associated with prior tax years that were closed in the third quarter.

The increase in income from operations was partially offset by lower net investment income, net of interest credited, attributable to the following:

- New money rates averaging below our portfolio yields; and
- Repurchases of common stock, net cash used in operating activities due to interest payments and transfers to other segments for other-than-temporary impairment (“OTTI”) resulting in lower average invested assets.

## Additional Information

Other Operations experienced elevated levels of expense during both 2012 and 2011 related primarily to restructuring charges and a state guaranty funds assessment associated with Executive Life Insurance Company of New York, respectively.

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

associated drivers below.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

77

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## Net Investment Income and Interest Credited

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

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

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

## Benefits

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

## Other Expenses

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

|  | For the Three<br>Months Ended<br>September 30, |       |        | For the Nine<br>Months Ended<br>September 30, |       |        |
|--|--|-------|--------|---|-------|--------|
|  | 2012   | 2011  | Change | 2012  | 2011  | Change |
| Other Expenses   |  |       |        |   |       |        |
| General and administrative expenses:   |  |       |        |   |       |        |
| Legal  | \$ -   | \$ -  | NM     | \$ 1  | \$ 2  | -50 %  |
| Branding   | 4  | 9     | -56 %  | 21  | 19    | 11 %   |
| Other (1)  | 7  | 13    | -46 %  | 34  | 37    | -8 %   |
| Total general and administrative expenses  | 11   | 22    | -50 %  | 56  | 58    | -3 %   |
| Restructuring charges  | 14   | -     | NM     | 14  | -     | NM     |
| Taxes, licenses and fees   | 11   | 14    | -21 %  | 7   | 11    | -36 %  |
| Inter-segment reimbursement associated with reserve financing and LOC expenses (2) | (3 )   | (2 )  | -50 %  | (8 )  | (7 )  | -14 %  |
| Total other expenses   | \$ 33  | \$ 34 | -3 %   | \$ 69   | \$ 62 | 11 %   |

(1) Includes expenses that are corporate in nature including charitable contributions, amortization of media intangible assets with a definite life, other expenses not allocated to our business segments and inter-segment expense eliminations.

(2)

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

#### Interest and Debt Expense

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



## REALIZED GAIN (LOSS) AND BENEFIT RATIO UNLOCKING

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

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |          |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |        |    |
|---|--|----------|--------|---|----------|--------|----|
|   | 2012   | 2011     | Change | 2012  | 2011     | Change |    |
| <b>Components of Realized Gain (Loss), Pre-Tax</b>  |  |          |        |   |          |        |    |
| Total operating realized gain (loss)  | \$ 31  | \$ 23    | 35 %   | \$ 83   | \$ 69    | 20 %   |    |
| Total excluded realized gain (loss)   | 39   | (186)    | 121 %  | (55 )   | (239)    | 77 %   |    |
| Total realized gain (loss), pre-tax   | \$ 70  | \$ (163) | 143 %  | \$ 28   | \$ (170) | 116 %  |    |
| <b>Reconciliation of Excluded Realized Gain (Loss), Net of<br/>Benefit Ratio Unlocking, After-Tax</b> |  |          |        |   |          |        |    |
| Total excluded realized gain (loss)   | \$ 25  | \$ (121) | 121 %  | \$ (35 )  | \$ (156) | 78 %   |    |
| Benefit ratio unlocking   | 10   | (42 )    | 124 %  | 24  | (39 )    | 162 %  |    |
| Excluded realized gain (loss) net of benefit ratio unlocking,<br>after-tax                            | \$ 35  | \$ (163) | 121 %  | \$ (11 )  | \$ (195) | 94 %   |    |
| <b>Components of Excluded Realized Gain (Loss) Net of<br/>Benefit Ratio Unlocking, After-Tax</b>      |  |          |        |   |          |        |    |
| Realized gain (loss) related to certain investments   | \$ (35 )   | \$ (29 ) | 155 %  | \$ (99 )  | \$ (60 ) | 202 %  |    |
| Gain (loss) on the mark-to-market on certain instruments  | 38   | (69 )    | NM     | 64  | (63 )    | NM     |    |
| Variable annuity net derivatives results:   |  |          |        |   |          |        |    |
| Hedge program performance   | 15   | (91 )    | 208 %  | (3 )  | (121)    | 98 %   |    |
| Unlocking for GLB reserves hedged   | 84   | (78 )    | NM     | 84  | (78 )    | 208 %  |    |
| GLB NPR component   |  | (61 )    | 106    | 160 %   | (60 )    | 127    | NM |
| Total variable annuity net derivatives results  | 38   | (63 )    | 160 %  | 21  | (72 )    | 129 %  |    |
| Indexed annuity forward-starting option (2)   | (6 )   | (2 )     | NM     | 3   | -        | NM     |    |
| Excluded realized gain (loss) net of benefit ratio unlocking,<br>after-tax                            | \$35   | \$(163)  | 121 %  | \$(11 )   | \$(195)  | 94 %   |    |

- (1) DAC refers to the associated amortization of DAC, VOBA, DSI and DFEL and changes in other contract holder funds and funds withheld reinsurance liabilities.
- (2) Includes unfavorable prospective unlocking – model refinements of \$8 million, after-tax, for the three and nine months ended September 30, 2012.

For factors that could cause actual results to differ materially from those set forth in this section, see “Forward-Looking Statements – Cautionary Language” above and “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

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

Comparison of the Three and Nine Months Ended September 30, 2012 to 2011

Realized gain (loss) is driven primarily by the following components of excluded realized gain (loss), which we have described net of benefit ratio unlocking.

We had realized gains during 2012 as compared to losses during 2011 due primarily to the following:

- Realized gains on the mark-to-market on certain instruments during 2012 as compared to realized losses during 2011 attributable to spreads narrowing on corporate credit default swaps; and
  - Gains on variable annuity net derivatives results during 2012 as compared to losses during 2011 attributable to:
    - § The effect of prospective unlocking (see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking” for more information); and
    - § Less volatile capital markets during 2012 resulting in more favorable hedge program performance;
- partially offset by:
- § Narrowing of our credit spreads during 2012 resulting in an unfavorable GLB NPR component.

The realized gains during 2012 were partially offset by higher gross realized gains related to certain investments during 2011 originating from asset sales to reposition the investment portfolio (see “Consolidated Investments – Realized Gain (Loss) Related to Certain Investments” below for more information).

#### Operating Realized Gain (Loss)

See “Realized Gain (Loss) and Benefit Ratio Unlocking – Operating Realized Gain (Loss)” in our 2011 Form 10-K for a discussion of our operating realized gain (loss).

#### Realized Gain (Loss) Related to Certain Investments

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

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

See “Realized Gain (Loss) and Benefit Ratio Unlocking – Gain (Loss) on the Mark-to-Market on Certain Instruments” in our 2011 Form 10-K for a discussion on the mark-to-market on certain instruments and Note 4 for information about consolidated variable interest entities.

#### Variable Annuity Net Derivatives Results

See “Realized Gain (Loss) and Benefit Ratio Unlocking – Variable Annuity Net Derivatives Results” in our 2011 Form 10-K for a discussion of our variable annuity net derivatives results. In addition, for information on the unlocking for GLB reserves hedged, see “Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Unlocking.”

The variable annuity hedge program ended the third quarter of 2012 with assets of \$2.3 billion, which were in excess of the estimated liability of \$1.6 billion as of September 30, 2012.

As of September 30, 2012, the net effect of the NPR resulted in a \$76 million decrease in the liability for our GLB embedded derivative reserves.

Details underlying the NPR component and associated effect to our GLB embedded derivative reserves (dollars in millions) were as follows:

|  | As of<br>September<br>30,<br>2012 | As of<br>June 30,<br>2012 | As of<br>March 31,<br>2012 | As of<br>December<br>31,<br>2011 | As of<br>September<br>30,<br>2011 |
|--|-----------------------------------|---------------------------|----------------------------|----------------------------------|-----------------------------------|
| 10-year CDS spread                       | 2.40%                             | 3.48%                     | 2.40%                      | 3.65%                            | 4.42%                             |
| NPR factor related to 10-year CDS spread | 0.29%                             | 0.45%                     | 0.25%                      | 0.43%                            | 0.51%                             |
| Unadjusted embedded derivative liability | \$ 1,432                          | \$ 2,116                  | \$ 1,083                   | \$ 2,418                         | \$ 2,642                          |

Estimating what the absolute amount of the NPR effect will be period to period is difficult due to the utilization of all cash flows and the shape of the spread curve. Currently, we estimate that if the NPR factors as of September 30, 2012, were to have been zero along all points on the spread curve, then the NPR offset to the unadjusted liability would have resulted in an unfavorable

effect to net income of approximately \$225 million, pre-DAC and pre-tax. Under this scenario, the effect of the NPR would result in an increase rather than a decrease to the unadjusted embedded derivative liability. Alternatively, if the NPR factors were 20 basis points higher along all points on the spread curve as of September 30, 2012, then there would have been a favorable effect to net income of approximately \$105 million, pre-DAC and pre-tax. In the preceding two sentences, “DAC” refers to the associated amortization of DAC, VOBA, DSI and DFEL. Changing market conditions could cause this relationship to deviate significantly in future periods. Sensitivity within this range is primarily a result of volatility in our credit default swap (“CDS”) spreads and the slope of the CDS spread term structure.

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

#### Indexed Annuity Forward-Starting Option

See “Realized Gain (Loss) and Benefit Ratio Unlocking – Indexed Annuity Forward-Starting Option” in our 2011 Form 10-K for a discussion of our indexed annuity forward-starting option.

### CONSOLIDATED INVESTMENTS

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

|                               | As of<br>September<br>30,<br>2012 | As of<br>December<br>31,<br>2011 | Percentage of<br>Total Investments |                                  |       |   |
|-------------------------------|-----------------------------------|----------------------------------|------------------------------------|----------------------------------|-------|---|
|                               |                                   |                                  | As of<br>September<br>30,<br>2012  | As of<br>December<br>31,<br>2011 |       |   |
| Investments                   |                                   |                                  |                                    |                                  |       |   |
| AFS securities:               |                                   |                                  |                                    |                                  |       |   |
| Fixed maturity                | \$ 81,179                         | \$ 75,433                        | 82.4                               | %                                | 81.0  | % |
| VIEs' fixed maturity          | 706                               | 700                              | 0.7                                | %                                | 0.8   | % |
| Total fixed maturity          | 81,885                            | 76,133                           | 83.1                               | %                                | 81.8  | % |
| Equity                        | 156                               | 139                              | 0.2                                | %                                | 0.1   | % |
| Trading securities            | 2,650                             | 2,675                            | 2.7                                | %                                | 2.9   | % |
| Mortgage loans on real estate | 6,690                             | 6,942                            | 6.8                                | %                                | 7.4   | % |
| Real estate                   | 112                               | 137                              | 0.1                                | %                                | 0.1   | % |
| Policy loans                  | 2,780                             | 2,884                            | 2.8                                | %                                | 3.1   | % |
| Derivative investments        | 3,072                             | 3,151                            | 3.1                                | %                                | 3.4   | % |
| Alternative investments       | 873                               | 807                              | 0.9                                | %                                | 0.9   | % |
| Other investments             | 250                               | 262                              | 0.3                                | %                                | 0.3   | % |
| Total investments             | \$ 98,468                         | \$ 93,130                        | 100.0                              | %                                | 100.0 | % |

#### Investment Objective

Invested assets are an integral part of our operations. We follow a balanced approach to investing for both current income and prudent risk management, with an emphasis on generating sufficient current income, net of income tax, to meet our obligations to customers, as well as other general liabilities. This balanced approach requires the evaluation of expected return and risk of each asset class utilized, while still meeting our income objectives. This approach is important to our asset-liability management because decisions can be made based upon both the economic and current

investment income considerations affecting assets and liabilities. For a discussion on our risk management process, see “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2011 Form 10-K.

#### Investment Portfolio Composition and Diversification

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

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

#### Fixed Maturity and Equity Securities Portfolios

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

Details underlying our fixed maturity and equity securities portfolios by industry classification (in millions) are presented in the tables below. These tables agree in total with the presentation of AFS securities in Note 5; however, the categories below represent a more detailed breakout of the AFS portfolio. Therefore, the investment classifications listed below do not agree to the investment categories provided in Note 5.

|   | As of September 30, 2012 |                              |                       |               | %<br>Fair<br>Value |
|---|--------------------------|------------------------------|-----------------------|---------------|--------------------|
|   | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Losses<br>and<br>OTTI | Fair<br>Value |                    |
| Fixed Maturity AFS Securities                           |                          |                              |                       |               |                    |
| Industry corporate bonds:                               |                          |                              |                       |               |                    |
| Financial services                                      | \$ 9,129                 | \$ 1,075                     | \$ 87                 | \$ 10,117     | 12.4 %             |
| Basic industry  | 3,836                    | 428                          | 18                    | 4,246         | 5.2 %              |
| Capital goods   | 4,383                    | 602                          | 19                    | 4,966         | 6.1 %              |
| Communications  | 3,611                    | 554                          | 21                    | 4,144         | 5.1 %              |
| Consumer cyclical                                       | 3,641                    | 486                          | 24                    | 4,103         | 5.0 %              |
| Consumer non-cyclical                                   | 9,101                    | 1,519                        | 3                     | 10,617        | 13.0 %             |
| Energy  | 5,489                    | 897                          | 2                     | 6,384         | 7.8 %              |
| Technology  | 1,974                    | 255                          | 1                     | 2,228         | 2.7 %              |
| Transportation  | 1,543                    | 193                          | 1                     | 1,735         | 2.1 %              |
| Industrial other  | 991                      | 98                           | 1                     | 1,088         | 1.3 %              |
| Utilities   | 11,495                   | 1,816                        | 16                    | 13,295        | 16.2 %             |
| Collateralized mortgage and other obligations ("CMOs"): |                          |                              |                       |               |                    |
| Agency backed   | 2,613                    | 304                          | -                     | 2,917         | 3.6 %              |
| Non-agency backed                                       | 1,267                    | 39                           | 71                    | 1,235         | 1.5 %              |
| Mortgage pass through securities ("MPTS"):              |                          |                              |                       |               |                    |
| Agency backed   | 2,397                    | 187                          | -                     | 2,584         | 3.2 %              |
| Non-agency backed                                       | 1                        | -                            | -                     | 1             | 0.0 %              |
| Commercial mortgage-backed securities ("CMBS"):         |                          |                              |                       |               |                    |
| Non-agency backed                                       | 1,104                    | 75                           | 53                    | 1,126         | 1.4 %              |
| Corporate asset-backed securities ("ABS"):              |                          |                              |                       |               |                    |
| CDOs  | 131                      | -                            | 2                     | 129           | 0.2 %              |
| Commercial real estate ("CRE") CDOs                     | 28                       | -                            | 10                    | 18            | 0.0 %              |
| Credit card   | 666                      | 48                           | -                     | 714           | 0.9 %              |
| Home equity   | 821                      | 5                            | 196                   | 630           | 0.8 %              |
| Manufactured housing                                    | 73                       | 5                            | -                     | 78            | 0.1 %              |
| Auto loan   | 14                       | -                            | -                     | 14            | 0.0 %              |
| Other   | 313                      | 35                           | -                     | 348           | 0.4 %              |
| Municipals:   |                          |                              |                       |               |                    |
| Taxable   | 3,483                    | 822                          | 7                     | 4,298         | 5.2 %              |
| Tax-exempt  | 36                       | 4                            | -                     | 40            | 0.0 %              |
| Government and government agencies:                     |                          |                              |                       |               |                    |
| United States   | 1,479                    | 253                          | -                     | 1,732         | 2.1 %              |
| Foreign   | 1,659                    | 254                          | 1                     | 1,912         | 2.3 %              |
| Hybrid and redeemable preferred securities              |                          |                              |                       |               |                    |
| Total fixed maturity AFS securities                     | 72,454                   | 10,049                       | 618                   | 81,885        | 100.0 %            |
| Equity AFS Securities                                   |                          |                              |                       |               |                    |
| Total AFS securities                                    | 72,597                   | 10,070                       | 626                   | 82,041        |                    |

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|                                  |           |           |        |           |
|----------------------------------|-----------|-----------|--------|-----------|
| Trading Securities (1)           | 2,211     | 456       | 17     | 2,650     |
| Total AFS and trading securities | \$ 74,808 | \$ 10,526 | \$ 643 | \$ 84,691 |

83

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|  | As of December 31, 2011 |                  |                       |           |               |
|--|-------------------------|------------------|-----------------------|-----------|---------------|
|  | Amortized               | Gross Unrealized |                       | Fair      | %             |
|  | Cost                    | Gains            | Losses<br>and<br>OTTI | Value     | Fair<br>Value |
| Fixed Maturity AFS Securities              |                         |                  |                       |           |               |
| Industry corporate bonds:                  |                         |                  |                       |           |               |
| Financial services                         | \$ 8,926                | \$ 607           | \$ 158                | \$ 9,375  | 12.3%         |
| Basic industry                             | 3,394                   | 323              | 27                    | 3,690     | 4.8%          |
| Capital goods                              | 3,933                   | 455              | 9                     | 4,379     | 5.8%          |
| Communications                             | 3,247                   | 364              | 37                    | 3,574     | 4.7%          |
| Consumer cyclical                          | 3,226                   | 345              | 36                    | 3,535     | 4.6%          |
| Consumer non-cyclical                      | 7,956                   | 1,190            | 1                     | 9,145     | 12.0%         |
| Energy                                     | 5,026                   | 690              | 6                     | 5,710     | 7.5%          |
| Technology                                 | 1,682                   | 192              | 3                     | 1,871     | 2.5%          |
| Transportation                             | 1,360                   | 166              | 1                     | 1,525     | 2.0%          |
| Industrial other                           | 755                     | 74               | 3                     | 826       | 1.1%          |
| Utilities                                  | 10,644                  | 1,457            | 27                    | 12,074    | 15.8%         |
| CMOs:                                      |                         |                  |                       |           |               |
| Agency backed                              | 3,226                   | 357              | -                     | 3,583     | 4.7%          |
| Non-agency backed                          | 1,481                   | 12               | 199                   | 1,294     | 1.7%          |
| MPTS:                                      |                         |                  |                       |           |               |
| Agency backed                              | 2,982                   | 179              | -                     | 3,161     | 4.2%          |
| Non-agency backed                          | 1                       | -                | -                     | 1         | 0.0%          |
| CMBS:                                      |                         |                  |                       |           |               |
| Non-agency backed                          | 1,642                   | 73               | 115                   | 1,600     | 2.1%          |
| ABS:                                       |                         |                  |                       |           |               |
| CDOs                                       | 88                      | -                | 6                     | 82        | 0.1%          |
| CRE CDOs                                   | 33                      | -                | 13                    | 20        | 0.0%          |
| Credit card                                | 790                     | 47               | -                     | 837       | 1.1%          |
| Home equity                                | 905                     | 3                | 271                   | 637       | 0.8%          |
| Manufactured housing                       | 85                      | 5                | 1                     | 89        | 0.1%          |
| Auto loan                                  | 52                      | 1                | -                     | 53        | 0.1%          |
| Other                                      | 246                     | 29               | 1                     | 274       | 0.4%          |
| Municipals:                                |                         |                  |                       |           |               |
| Taxable                                    | 3,452                   | 565              | 9                     | 4,008     | 5.3%          |
| Tax-exempt                                 | 38                      | 1                | -                     | 39        | 0.1%          |
| Government and government agencies:        |                         |                  |                       |           |               |
| United States                              | 1,468                   | 232              | -                     | 1,700     | 2.2%          |
| Foreign                                    | 1,746                   | 152              | 4                     | 1,894     | 2.5%          |
| Hybrid and redeemable preferred securities | 1,277                   | 50               | 170                   | 1,157     | 1.5%          |
| Total fixed maturity AFS securities        | 69,661                  | 7,569            | 1,097                 | 76,133    | 100.0%        |
| Equity AFS Securities                      | 135                     | 16               | 12                    | 139       |               |
| Total AFS securities                       | 69,796                  | 7,585            | 1,109                 | 76,272    |               |
| Trading Securities (1)                     | 2,301                   | 408              | 34                    | 2,675     |               |
| Total AFS and trading securities           | \$ 72,097               | \$ 7,993         | \$ 1,143              | \$ 78,947 |               |

(1)

Certain of our trading securities support our modified coinsurance arrangements (“Modco”), and the investment results are passed directly to the reinsurers. Refer to “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Consolidated Investments – Fixed Maturity and Equity Securities Portfolios – Trading Securities” in our 2011 Form 10-K for further details.

## AFS Securities

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

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

| NAIC<br>Designation (1)  | Rating<br>Agency<br>Equivalent<br>Designation<br>(1) | As of September 30, 2012 |               |               | As of December 31, 2011 |               |               |
|--|--|--------------------------|---------------|---------------|-------------------------|---------------|---------------|
|  |  | Amortized<br>Cost        | Fair<br>Value | % of<br>Total | Amortized<br>Cost       | Fair<br>Value | % of<br>Total |
| <b>Investment Grade Securities</b>   |  |                          |               |               |                         |               |               |
| 1  | Aaa / Aa / A   | \$ 41,422                | \$ 48,010     | 58.6%         | \$ 42,436               | \$ 47,490     | 62.4%         |
| 2  | Baa  | 27,286                   | 30,315        | 37.0%         | 23,323                  | 25,237        | 33.1%         |
| Total investment grade securities  |  | 68,708                   | 78,325        | 95.6%         | 65,759                  | 72,727        | 95.5%         |
| <b>Below Investment Grade Securities</b>   |  |                          |               |               |                         |               |               |
| 3  | Ba   | 2,474                    | 2,497         | 3.0%          | 2,466                   | 2,350         | 3.1%          |
| 4  | B  | 875                      | 768           | 0.9%          | 960                     | 750           | 1.0%          |
| 5  | Caa and lower  | 298                      | 218           | 0.3%          | 318                     | 218           | 0.3%          |
| 6  | In or near default                                   | 99                       | 77            | 0.2%          | 158                     | 88            | 0.1%          |
| Total below investment grade securities  |  | 3,746                    | 3,560         | 4.4%          | 3,902                   | 3,406         | 4.5%          |
| Total fixed maturity AFS securities  |  | \$ 72,454                | \$ 81,885     | 100.0%        | \$ 69,661               | \$ 76,133     | 100.0%        |
| Total securities below investment grade as a percentage of total fixed maturity AFS securities |  |                          | %             | %             | %                       | %             |               |
|  |  | 5.2                      | 4.3           |               | 5.6                     | 4.5           |               |

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

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

We have identified exposure to select countries in Europe that are currently experiencing stress in the credit markets, notably Greece, Ireland, Italy, Portugal, Spain, Hungary, Cyprus and Slovenia. These countries were identified due to high credit spreads and political and economic uncertainty in these countries. The exposure was determined by country of domicile, provided that a meaningful portion of revenues is generated from the country of domicile. As of September 30, 2012, we had direct sovereign exposure only to Italy with an amortized cost and fair value of \$3 million. We had no exposure to any issuers, sovereign or non-sovereign, located in Greece, Hungary, Cyprus or Slovenia. Our exposure to banks in Greece, Ireland, Italy, Portugal, Spain, Hungary, Cyprus and Slovenia is limited to two large Spanish banks where our investments are in subsidiaries located outside of Spain with an amortized cost and fair value of \$59 million.

Our total non-banking and non-sovereign AFS securities exposure to Ireland, Italy, Portugal, Greece and Spain had an amortized cost of \$733 million and a fair value of \$763 million as of September 30, 2012, of which 53% was related to large multinational companies domiciled in those countries. The detailed breakout by country (in millions) as of September 30, 2012, was as follows:

|          | Amortized<br>Cost | Fair<br>Value |
|----------|-------------------|---------------|
| Spain    | \$ 342            | \$ 362        |
| Ireland  | 212               | 210           |
| Italy    | 139               | 154           |
| Portugal | 40                | 37            |
| Greece   | -                 | -             |
| Total    | \$ 733            | \$ 763        |

We hold a European subordinated investment grade financial index hedge in the amount of €35 million with a maturity of June 20, 2017, to provide some protection on possible defaults on our European investments.

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

As of September 30, 2012, and December 31, 2011, 63.5% and 67.4%, respectively, of the total publicly traded and private securities in an unrealized loss status were rated as investment grade. See Note 5 for maturity date information for our fixed maturity investment portfolio. Our gross unrealized losses on AFS securities as of September 30, 2012, decreased \$483 million. As more fully described in Note 1 in our 2011 Form 10-K, we regularly review our investment holdings for OTTI. We believe the unrealized loss position as of September 30, 2012, does not represent OTTI as we do not intend to sell these debt securities, it is not more likely than not that we will be required to sell the debt securities before recovery of their amortized cost basis, the estimated future cash flows are equal to or greater than the amortized cost basis of the debt securities, or we have the ability and intent to hold the equity securities for a period of time sufficient for recovery. For further information on our unrealized losses on AFS securities, see “Composition by Industry Categories of our Unrealized Losses on AFS Securities” below.

Selected information for certain AFS securities in a gross unrealized loss position (dollars in millions) as of September 30, 2012, was as follows:

|  | As of September 30, 2012 |  |  |   |         | Subordination<br>Level |
|--|--------------------------|--|--|---|---------|------------------------|
|  | Fair<br>Value            | Gross<br>Unrealized<br>Losses<br>and<br>OTTI | Estimated<br>Years<br>until Call<br>or<br>Maturity | Estimated<br>Average<br>Recovery<br>Until | Current |                        |
| CMBS                                       | \$ 201                   | \$ 53  | 1 to 41  | 27  | 26.0%   | 13.0 %                 |
| Hybrid and redeemable preferred securities | 417                      | 85   | 1 to 54  | 29  | N/A     | N/A                    |

As provided in the table above, many of the securities in these categories are long-dated with some of the preferred securities being perpetual. This is purposeful as it matches the long-term nature of our liabilities associated with our life insurance and annuity products. See “Part II – Item 7A. Quantitative and Qualitative Disclosures About Market

Risk” in our 2011 Form 10-K where we present information related to maturities of securities and the expected cash flows for rate sensitive liabilities and maturities of our holding company debt, which also demonstrates the long-term nature of the cash flows associated with these items. Because of this relationship, we do not believe it will be necessary to sell these securities before they recover or mature. For these securities, the estimated range and average period until recovery is the call or maturity period. It is difficult to predict or project when the securities will recover as it is dependent upon a number of factors including the overall economic climate. We do not believe it is necessary to impair these securities as long as the expected future cash flows are projected to be sufficient to recover the amortized cost of these securities.

The actual range and period until recovery could vary significantly depending on a variety of factors, many of which are out of our control. There are several items that could affect the length of the period until recovery, such as the pace of economic recovery,

level of delinquencies, performance of the underlying collateral, changes in market interest rates, exposures to various industry or geographic conditions, market behavior and other market conditions.

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

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

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

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

As reported on our Consolidated Balance Sheets, we had \$102.8 billion of investments and cash, which exceeded the liabilities for our future obligations under insurance policies and contracts, net of amounts recoverable from reinsurers, which totaled \$83.5 billion as of September 30, 2012. If it were necessary to liquidate securities prior to maturity or call to meet cash flow needs, we would first look to those securities that are in an unrealized gain position, which had a fair value of \$77.5 billion, excluding consolidated variable interest entities (“VIEs”) in the amount of \$706 million, as of September 30, 2012, rather than selling securities in an unrealized loss position. The amount of cash that we have on hand at any point of time takes into account our liquidity needs in the future, other sources of cash, such as the maturities of investments, interest and dividends we earn on our investments and the on-going cash flows from new and existing business.

See “AFS Securities – Evaluation for Recovery of Amortized Cost” in Note 1 in our 2011 Form 10-K and Note 5 for additional discussion.

As of September 30, 2012, and December 31, 2011, the estimated fair value for all private securities was \$11.3 billion and \$9.3 billion, respectively, representing 11% and 10%, respectively, of total invested assets.

For information regarding our VIEs’ fixed maturity securities, see Note 4 in this report and Note 4 in our 2011 Form 10-K.

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

See “Consolidated Investments – Mortgage-Backed Securities” in our 2011 Form 10-K for a discussion of our MBS.

Our RMBS had a market value of \$6.9 billion and an unrealized gain of \$477 million, or 7%, as of September 30, 2012.



The market value of AFS and trading securities backed by subprime loans was \$431 million and represented less than 1% of our total investment portfolio as of September 30, 2012. AFS securities represented \$418 million, or 97%, and trading securities represented \$13 million, or 3%, of the subprime exposure as of September 30, 2012. AFS and trading securities rated A or above represented 37% of the subprime investments and \$225 million in market value of our subprime investments was backed by loans originating in 2005 and forward as of September 30, 2012. The table below summarizes our investments in AFS securities backed by pools of residential mortgages (in millions) as of September 30, 2012:

| Type                             | Prime Agency |                | Prime/Non-Agency |                | Alt-A      |                | Subprime   |                | Total      |                |
|----------------------------------|--------------|----------------|------------------|----------------|------------|----------------|------------|----------------|------------|----------------|
|                                  | Fair Value   | Amortized Cost | Fair Value       | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| RMBS                             | \$ 5,500     | \$ 5,010       | \$ 778           | \$ 760         | \$ 459     | \$ 508         | \$ -       | \$ -           | \$ 6,737   | \$ 6,278       |
| ABS home equity                  | 4            | 4              | -                | -              | 209        | 254            | 417        | 563            | 630        | 821            |
| Total by type (1)(2)             | \$ 5,504     | \$ 5,014       | \$ 778           | \$ 760         | \$ 668     | \$ 762         | \$ 417     | \$ 563         | \$ 7,367   | \$ 7,099       |
| Rating                           |              |                |                  |                |            |                |            |                |            |                |
| AAA                              | \$ 5,442     | \$ 4,958       | \$ 30            | \$ 28          | \$ 4       | \$ 4           | \$ 29      | \$ 29          | \$ 5,505   | \$ 5,019       |
| AA                               | 48           | 44             | 42               | 40             | 10         | 10             | 62         | 66             | 162        | 160            |
| A                                | 14           | 12             | 39               | 38             | 46         | 45             | 59         | 59             | 158        | 154            |
| BBB                              | -            | -              | 52               | 51             | 47         | 48             | 37         | 40             | 136        | 139            |
| BB and below                     | -            | -              | 615              | 603            | 561        | 655            | 230        | 369            | 1,406      | 1,627          |
| Total by rating (1)(2)(3)        | \$ 5,504     | \$ 5,014       | \$ 778           | \$ 760         | \$ 668     | \$ 762         | \$ 417     | \$ 563         | \$ 7,367   | \$ 7,099       |
| Origination Year                 |              |                |                  |                |            |                |            |                |            |                |
| 2004 and prior                   | \$ 1,054     | \$ 959         | \$ 173           | \$ 169         | \$ 209     | \$ 230         | \$ 196     | \$ 234         | \$ 1,632   | \$ 1,592       |
| 2005                             | 726          | 644            | 109              | 113            | 248        | 274            | 162        | 218            | 1,245      | 1,249          |
| 2006                             | 210          | 187            | 156              | 148            | 170        | 210            | 58         | 109            | 594        | 654            |
| 2007                             | 998          | 891            | 340              | 330            | 41         | 48             | -          | -              | 1,379      | 1,269          |
| 2008                             | 184          | 167            | -                | -              | -          | -              | -          | -              | 184        | 167            |
| 2009                             | 929          | 856            | -                | -              | -          | -              | 1          | 2              | 930        | 858            |
| 2010                             | 858          | 796            | -                | -              | -          | -              | -          | -              | 858        | 796            |
| 2011                             | 416          | 389            | -                | -              | -          | -              | -          | -              | 416        | 389            |
| 2012                             | 129          | 125            | -                | -              | -          | -              | -          | -              | 129        | 125            |
| Total by origination year (1)(2) | \$ 5,504     | \$ 5,014       | \$ 778           | \$ 760         | \$ 668     | \$ 762         | \$ 417     | \$ 563         | \$ 7,367   | \$ 7,099       |

Total AFS RMBS as a percentage of total AFS securities 9.0 % 9.8 %

Total prime/non-agency, Alt-A and subprime as a percentage of total AFS securities 2.3 % 2.9 %

(1) Does not include the fair value of trading securities totaling \$228 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$228 million in trading securities consisted of \$204 million prime, \$10 million Alt-A and \$14 million subprime.

(2)

Does not include the amortized cost of trading securities totaling \$213 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$213 million in trading securities consisted of \$186 million prime, \$11 million Alt-A and \$15 million subprime.

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

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

The following summarizes our investments in AFS securities backed by pools of commercial mortgages (in millions) as of September 30, 2012:

| Type                             | Multiple Property |                | Single Property |                | CRE CDOs   |                | Total      |                |
|----------------------------------|-------------------|----------------|-----------------|----------------|------------|----------------|------------|----------------|
|                                  | Fair Value        | Amortized Cost | Fair Value      | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost |
| CMBS                             | \$ 1,082          | \$ 1,039       | \$ 44           | \$ 65          | \$ -       | \$ -           | \$ 1,126   | \$ 1,104       |
| CRE CDOs                         | -                 | -              | -               | -              | 18         | 28             | 18         | 28             |
| Total by type (1)(2)             | \$ 1,082          | \$ 1,039       | \$ 44           | \$ 65          | \$ 18      | \$ 28          | \$ 1,144   | \$ 1,132       |
| Rating                           |                   |                |                 |                |            |                |            |                |
| AAA                              | \$ 661            | \$ 604         | \$ 13           | \$ 13          | \$ -       | \$ -           | \$ 674     | \$ 617         |
| AA                               | 109               | 106            | 10              | 10             | -          | -              | 119        | 116            |
| A                                | 137               | 130            | 6               | 6              | -          | -              | 143        | 136            |
| BBB                              | 92                | 92             | 6               | 6              | 6          | 7              | 104        | 105            |
| BB and below                     | 83                | 107            | 9               | 30             | 12         | 21             | 104        | 158            |
| Total by rating (1)(2)(3)        | \$ 1,082          | \$ 1,039       | \$ 44           | \$ 65          | \$ 18      | \$ 28          | \$ 1,144   | \$ 1,132       |
| Origination Year                 |                   |                |                 |                |            |                |            |                |
| 2004 and prior                   | \$ 444            | \$ 436         | \$ 22           | \$ 22          | \$ 2       | \$ 3           | \$ 468     | \$ 461         |
| 2005                             | 309               | 289            | 21              | 42             | 6          | 7              | 336        | 338            |
| 2006                             | 138               | 133            | 1               | 1              | 10         | 18             | 149        | 152            |
| 2007                             | 131               | 127            | -               | -              | -          | -              | 131        | 127            |
| 2008                             | -                 | -              | -               | -              | -          | -              | -          | -              |
| 2009                             | -                 | -              | -               | -              | -          | -              | -          | -              |
| 2010                             | 60                | 54             | -               | -              | -          | -              | 60         | 54             |
| Total by origination year (1)(2) | \$ 1,082          | \$ 1,039       | \$ 44           | \$ 65          | \$ 18      | \$ 28          | \$ 1,144   | \$ 1,132       |

Total AFS securities backed by pools of commercial mortgages as a percentage of total AFS securities

1.4 % 1.6 %

- (1) Does not include the fair value of trading securities totaling \$22 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$22 million in trading securities consisted of \$19 million CMBS and \$3 million CRE CDOs.
- (2) Does not include the amortized cost of trading securities totaling \$23 million, which support our Modco reinsurance agreements because investment results for these agreements are passed directly to the reinsurers. The \$23 million in trading securities consisted of \$20 million CMBS and \$3 million CRE CDOs.
- (3) Based upon the rating designations determined and provided by the major credit rating agencies (Fitch, Moody's and S&P). For securities where the ratings assigned by the major credit agencies are not equivalent, the second highest rating assigned is used. For those securities where ratings by the major credit rating agencies are not available, which does not represent a significant amount of our total fixed maturity AFS securities, we base the ratings disclosed upon internal ratings.

As of September 30, 2012, the amortized cost and fair value of our AFS exposure to Monoline insurers was \$550 million and \$521 million, respectively.

Composition by Industry Categories of our Unrealized Losses on AFS Securities

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

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The composition by industry categories of all securities in unrealized loss status (in millions) as of September 30, 2012, was as follows:

|   | Fair Value | % Fair Value | Amortized Cost | % Amortized Cost | Gross Unrealized Losses and OTTI | % Gross Unrealized Losses and OTTI |
|---|------------|--------------|----------------|------------------|----------------------------------|------------------------------------|
| ABS   | \$ 643     | 16.8%        | \$ 851         | 19.0%            | \$ 208                           | 33.2%                              |
| Banking   | 499        | 13.0%        | 643            | 14.4%            | 144                              | 23.0%                              |
| CMOs  | 466        | 12.1%        | 536            | 12.0%            | 71                               | 11.3%                              |
| CMBS  | 203        | 5.3%         | 256            | 5.7%             | 53                               | 8.5%                               |
| Media - non-cable   | 117        | 3.0%         | 140            | 3.1%             | 23                               | 3.7%                               |
| Property and casualty insurers                            | 51         | 1.3%         | 71             | 1.6%             | 20                               | 3.2%                               |
| Retailers   | 81         | 2.1%         | 98             | 2.2%             | 17                               | 2.7%                               |
| Diversified manufacturing                                 | 124        | 3.2%         | 139            | 3.1%             | 15                               | 2.4%                               |
| Paper   | 97         | 2.5%         | 108            | 2.4%             | 11                               | 1.8%                               |
| Industries with unrealized losses less than \$10 million  | 1,565      | 40.7%        | 1,630          | 36.5%            | 64                               | 10.2%                              |
| Total by industry   | \$ 3,846   | 100.0%       | \$ 4,472       | 100.0%           | \$ 626                           | 100.0%                             |
| Total by industry as a percentage of total AFS securities |            | 4.7%         |                | 6.2%             |                                  | 100.0%                             |

As of September 30, 2012, the amortized cost and fair value of securities subject to enhanced analysis and monitoring for potential changes in unrealized loss status was \$666 million and \$442 million, respectively.

Mortgage Loans on Real Estate

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

| Credit Quality Indicator            | As of September 30, 2012 |        | As of December 31, 2011 |        |
|-------------------------------------|--------------------------|--------|-------------------------|--------|
|                                     | Carrying Value           | %      | Carrying Value          | %      |
| Current                             | \$ 6,646                 | 99.3 % | \$ 6,854                | 98.7 % |
| Delinquent and in foreclosure (1)   | 44                       | 0.7 %  | 88                      | 1.3 %  |
| Total mortgage loans on real estate | \$ 6,690                 | 100.0% | \$ 6,942                | 100.0% |

(1) As of September 30, 2012, and December 31, 2011, there were 10 and 16 mortgage loans on real estate, respectively, that were delinquent and in foreclosure.

As of September 30, 2012  
As of December 31, 2011

|                          |                                     |          |          |
|--------------------------|-------------------------------------|----------|----------|
| By Segment               |                                     |          |          |
| Annuities                |                                     | \$ 1,298 | \$ 1,341 |
| Retirement Plan Services |                                     | 1,095    | 1,080    |
| Life Insurance           |                                     | 3,601    | 3,731    |
| Group Protection         |                                     | 267      | 278      |
| Other Operations         |                                     | 429      | 512      |
|                          | Total mortgage loans on real estate | \$ 6,690 | \$ 6,942 |

|                                 | As of<br>September<br>30,<br>2012 |
|---------------------------------|-----------------------------------|
| Allowance for Losses            |                                   |
| Balance as of beginning-of-year | \$ 31                             |
| Additions                       | 10                                |
| Charge-offs, net of recoveries  | (12)                              |
| Recoveries                      | (8)                               |
| Balance as of<br>end-of-period  | \$ 21                             |

| Property Type      | As of September<br>30, 2012 |        | State Exposure        | As of September 30,<br>2012 |        |
|--------------------|-----------------------------|--------|-----------------------|-----------------------------|--------|
|                    | Carrying<br>Value           | %      |                       | Carrying<br>Value           | %      |
| Office building    | \$ 2,066                    | 31.0%  | CA                    | \$ 1,464                    | 22.0%  |
| Industrial         | 1,705                       | 25.5%  | TX                    | 637                         | 9.5%   |
| Retail             | 1,541                       | 23.0%  | MD                    | 462                         | 6.9%   |
| Apartment          | 1,017                       | 15.2%  | VA                    | 341                         | 5.1%   |
| Mixed use          | 149                         | 2.2%   | TN                    | 273                         | 4.1%   |
| Hotel/Motel        | 110                         | 1.6%   | NC                    | 272                         | 4.1%   |
| Other commercial   | 102                         | 1.5%   | FL                    | 254                         | 3.8%   |
| Total              | \$ 6,690                    | 100.0% | WA                    | 228                         | 3.4%   |
|                    |                             |        | AZ                    | 220                         | 3.3%   |
| Geographic Region  |                             |        | GA                    | 214                         | 3.2%   |
| Pacific            | \$ 1,813                    | 27.1%  | NY                    | 210                         | 3.1%   |
| South Atlantic     | 1,674                       | 25.1%  | IN                    | 204                         | 3.0%   |
| West South Central | 656                         | 9.8%   | IL                    | 177                         | 2.6%   |
| East North Central | 648                         | 9.7%   | NV                    | 171                         | 2.6%   |
| Mountain           | 535                         | 8.0%   | OH                    | 168                         | 2.5%   |
| Middle Atlantic    | 458                         | 6.8%   | PA                    | 155                         | 2.3%   |
| East South Central | 436                         | 6.5%   | MN                    | 141                         | 2.1%   |
| West North Central | 333                         | 5.0%   | Other states under 2% | 1,099                       | 16.4%  |
| New England        | 137                         | 2.0%   | Total                 | \$ 6,690                    | 100.0% |
| Total              | \$ 6,690                    | 100.0% |                       |                             |        |

| Origination Year | As of September<br>30, 2012 |       | Future Principal Payments | As of September<br>30, 2012 |       |
|------------------|-----------------------------|-------|---------------------------|-----------------------------|-------|
|                  | Principal<br>Amount         | %     |                           | Principal<br>Amount         | %     |
| 2004 and prior   | \$ 2,120                    | 31.6% | 2012                      | \$ 65                       | 1.0%  |
| 2005             | 707                         | 10.6% | 2013                      | 351                         | 5.2%  |
| 2006             | 622                         | 9.3%  | 2014                      | 381                         | 5.7%  |
| 2007             | 846                         | 12.6% | 2015                      | 558                         | 8.3%  |
| 2008             | 780                         | 11.6% | 2016                      | 503                         | 7.5%  |
| 2009             | 146                         | 2.2%  | 2017 and thereafter       | 4,843                       | 72.3% |

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|       |          |        |       |          |        |
|-------|----------|--------|-------|----------|--------|
| 2010  | 274      | 4.1%   | Total | \$ 6,701 | 100.0% |
| 2011  | 896      | 13.4%  |       |          |        |
| 2012  | 310      | 4.6%   |       |          |        |
| Total | \$ 6,701 | 100.0% |       |          |        |

91

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

See Note 5 for information regarding our loan-to-value and debt-service coverage ratios.

There were 9 and 12 impaired mortgage loans on real estate, or less than 1% of the total dollar amount of mortgage loans on real estate as of September 30, 2012 and December 31, 2011. The carrying value on the mortgage loans on real estate that were two or more payments delinquent as of September 30, 2012, was \$44 million, or less than 1% of total mortgage loans on real estate. The total principal and interest past due on the mortgage loans on real estate that were two or more payments delinquent as of September 30, 2012, was \$25 million. The carrying value on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2011, was \$76 million, or 1% of total mortgage loans on real estate. The total principal and interest past due on the mortgage loans on real estate that were two or more payments delinquent as of December 31, 2011, was \$41 million. See Note 1 in our 2011 Form 10-K for more information regarding our accounting policy relating to the impairment of mortgage loans on real estate.

#### Alternative Investments

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

|                          | For the Three<br>Months<br>Ended |       |        | For the Nine<br>Months<br>Ended |       |        |
|--------------------------|----------------------------------|-------|--------|---------------------------------|-------|--------|
|                          | September 30,<br>2012            | 2011  | Change | September 30,<br>2012           | 2011  | Change |
| Annuities                | \$ 4                             | \$ 1  | 300 %  | \$ 23                           | \$ 11 | 109 %  |
| Retirement Plan Services | 2                                | 1     | 100 %  | 11                              | 6     | 83 %   |
| Life Insurance           | 7                                | 15    | -53 %  | 52                              | 72    | -28 %  |
| Group Protection         | 1                                | -     | NM     | 7                               | 3     | 133 %  |
| Other Operations         | -                                | -     | NM     | 2                               | -     | NM     |
| Total (1)                | \$ 14                            | \$ 17 | -18 %  | \$ 95                           | \$ 92 | 3 %    |

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

As of September 30, 2012, and December 31, 2011, alternative investments included investments in 99 and 96 different partnerships, respectively, and the portfolio represented approximately 1% of our overall invested assets. The partnerships do not represent off-balance sheet financing and generally involve several third-party partners. Some of our partnerships contain capital calls, which require us to contribute capital upon notification by the general partner. These capital calls are contemplated during the initial investment decision and are planned for well in advance of the call date. The capital calls are not material in size and are not material to our liquidity. Alternative investments are accounted for using the equity method of accounting and are included in other investments on our Consolidated Balance Sheets.



As discussed in “Critical Accounting Policies and Estimates – Investments – Valuation of Alternative Investments” in our 2011 Form 10-K, we update the carrying value of our alternative investment portfolio whenever audited financial statements of the investees for the preceding year become available. Net investment income (loss) derived from our consolidated alternative investments by segment (in millions) related to the effect of preceding year audit adjustments recorded during the indicated year at the investee was as follows:

|                          | For the Three<br>Months<br>Ended<br>September<br>30, |         |        | For the Nine<br>Months<br>Ended<br>September 30, |       |        |
|--------------------------|--|---------|--------|--|-------|--------|
|                          | 2012   | 2011    | Change | 2012   | 2011  | Change |
| Annuities                | \$ -   | \$ -    | NM     | \$ 5   | \$ 4  | 25 %   |
| Retirement Plan Services | -  | -       | NM     | 2  | 2     | 0 %    |
| Life Insurance           | -  | (1 )    | 100 %  | 23   | 29    | -21 %  |
| Group Protection         | -  | -       | NM     | 2  | 2     | 0 %    |
| Total                    | \$ -   | \$ (1 ) | 100 %  | \$ 32  | \$ 37 | -14 %  |

#### Non-Income Producing Investments

As of September 30, 2012, and December 31, 2011, the carrying amount of fixed maturity securities, mortgage loans on real estate and real estate that were non-income producing was \$11 million and \$14 million, respectively.

#### Net Investment Income

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

|  | For the Three<br>Months Ended<br>September 30, |          |        | For the Nine<br>Months Ended<br>September 30, |          |        |
|--|--|----------|--------|---|----------|--------|
|  | 2012   | 2011     | Change | 2012  | 2011     | Change |
| Net Investment Income  |  |          |        |   |          |        |
| Fixed maturity AFS securities  | \$ 981   | \$ 964   | 2 %    | \$ 2,929                                      | \$ 2,878 | 2 %    |
| Equity AFS securities  | 2  | 1        | 100 %  | 4   | 4        | 0 %    |
| Trading securities   | 36   | 38       | -5 %   | 111   | 116      | -4 %   |
| Mortgage loans on real estate  | 97   | 102      | -5 %   | 299   | 306      | -2 %   |
| Real estate  | 4  | 5        | -20 %  | 13  | 17       | -24 %  |
| Standby real estate equity commitments                                 | -  | -        | NM     | -   | 1        | -100 % |
| Policy loans   | 37   | 42       | -12 %  | 124   | 125      | -1 %   |
| Invested cash  | 1  | 1        | 0 %    | 3   | 3        | 0 %    |
| Commercial mortgage loan prepayment and bond<br>makewhole premiums (1) | 5  | 14       | -64 %  | 22  | 73       | -70 %  |
| Alternative investments (2)  | 14   | 17       | -18 %  | 95  | 92       | 3 %    |
| Consent fees   | 1  | -        | NM     | 3   | 2        | 50 %   |
| Other investments  | (5 )   | (3 )     | -67 %  | (15 )   | (9 )     | -67 %  |
| Investment income  | 1,173  | 1,181    | -1 %   | 3,588   | 3,608    | -1 %   |
| Investment expense   | (27 )  | (30 )    | 10 %   | (79 )   | (86 )    | 8 %    |
| Net investment income  | \$ 1,146                                       | \$ 1,151 | 0 %    | \$ 3,509                                      | \$ 3,522 | 0 %    |

- (1) See “Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums” below for additional information.
- (2) See “Alternative Investments” above for additional information.

|  | For the Three |        |        | For the Nine  |        |        |
|--|---------------|--------|--------|---------------|--------|--------|
|  | Months Ended  | Basis  | Point  | Months Ended  | Basis  | Point  |
|  | September 30, | 2011   | Change | September 30, | 2011   | Change |
| <b>Interest Rate Yield</b>   |               |        |        |               |        |        |
| Fixed maturity securities, mortgage loans on real estate and other, net of investment expenses | 5.25 %        | 5.45 % | (20 )  | 5.33 %        | 5.52 % | (19 )  |
| Commercial mortgage loan prepayment and bond makewhole premiums                                | 0.02 %        | 0.07 % | (5 )   | 0.03 %        | 0.12 % | (9 )   |
| Alternative investments  | 0.07 %        | 0.08 % | (1 )   | 0.15 %        | 0.15 % | -      |
| Consent fees   | 0.00 %        | 0.00 % | -      | 0.00 %        | 0.00 % | -      |
| Net investment income yield on invested assets   | 5.34 %        | 5.60 % | (26 )  | 5.51 %        | 5.79 % | (28 )  |

|   | For the Three |           |        | For the Nine  |           |        |
|---|---------------|-----------|--------|---------------|-----------|--------|
|   | Months Ended  | Change    | Point  | Months Ended  | Change    | Point  |
|   | September 30, | 2011      | Change | September 30, | 2011      | Change |
| Average invested assets at amortized cost | \$ 85,802     | \$ 82,254 | 4 %    | \$ 84,881     | \$ 81,117 | 5 %    |

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

#### Commercial Mortgage Loan Prepayment and Bond Makewhole Premiums

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

The decrease in prepayment and makewhole premiums when comparing 2012 to 2011 was attributable primarily to abnormally high prepayments and makewhole premiums during 2011 due to a rapid decline in interest rates leading to increased refinancing activity.

## Realized Gain (Loss) Related to Certain Investments

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

|  | For the Three<br>Months Ended<br>September 30, |          |        | For the Nine<br>Months Ended<br>September 30, |          |        |
|--|--|----------|--------|---|----------|--------|
|  | 2012   | 2011     | Change | 2012  | 2011     | Change |
| Fixed maturity AFS securities:   |  |          |        |   |          |        |
| Gross gains  | \$ 4   | \$ 17    | -76 %  | \$ 12   | \$ 84    | -86 %  |
| Gross losses   | (49 )  | (63 )    | 22 %   | (161)   | (177)    | 9 %    |
| Equity AFS securities:   |  |          |        |   |          |        |
| Gross gains  | -  | -        | NM     | 1   | 10       | -90 %  |
| Gain (loss) on other investments   | (10 )  | (3 )     | NM     | (8 )  | 1        | NM     |
| Associated amortization of DAC, VOBA, DSI, and DFEL and changes in other contract holder funds | 1  | 4        | -75 %  | 3   | (10 )    | 130 %  |
| Total realized gain (loss) related to certain investments, pre-tax                             | \$ (54 )                                       | \$ (45 ) | -20 %  | \$ (153)                                      | \$ (92 ) | -66 %  |

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

Realized gains and losses generally originate from asset sales to reposition the portfolio or to respond to product experience. During the first nine months of 2012 and 2011, we sold securities for gains and losses. In the process of evaluating whether a security with an unrealized loss reflects declines that are other-than-temporary, we consider our ability and intent to sell the security prior to a recovery of value. However, subsequent decisions on securities sales are made within the context of overall risk monitoring, assessing value relative to other comparable securities and overall portfolio maintenance. Although our portfolio managers may, at a given point in time, believe that the preferred course of action is to hold securities with unrealized losses that are considered temporary until such losses are recovered, the dynamic nature of portfolio management may result in a subsequent decision to sell. These subsequent decisions are consistent with the classification of our investment portfolio as AFS. We expect to continue to manage all non-trading invested assets within our portfolios in a manner that is consistent with the AFS classification.

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

When the detailed analysis by our credit analysts and investment portfolio managers leads us to the conclusion that a security's decline in fair value is other-than-temporary, the security is written down to estimated recovery value. In instances where declines are considered temporary, the security will continue to be carefully monitored. See "Critical

Accounting Policies and Estimates” in our 2011 Form 10-K for additional information on our portfolio management strategy.

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

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |          |        | For the Nine<br>Months Ended<br>September 30,<br>2011 |          |        |
|---|--|----------|--------|---|----------|--------|
|   | 2012   | 2011     | Change | 2012  | 2011     | Change |
| <b>OTTI Recognized in Net Income (Loss)</b>                             |  |          |        |   |          |        |
| Corporate bonds   | \$ (5 )  | \$ (3 )  | -67 %  | \$ (34 )  | \$ (9 )  | NM     |
| RMBS  | (16 )  | (22 )    | 27 %   | (48 )   | (65 )    | 26 %   |
| CMBS  | (14 )  | (8 )     | -75 %  | (50 )   | (47 )    | -6 %   |
| CDOs  | (2 )   | -        | NM     | (2 )  | (1 )     | -100%  |
| Hybrid and redeemable preferred securities                              | -  | -        | NM     | -   | (2 )     | 100 %  |
| Gross OTTI recognized in net income (loss)                              | (37 )  | (33 )    | -12 %  | (134)   | (124)    | -8 %   |
| Associated amortization of DAC, VOBA, DSI and DFEL                      | 5  | 7        | -29 %  | 22  | 26       | -15 %  |
| Net OTTI recognized in net income (loss), pre-tax                       | \$ (32 )   | \$ (26 ) | -23 %  | \$ (112)  | \$ (98 ) | -14 %  |
| <b>Portion of OTTI Recognized in Other Comprehensive Income ("OCI")</b> |  |          |        |   |          |        |
| Gross OTTI recognized in OCI  | \$ (17 )   | \$ (21 ) | 19 %   | \$ (96 )  | \$ (48 ) | -100%  |
| Change in DAC, VOBA, DSI and DFEL                                       | 2  | 3        | -33 %  | 14  | 11       | 27 %   |
| Net portion of OTTI recognized in OCI, pre-tax                          | \$ (15 )   | \$ (18 ) | 17 %   | \$ (82 )  | \$ (37 ) | NM     |

The increase in write-downs for OTTI when comparing 2012 to 2011 was primarily due to structured interest only corporate bonds with floating rate coupons where the projected cash flows were less than expected based on current and expected future Libor rates. The \$230 million of impairments taken during 2012 were split between \$134 million of credit-related impairments and \$96 million of noncredit-related impairments. The credit-related impairments were largely attributable to our RMBS and CMBS holdings primarily as a result of continued weakness within the commercial and residential real estate market that affected select RMBS and CMBS holdings. The noncredit-related impairments were incurred due to declines in values of securities for which we do not have an intent to sell or it is not more likely than not that we will be required to sell the securities before recovery.

## REVIEW OF CONSOLIDATED FINANCIAL CONDITION

### Liquidity and Capital Resources

#### Sources of Liquidity and Cash Flow

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash from its normal operations to meet cash requirements with a prudent margin of safety. Our principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. Our operating activities provided cash of \$666 million and \$934 million for the first nine months of 2012 and 2011, respectively. When considering our liquidity and cash flow, it is important to distinguish between the needs of our insurance subsidiaries and the needs of the holding company, LNC. As a holding company with no operations of its own, LNC derives its cash primarily from its operating subsidiaries.

The sources of liquidity of the holding company are principally comprised of dividends and interest payments from subsidiaries, augmented by holding company short-term investments, bank lines of credit and the ongoing availability of long-term public financing under an SEC-filed shelf registration statement. These sources of liquidity and cash



flow support the general corporate needs of the holding company, including its common and preferred stock dividends, interest and debt service, funding of callable securities, securities repurchases, acquisitions and investment in core businesses. Our cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset declines (or increases), the collateral required to be posted by our counterparties would also decline (or increase).

Likewise, when the value of a derivative liability declines (or increases), the collateral we are required to post for our counterparties' benefit would also decline (or increase). During the first nine months of 2012, our payables for collateral on derivative investments decreased by \$27 million as steadily rising equity markets and less volatility lowered the fair values of the associated derivative investments. For additional information, see "Credit Risk" in Note 6.

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

|   | For the Three<br>Months Ended<br>September 30,<br>2012 |        |        | For the Nine<br>Months Ended<br>September 30,<br>2012 |          |        |
|---|--|--------|--------|---|----------|--------|
|   | 2011   | Change |        | 2011  | Change   |        |
| Dividends from Subsidiaries   |  |        |        |   |          |        |
| The Lincoln National Life Insurance Company   | \$ 200   | \$ 250 | -20 %  | \$ 550  | \$ 550   | 0 %    |
| Other   | -  | 7      | -100 % | -   | 19       | -100 % |
| Loan Repayments and Interest from Subsidiaries  |  |        |        |   |          |        |
| Interest on inter-company notes   | 33   | 32     | 3 %    | 97  | 95       | 2 %    |
|   | \$ 233   | \$ 289 | -19 %  | \$ 647  | \$ 664   | -3 %   |
| Other Cash Flow and Liquidity Items   |  |        |        |   |          |        |
| Increase (decrease) in commercial paper, net  | \$ -   | \$ -   | NM     | \$ -  | \$ (100) | 100 %  |
| Net capital received from (paid for taxes on) stock option exercises and restricted stock | -  | -      | NM     | (3 )  | (1 )     | NM     |
|   | \$ -   | \$ -   | NM     | \$ (3 )   | \$ (101) | 97 %   |

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

#### Subsidiaries' Statutory Reserving and Surplus

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

#### Financing Activities

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

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

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

|  | For the Nine Months Ended September 30, 2012 |          |                                 |   |                         | Ending<br>Balance |
|--|--|----------|---------------------------------|---|-------------------------|-------------------|
|  | Beginning<br>Balance                         | Issuance | Maturities<br>and<br>Repayments | Change<br>in<br>Fair<br>Value<br>Hedges | Other<br>Changes<br>(1) |                   |
| <b>Short-Term Debt</b>                                   |  |          |                                 |   |                         |                   |
| Current maturities of long-term debt (2)                 | \$ 300                                       | \$ -     | \$ (300 )                       | \$ -                                    | \$ 200                  | \$ 200            |
| Total short-term debt                                    | \$ 300                                       | \$ -     | \$ (300 )                       | \$ -                                    | \$ 200                  | \$ 200            |
| <b>Long-Term Debt</b>                                    |  |          |                                 |   |                         |                   |
| Senior notes   | \$ 3,730                                     | \$ 300   | \$ -                            | \$ (12 )                                | \$ (185 )               | \$ 3,833          |
| Bank borrowing   | 200  | -        | -                               | -                                       | -                       | 200               |
| Federal Home Loan Bank of Indianapolis ("FHLBI") advance | 250  | -        | -                               | -                                       | -                       | 250               |
| Capital securities                                       | 1,211  | -        | -                               | -                                       | -                       | 1,211             |
| Total long-term debt                                     | \$ 5,391                                     | \$ 300   | \$ -                            | \$ (12 )                                | \$ (185 )               | \$ 5,494          |

(1) Includes the net increase (decrease) in commercial paper, non-cash reclassification of long-term debt to current maturities of long-term debt, accretion of discounts and (amortization) of premiums, as applicable.

(2) Consists of a \$200 million floating rate senior note maturing on July 18, 2013.

On March 29, 2012, we completed the issuance and sale of \$300 million aggregate principal amount of our 4.20% senior notes due 2022. We repaid a \$300 million 5.65% fixed rate senior note that matured on August 27, 2012, with these proceeds. In addition to the maturing note discussed above, within the next two years, we have a \$300 million 4.75% senior note maturing on January 30, 2014; and a \$200 million 4.75% senior note maturing on February 14, 2014. The specific resources or combination of resources that we will use to meet these maturities will depend upon, among other things, the financial market conditions present at the time of maturity. As of September 30, 2012, the holding company had approximately \$700 million in cash and cash equivalents and \$25 million invested in fixed maturity corporate bonds; however, as discussed below, it had a \$51 million payable under the inter-company cash management program.

For information about our short-term and long-term debt and our credit facilities and LOCs, see Note 12 in our 2011 Form 10-K.

We have not accounted for repurchase agreements, securities lending transactions, or other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets as sales and do not have any other transactions involving the transfer of financial assets with an obligation to repurchase the transferred assets. For information about our collateralized financing transactions on our investments, see "Payables for Collateral on Investments" in Note 5.

If current credit ratings and claims-paying ratings were downgraded in the future, terms in our derivative agreements may be triggered, which could negatively affect overall liquidity. For the majority of our counterparties, there is a termination event should the long-term senior debt ratings of LNC drop below BBB-/Baa3 (S&P/Moody's). Our long-term senior debt held a rating of A-/Baa2 (S&P/Moody's) as of September 30, 2012. In addition, contractual selling agreements with intermediaries could be negatively affected, which could have an adverse effect on overall sales of annuities, life insurance and investment products. See "Part I – Item 1A. Risk Factors – Liquidity and Capital

Position – A decrease in the capital and surplus of our insurance subsidiaries may result in a downgrade to our credit and insurer financial strength ratings” and “Part I – Item 1A. Risk Factors – Covenants and Ratings – A downgrade in our financial strength or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors” in our 2011 Form 10-K for more information. See “Part I – Item 1. Business – Financial Strength Ratings” in our 2011 Form 10-K for additional information on our current financial strength ratings.

See “Part II – Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Review of Consolidated Financial Condition – Liquidity and Capital Resources – Financing Activities” in our 2011 Form 10-K for information on our credit ratings.

#### Alternative Sources of Liquidity

In order to manage our capital more efficiently, we have an inter-company cash management program where certain subsidiaries can lend to or borrow from the holding company to meet short-term borrowing needs. The cash management program is

essentially a series of demand loans, which are permitted under applicable insurance laws, among LNC and its affiliates that reduces overall borrowing costs by allowing LNC and its subsidiaries to access internal resources instead of incurring third-party transaction costs. For our Indiana-domiciled insurance subsidiaries, the borrowing and lending limit is currently the lesser of 3% of the insurance company's admitted assets and 25% of its surplus, in both cases, as of its most recent year end. The holding company had a maximum and minimum amount of financing that was used from the cash management program during the third quarter of 2012 of \$1 million and \$0, respectively. There was no balance as of September 30, 2012. In addition, it had an outstanding payable of \$51 million to certain subsidiaries resulting from amounts placed by the subsidiaries in the inter-company cash management account in excess of funds borrowed by those subsidiaries as of September 30, 2012. Any increase (decrease) in either of these holding company cash management program payable balances results in an immediate and equal increase (decrease) to holding company cash and cash equivalents.

Our insurance subsidiaries, by virtue of their investment holdings, can access liquidity through investments pledged programs and repurchase agreements. As of September 30, 2012, our insurance subsidiaries had investments with a carrying value of \$1.6 billion out on loan or subject to reverse-repurchase agreements. The cash received in our investments pledged programs and repurchase agreements is typically invested in cash equivalents, short-term investments or fixed maturity securities. For additional details, see "Payables for Collateral on Investments" in Note 5.

For factors that could cause actual results to differ materially from those set forth in this section, see "Forward-Looking Statements – Cautionary Language" above and "Part I – Item 1A. Risk Factors" in our 2011 Form 10-K, as updated in "Part II – Item 1A. Risk Factors" below.

#### Divestitures

For a discussion of our divestitures, see Note 3 herein and Note 3 in our 2011 Form 10-K.

#### Uses of Capital

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

#### Return of Capital to Common Stockholders

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

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

|                                  | For the Three<br>Months Ended<br>September 30, |       |        | For the Nine<br>Months Ended<br>September 30, |       |        |
|----------------------------------|--|-------|--------|---|-------|--------|
|                                  | 2012   | 2011  | Change | 2012  | 2011  | Change |
| Common dividends to stockholders | \$ 22  | \$ 15 | 47 %   | \$ 67   | \$ 48 | 40 %   |

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|                                     |          |          |       |          |          |      |
|-------------------------------------|----------|----------|-------|----------|----------|------|
| Repurchase of common stock          | 100      | 150      | -33 % | 400      | 375      | 7 %  |
| Total cash returned to stockholders | \$ 122   | \$ 165   | -26 % | \$ 467   | \$ 423   | 10 % |
| Number of shares repurchased        | 4.157    | 6.713    | -38 % | 16.649   | 14.276   | 17 % |
| Average price per share             | \$ 24.07 | \$ 22.36 | 8 %   | \$ 24.05 | \$ 26.29 | -9 % |

On November 10, 2011, our Board of Directors approved an increase of the quarterly dividend on our common stock from \$0.05 to \$0.08 per share. Additionally, we expect to repurchase additional shares of common stock during the remainder of 2012 depending on market conditions and alternative uses of capital. For more information regarding share repurchases, see “Part II – Item 2(c)” below.

## Other Uses of Capital

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

|                                      | For the Three<br>Months<br>Ended<br>September 30,<br>2012 |        |     | For the Nine<br>Months Ended<br>September 30,<br>2012 |        |        |
|--------------------------------------|---|--------|-----|---|--------|--------|
|                                      | 2011  | Change | %   | 2011  | Change | %      |
| Debt service (interest paid)         | \$ 64   | \$ 62  | 3 % | \$ 195  | \$ 204 | -4 %   |
| Capital contribution to subsidiaries | -   | -      | NM  | -   | 16     | -100 % |
| Total                                | \$ 64   | \$ 62  | 3 % | \$ 195  | \$ 220 | -11 %  |

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

## Significant Trends in Sources and Uses of Cash Flow

As stated above, LNC’s cash flow, as a holding company, is largely dependent upon the dividend capacity of its insurance company subsidiaries as well as their ability to advance funds to it through inter-company borrowing arrangements, which may be affected by factors influencing the insurance subsidiaries’ RBC and statutory earnings performance. We currently expect to be able to meet the holding company’s ongoing cash needs and to have sufficient capital to offer downside protection in the event that the capital and credit markets experience another period of extreme volatility and disruption. A decline in capital market conditions, which reduces our insurance subsidiaries’ statutory surplus and RBC, may require them to retain more capital and may pressure our subsidiaries’ dividends to the holding company, which may lead us to take steps to preserve or raise additional capital. For factors that could affect our expectations for liquidity and capital, see “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below.

## OTHER MATTERS

### Other Factors Affecting Our Business

In general, our businesses are subject to a changing social, economic, legal, legislative and regulatory environment. Some of the changes include initiatives to require more reserves to be carried by our insurance subsidiaries. Although the eventual effect on us of the changing environment in which we operate remains uncertain, these factors and others could have a material effect on our results of operations, liquidity and capital resources. For factors that could cause actual results to differ materially from those set forth in this section, see “Part I – Item 1A. Risk Factors” in our 2011 Form 10-K, as updated in “Part II – Item 1A. Risk Factors” below, and “Forward-Looking Statements – Cautionary Language” above.

### Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We analyze and manage the risks arising from market exposures of financial instruments, as well as other risks, in an integrated asset-liability management process that takes diversification into account. By aggregating the potential effect of market and other risks on the entire enterprise, we estimate, review and in some cases manage the risk to our earnings and shareholder value. We have exposures to several market risks including interest rate risk, equity market risk, default risk, basis risk, credit risk and, to a lesser extent, foreign currency exchange risk. The exposures of financial instruments to market risks, and the related risk management processes, are most important to our business where most of the invested assets support accumulation and investment-oriented insurance products. As an important element of our integrated asset-liability management processes, we use derivatives to minimize the effects of changes in interest levels, the shape of the yield curve, currency movements and volatility. In this context, derivatives are designated as a hedge and serve to minimize interest rate risk by mitigating the effect of significant increases in interest rates on our earnings. Additional market exposures exist in our other general account insurance products and in our debt structure and derivatives positions. Our primary sources of market risk are: substantial, relatively rapid and sustained increases or decreases in interest rates or a sharp drop in equity market values. These market risks are discussed in detail in the



following pages and should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements (“Notes”) presented in “Item 1. Financial Statements,” as well as “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”).”

## Interest Rate Risk

### Interest Rate Risk on Fixed Insurance Businesses – Falling Rates

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

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

If we were to assume a hypothetical stress scenario where the 10-year U.S. Treasury rate remains static at approximately 150 basis points through the end of 2014 as compared to a hypothetical scenario where our current portfolio yields remain flat, we estimate the difference between these hypothetical scenarios would result in an approximate unfavorable earnings effect of \$75 million in 2013 and \$140 million in 2014. The earnings drag from this hypothetical stress scenario related to the effect of continued low new money rates is largely concentrated in our Life Insurance and Retirement Plan Services segments.

The estimates above are based upon hypothetical scenarios and are only representative of the effects of assumptions around rates through 2014 keeping all else equal and does not give consideration to the aggregate effect of other factors, including but not limited to: contract holder activity; sales; hedge positions; changing equity markets; shifts in implied volatilities; and changes in other capital market sectors as well as actions we might take to mitigate the effect of the low rate environment. In addition, the scenarios only illustrated the effect to spreads and certain unlocking and reserve changes. Other potential effects of the scenarios were not considered in the analysis. See “Part I – Item 1A. Risk Factors – Market Conditions – Changes in interest rates and sustained low interest rates may cause interest rate spreads to decrease and changes in interest rates may also result in increased contract withdrawals” in our 2011 Form 10-K for additional information on interest rates.

The following provides detail on the percentage differences between the September 30, 2012, interest rates being credited to contract holders based on the second quarter of 2012 declared rates and the respective minimum guaranteed policy rate (in millions), broken out by contract holder account values reported within our segments:

|   | Account Values |                          |                    | Total     | % Account Values |
|---|----------------|--------------------------|--------------------|-----------|------------------|
|   | Annuities      | Retirement Plan Services | Life Insurance (1) |           |                  |
| Excess of Crediting Rates over Contract Minimums      |                |                          |                    |           |                  |
| Discretionary rate setting products (2)(3)            |                |                          |                    |           |                  |
| No difference   | \$ 7,967       | \$ 9,823                 | \$ 26,401          | \$ 44,191 | 70.4 %           |
| Up to 0.10%   | 81             | 2                        | -                  | 83        | 0.1 %            |
| 0.11% to 0.20%  | 57             | -                        | -                  | 57        | 0.1 %            |
| 0.21% to 0.30%  | 91             | 1                        | 264                | 356       | 0.6 %            |
| 0.31% to 0.40%  | 121            | 15                       | -                  | 136       | 0.2 %            |
| 0.41% to 0.50%  | 91             | 179                      | -                  | 270       | 0.3 %            |
| 0.51% to 0.60%  | 59             | -                        | -                  | 59        | 0.1 %            |
| 0.61% to 0.70%  | 48             | 69                       | -                  | 117       | 0.2 %            |
| 0.71% to 0.80%  | 43             | -                        | -                  | 43        | 0.1 %            |
| 0.81% to 0.90%  | 32             | -                        | -                  | 32        | 0.1 %            |
| 0.91% to 1.00%  | 22             | 121                      | -                  | 143       | 0.2 %            |
| 1.01% to 1.50%  | 75             | 30                       | -                  | 105       | 0.2 %            |
| 1.51% to 2.00%  | 5              | -                        | 162                | 167       | 0.3 %            |
| 2.01% to 2.50%  | 3              | 1                        | -                  | 4         | 0.0 %            |
| 2.51% to 3.00%  | 5              | -                        | -                  | 5         | 0.0 %            |
| 3.01% and above                                       | -              | 1                        | -                  | 1         | 0.0 %            |
| Multi-year guarantee and indexed annuity products (4) | 10,829         | -                        | -                  | 10,829    | 17.3 %           |
| Total discretionary rate setting products             | 19,529         | 10,242                   | 26,827             | 56,598    | 90.2 %           |
| Other contracts (5)                                   | 2,116          | 4,000                    | -                  | 6,116     | 9.8 %            |
| Total account values                                  | \$ 21,645      | \$ 14,242                | \$ 26,827          | \$ 62,714 | 100.0 %          |

Percentage of discretionary rate setting product account values at minimum guaranteed rates 40.8 % 95.9 % 98.4 % 78.1 %

- (1) Excludes policy loans.
- (2) Contracts currently within new money rate bands are grouped according to the corresponding portfolio rate band in which they will fall upon their first anniversary.
- (3) The average crediting rates for discretionary rate setting products were 58 basis points, 2 basis points and 1 basis point in excess of average minimum guaranteed rates for our Annuities, Retirement Plan Services and Life Insurance segments, respectively.
- (4) The average crediting rates were 162 basis points in excess of average minimum guaranteed rates for multi-year guarantee products; 6%, 17% and 77% of our total multi-year guarantee account values are scheduled to reset in 2012, 2013 and 2014 and beyond, respectively. Our indexed renewal business resets either annually or bi-annually. Upon reset, we are able to adjust product features to reflect changes in option prices.
- (5) For Annuities, this amount relates primarily to immediate annuity and short-term dollar cost averaging business. For Retirement Plan Services, this amount relates to indexed-based rate setting products in which the average crediting rates were 1 basis point in excess of average minimum guaranteed rates and 93% of account values were already at their minimum guaranteed rates.

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

## Derivatives

See Note 6 for information on our derivatives used to hedge our exposure to changes in interest rates.

## Equity Market Risk

Our revenues, assets, liabilities and derivatives are exposed to equity market risk. Due to the use of our reversion to the mean (“RTM”) process and our hedging strategies, we expect that, in general, short-term fluctuations in the equity markets should not have a significant effect on our quarterly earnings from unlocking of assumptions for deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads. However, earnings are affected by equity market movements on account values and assets under management and the related fees we earn on those assets. Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL” in our 2011 Form 10-K for further discussion on the effects of equity markets on our RTM.

### Effect of Equity Market Sensitivity

The following presents our estimate of the effect on income (loss) from operations (in millions), from the change in asset-based fees and related expenses, if the level of the Standard & Poor’s (“S&P”) 500 Index® (“S&P 500”), which ended at 1441 as of September 30, 2012, were to decrease to 1153 over six months after September 30, 2012, and remain at that level through the next six months or increase to 1729 over six months after September 30, 2012, and remain at that level through the next six months, excluding any effect related to sales, prospective unlocking, persistency, hedge program performance or customer behavior caused by the equity market change:

|                          | S&P<br>500<br>at 1153<br>(1) | S&P<br>500<br>at 1729<br>(1) |
|--------------------------|------------------------------|------------------------------|
| Segment                  |                              |                              |
| Annuities                | \$ (84)                      | \$ 45                        |
| Retirement Plan Services | (8)                          | 8                            |

- (1) The baseline for these effects assumes a 4% annual equity market growth rate, depending on the block of business, beginning on October 1, 2012. The baseline is then compared to scenarios of the S&P 500 at the 1153 and 1729 levels, which assume the index moves to those levels over six months and remains at those levels through the next six months. The difference between the baseline and the S&P 500 at the 1153 and 1729 level scenarios is presented in the table.

Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Introduction – Critical Accounting Policies and Estimates – DAC, VOBA, DSI and DFEL – Reversion to the Mean” in our 2011 Form 10-K for discussion of the effects of equity markets on our RTM.

The effect on earnings summarized above is a hypothetical scenario for the next 12 months. The effect of quarterly equity market changes upon fee revenues and asset-based expenses is generally not fully recognized in the first quarter of the change because fee revenues are earned and related expenses are incurred based upon daily variable account values. The difference between the current period average daily variable account values compared to the end of period variable account values affects fee revenues in subsequent periods. Additionally, the effect on earnings may not necessarily be symmetrical with comparable increases in the equity markets. This discussion concerning the estimated effects of ongoing equity market volatility on the fees we earn from account values and assets under

management is intended to be illustrative. Actual effects may vary depending on a variety of factors, many of which are outside of our control, such as changing customer behaviors that might result in changes in the mix of our business between variable and fixed annuity contracts, switching among investment alternatives available within variable products, changes in sales production levels or changes in policy persistency. For purposes of this guidance, the change in account values is assumed to correlate with the change in the relevant index.

#### Credit-Related Derivatives

We use credit-related derivatives to minimize our exposure to credit-related events and we also sell credit default swaps to offer credit protection to our contract holders and investors. See Note 6 for additional information.

#### Credit Risk

See Note 6 for information on our credit risk.

In addition to the information provided about our counterparty exposure in Note 6, the fair value of our exposure by rating (in millions) was as follows:

| Rating | As of<br>September<br>30,<br>2012 | As of<br>December<br>31,<br>2011 |
|--------|-----------------------------------|----------------------------------|
| AA     | \$ 9                              | \$ 23                            |
| A      | 41                                | 56                               |
| BBB    | -                                 | 2                                |
| Total  | \$ 50                             | \$ 81                            |

#### Item 4. Controls and Procedures

##### Conclusions Regarding Disclosure Controls and Procedures

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

##### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

## PART II – OTHER INFORMATION

#### Item 1. Legal Proceedings

Information regarding reportable legal proceedings is contained in Note 9 to the consolidated financial statements in “Part I – Item 1.”

Item 1A. Risk Factors

The risk factors set forth below update those set forth in Lincoln National Corporation and its majority-owned subsidiaries' ("LNC" or the "Company," which also may be referred to as "we," "our" or "us") Form 10-K for the year ended December 31, 2011. You should carefully consider the risks described in our Form 10-K and those described below, as well as other information contained in the Form 10-K and this Form 10-Q, including our financial statements and the notes thereto, before making an investment decision. The risks and uncertainties described in our Form 10-K and below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of these risks actually occur, our business, financial condition and results of operations could be materially affected. In that case, the value of our securities could decline substantially.

## Legislative, Regulatory and Tax

Changes to the calculation of reserves and attempts to mitigate the impact of Regulation XXX and Actuarial Guideline 38 may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations.

The Valuation of Life Insurance Policies Model Regulation (“XXX”) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life (“UL”) policies with secondary guarantees. In addition, Actuarial Guideline 38 (“AG38”), commonly known as “AXXX,” clarifies the application of XXX with respect to certain UL insurance policies with secondary guarantees. Virtually all of our newly issued term and the majority of our newly issued UL insurance products are affected by XXX and AG38. The application of both AG38 and XXX involve numerous interpretations.

On September 12, 2012, the National Association of Insurance Commissioners (“NAIC”) adopted revisions to AG38. Effective for year-end 2012, reserves on in-force business written between July 1, 2005, and December 31, 2012, will be subject to a new minimum floor calculation. This floor calculation is based on assumptions that are generally consistent with the principles-based reserving framework developed by the NAIC. While there are certain judgmental interpretive issues with the floor calculation, at this point, we do not expect the AG38 revisions to have a material impact on our total in-force reserves. Reserves on new business written after December 31, 2012, will be calculated using a modified formulaic approach that will generally result in higher reserves.

We have implemented, and plan to continue to implement, reinsurance and capital management actions to mitigate the capital impact of XXX and AG38, including the use of letters of credit to support the reinsurance provided by captive reinsurance subsidiaries. These arrangements are subject to review by state insurance regulators and rating agencies. For example, the NAIC has established a subgroup to study the use of captives and special purpose vehicles to transfer insurance risk in relation to existing state laws and regulations. Therefore, we cannot provide assurance regarding what, if any, regulatory, rating agency or other reactions may be to the actions we have taken to date or the impact of any potential reactions.

We also cannot provide assurance that we will be able to continue to implement actions to mitigate the impact of XXX or AG38 on future sales of term and UL insurance products. If we are unable to continue to implement those actions, we may have lower returns on such products sold than we currently anticipate and/or reduce our sales of these products.

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

(c) The following table summarizes purchases of equity securities by the issuer during the quarter ended September 30, 2012 (dollars in millions, except per share data):

| Period | (a) Total<br>Number<br>of Shares<br>(or Units)<br>Purchased<br>(1) | (b) Average<br>Price Paid<br>per Share<br>(or Unit) | (c) Total<br>Number<br>of Shares<br>(or Units)<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)  |
|--------|--|---|--|--|
|        |  |   |  | Approximate<br>Dollar<br>Value of<br>Shares (or<br>Units) that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|        |  |   |  |  |



|                     |           |       | (2)       | (2)(3) |
|---------------------|-----------|-------|-----------|--------|
| 7/1/12 -<br>7/31/12 | 364 \$    | 23.48 | - \$      | 240    |
| 8/1/12 -<br>8/31/12 | 2,630,625 | 23.62 | 2,612,644 | 938    |
| 9/1/12 -<br>9/30/12 | 1,544,579 | 24.70 | 1,544,547 | 900    |

(1) Of the total number of shares purchased, no shares were received in connection with the exercise of stock options and related taxes and 18,377 shares were withheld for taxes on the vesting of restricted stock units. For the quarter ended September 30, 2012, there were 4,157,191 shares purchased as part of publicly announced plans or programs.

(2) On August 8, 2012, our Board authorized an increase in our securities repurchase authorization, bringing the total aggregate repurchase authorization to \$1 billion. As of September 30, 2012, our remaining security repurchase authorization was \$900 million. The security repurchase authorization does not have an expiration date. The amount and timing of share repurchase depends on key capital ratios, rating agency expectations, the generation of free cash flow and an evaluation of the costs and benefits associated with alternative uses of capital. The shares repurchased in connection with the awards described in Note 19 to the consolidated financial statements of our 2011 Form 10-K are not included in our security repurchase.

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

#### Item 6. Exhibits

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

SIGNATURES

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

LINCOLN NATIONAL CORPORATION

By: /s/ RANDAL J.  
FREITAG  
Randal J. Freitag  
Executive Vice President  
and Chief Financial  
Officer

Dated: November 8, 2012

LINCOLN NATIONAL CORPORATION  
Exhibit Index for the Report on Form 10-Q  
For the Quarter Ended September 30, 2012

- 10.1 Amendment No. 2 to the Severance Plan for Officers.
- 10.2 Amendment No. 3 to the Severance Plan for Officers.
- 12 Historical Ratio of Earnings to Fixed Charges.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCHXBRL Taxonomy Extension Schema Document.
- 101.CALXBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LABXBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

