

**NEWS RELEASE**
**Lincoln Financial Group Reports Second Quarter 2014 Results**

*Record Operating EPS of \$1.47 up 16%; ROE increases to 13.0%*

*Record Operating Revenues of \$3.3 billion up 8%*

*Book Value per Share, excluding AOCI, of \$46.97 up 9%*

**Radnor, PA, July 30, 2014** – Lincoln Financial Group (NYSE: LNC) today reported net income for the second quarter of 2014 of \$398 million, or \$1.48 per diluted share available to common stockholders, compared to net income in the second quarter of 2013 of \$317 million, or \$1.15 per diluted share available to common stockholders. Second quarter income from operations was \$394 million, or \$1.47 per diluted share available to common stockholders, compared to \$351 million, or \$1.27 per diluted share available to common stockholders, in the second quarter of 2013.

“Lincoln delivered another strong quarter, achieving record levels of operating revenues, operating earnings and assets under management,” said Dennis R. Glass, president and CEO of Lincoln Financial Group. “The overall strength of our performance reflects the diversity of earnings drivers across our businesses as results in Annuities, Life Insurance and Retirement Plan Services more than offset Group Protection results, which fell short of expectations.”

(in millions, except per share data)	As of or For the Quarter Ended		As of or For the Six Months Ended	
	2014	2013	2014	2013
Net Income (Loss)	\$ 398	\$ 317	\$ 727	\$ 556
Net Income (Loss) Available to Common Stockholders	399	317	727	556
Net Income (Loss) Per Diluted Share Available to Common Stockholders	1.48	1.15	2.69	2.01
Revenues	3,282	2,999	6,457	5,838
Income (Loss) from Operations	394	351	759	635
Income (Loss) from Operations Per Diluted Share Available to Common Stockholders	1.47	1.27	2.80	2.29
Average Diluted Shares	268.9	275.7	270.5	277.1
ROE (Income from Operations)	13.0%	12.4%	12.6%	11.3%
ROE (Net Income)	13.1%	11.2%	12.1%	9.9%
Book Value per Share, Including AOCI	\$ 59.24	\$ 50.37	\$ 59.24	\$ 50.37
Book Value per Share, Excluding AOCI	46.97	43.21	46.97	43.21

## **Operating Highlights – Second Quarter 2014 versus Second Quarter 2013**

- Consolidated total account balances of \$216 billion up 15%
- Annuities total account balances of \$121 billion up 18%
- Retirement Plan Services total deposits of \$1.8 billion up 12%
- Individual Life Insurance sales of \$158 million up 7%
- Group Protection non-medical earned premiums of \$528 million up 10%

The quarter included net favorable items of approximately \$0.04 related primarily to taxes and expenses.

## **Second Quarter 2014 – Segment Results**

### ***Annuities***

The Annuities segment reported income from operations of \$227 million in the quarter, up 16% from \$195 million in the prior-year quarter. Positive net flows and equity market performance increased assets under management and related fees, which contributed to the growth in revenues and earnings.

Gross annuity deposits in the second quarter were \$3.6 billion, contributing to net flows of \$831 million. Account values increased 18% to \$121 billion compared to the prior-year quarter. Variable annuity deposits of \$3.2 billion were down from \$3.9 billion in the second quarter of last year, which were elevated ahead of benefit reductions in response to competitor dynamics. Fixed annuity deposits of \$393 million increased 49% on the strength of indexed annuity sales.

The company continues to focus on shifting the mix of variable annuity sales with and without guaranteed living benefits. Net of reinsurance, variable annuity deposits without a guaranteed living benefit rider as a percentage of total variable annuity deposits were 42%, compared to 40% in the first quarter of 2014.

In July, the company amended and restated its reinsurance treaty covering new sales of its variable annuity guaranteed living benefit product. The treaty will provide an additional \$4 billion of reinsurance capacity through December 31, 2015. The company will retain 100% of the product cash flows excluding the living benefit guarantee.

### ***Retirement Plan Services***

Retirement Plan Services reported income from operations of \$39 million, flat with the prior-year quarter.

Total deposits for the quarter of \$1.8 billion were up 12% versus the prior-year quarter, reflecting strong sales in both the small and mid-large markets. Total net flows in the quarter were \$366 million compared to \$337 million in the second quarter of 2013. Along with equity market performance, positive net flows led to a 14% increase in account values to \$54 billion.

### ***Life Insurance***

Life Insurance income from operations increased 10% to \$148 million from \$135 million in the prior-year quarter.

Life insurance sales in the quarter were \$172 million compared to \$186 million in the prior-year quarter. Individual life sales, which exclude COLI and BOLI, increased 7% from the prior-year period, driven by strong sales results in indexed universal life and variable universal life. COLI sales were down from a strong prior-year quarter and will vary in any given period.

Life insurance average in-force of \$626 billion grew 5% and average account values of \$41 billion increased 7% over the prior-year quarter.

The quarter's results included net favorable items of \$5 million related primarily to expenses.

### ***Group Protection***

For the second quarter, Group Protection income from operations was \$2 million compared to \$22 million in the prior-year period. The decrease in earnings was primarily the result of higher disability claims in the quarter. The non-medical loss ratio increased to 80.3% compared to 73.5% in the prior-year quarter.

Group Protection second quarter sales of \$73 million were down 23% from the same period last year and up 14% from the first quarter. As expected, pricing changes implemented during the first half of the year and that remain ongoing have affected sales levels. The company made good progress on increasing the percentage of sales from employee-paid products, which represented 43% of total sales compared to 39% in the prior-year quarter.

Non-medical net earned premiums were \$528 million in the second quarter, up 10% over the year-ago period.

### ***Other Operations***

Other Operations reported a loss from operations of \$22 million in the quarter versus a loss of \$40 million in the prior-year quarter.

The quarter's results included net favorable items of \$6 million related to taxes.

### **Realized Gains and Losses**

Realized gains/losses (after-tax) in the quarter included:

- A net gain from general account investments of \$5 million as compared to a \$22 million net loss in the prior-year quarter.
- A \$7 million variable annuity net derivatives gain, comprising positive hedge program performance of \$16 million and a \$9 million loss associated with the non-performance risk component.

### **Unrealized Gains and Losses**

The company reported a net unrealized gain of \$7.5 billion, pre-tax, on its available-for-sale securities at June 30, 2014. This compares to a net unrealized gain of \$4.8 billion at June 30, 2013.

### **Capital**

During the quarter, the company repurchased 3.1 million shares of stock at a cost of \$150 million. The quarter's average diluted share count of 268.9 million shares was down 2% from the second quarter of 2013, the result of repurchasing 10.4 million shares of stock at a cost of \$500 million since June 30, 2013.

### **Book Value**

As of June 30, 2014, book value per share, including accumulated other comprehensive income ("AOCI"), of \$59.24 increased 18% from a year ago. Book value per share, excluding AOCI, of \$46.97 increased 9% from the prior-year period.

This press release may contain statements that are forward-looking, and actual results may differ materially, especially given the current economic and capital markets conditions. Please see the Forward Looking Statements – Cautionary Language that follow for additional factors that may cause actual results to differ materially from our current expectations.

The tables attached to this release define and reconcile income from operations, return on equity ("ROE"), and book value per share excluding AOCI, non-GAAP measures, to net income, ROE, and book value per share including AOCI calculated in accordance with GAAP.

For definitions of sales metrics and other financial information, please refer to the company's second quarter 2014 statistical supplement available on its website, [www.LincolnFinancial.com/earnings](http://www.LincolnFinancial.com/earnings).

Lincoln Financial Group will discuss the company's second quarter results with investors in a conference call beginning at 10:00 a.m. Eastern Time on Thursday, July 31, 2014. Interested persons are invited to listen through the internet. Please go to [www.LincolnFinancial.com/webcast](http://www.LincolnFinancial.com/webcast) at least fifteen minutes prior to the event to register, download and install any necessary streaming media software. Interested persons may also listen to the call by dialing the following numbers:

Dial: (877) 776-4049 (Domestic)  
(914) 495-8602 (International)  
- Ask for the Lincoln National Conference Call.

Audio replay will begin by 1 p.m. Eastern Time on July 31, 2014, and it will remain available through midnight Eastern Time on August 7, 2014. To access the re-broadcast:

(855) 859-2056 (Domestic)  
(404) 537-3406 (International)  
Enter conference code: 60437004

A replay of the call will also be available by 1 p.m. Eastern Time on July 31, 2014 at [www.LincolnFinancial.com/webcast](http://www.LincolnFinancial.com/webcast).

### **About Lincoln Financial Group**

Lincoln Financial Group provides advice and solutions that help empower Americans to take charge of their financial lives with confidence and optimism. Today, more than 17 million customers trust our retirement, insurance and wealth protection expertise to help address their lifestyle, savings and income goals, as well as to guard against long-term care expenses. Headquartered in Radnor, Pennsylvania, Lincoln Financial Group is the marketing name for Lincoln National Corporation (NYSE:LNC) and its affiliates. The company had \$216 billion in assets under management as of June 30, 2014. Learn more at: [www.LincolnFinancial.com](http://www.LincolnFinancial.com).

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### **Definition of Income (Loss) from Operations, Operating Revenues and Return on Equity**

Income (loss) from operations, operating revenues and return on equity ("ROE"), as used in the earnings release, are non-GAAP financial measures and do not replace GAAP revenues, net income (loss) and ROE. We exclude the after-tax effects of the following items from GAAP net income (loss) to arrive at income (loss) from operations: realized gains and losses associated with the following ("excluded realized gain (loss)"): sale or disposal of securities; impairments of securities; change in the fair value of derivative investments, embedded derivatives within certain reinsurance arrangements and our trading securities; change in the fair value of the derivatives we own to hedge our guaranteed death benefit ("GDB") riders within our variable annuities, which is referred to as "GDB derivatives results"; change in the fair value of the embedded derivatives of our guaranteed living benefit ("GLB") riders within our variable annuities accounted for under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ("embedded derivative reserves"), net of the change in the fair value of the derivatives we own to hedge the changes in the embedded derivative reserves, the net of which is referred to as "GLB net derivative results"; 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 under the Derivatives and Hedging and the Fair Value Measurements and Disclosures Topics of the FASB ASC ("indexed annuity forward-starting option"); change in reserves accounted for under the Financial Services - Insurance - Claim Costs and Liabilities for Future Policy Benefits Subtopic of the FASB ASC resulting from benefit ratio unlocking on our GDB and GLB riders ("benefit ratio unlocking"); income (loss) from the initial adoption of new accounting standards; income (loss) from reserve changes (net of related amortization) on business sold through reinsurance; gain (loss) on early extinguishment of debt; losses from the impairment of intangible assets; and income (loss) from discontinued operations.

Operating revenues represent GAAP revenues excluding the pre-tax effects of the following items, as applicable: excluded realized gain (loss); amortization of deferred front-end loads ("DFEL") arising from changes in GDB and GLB benefit ratio unlocking; amortization of deferred gains arising from the reserve changes on business sold through reinsurance; and revenue adjustments from the initial adoption of new accounting standards.

Return on equity measures how efficiently we generate profits from the resources provided by our net assets. Return on equity is calculated by dividing annualized income (loss) from operations by average equity, excluding accumulated other comprehensive income (loss) ("AOCI"). Management evaluates return on equity by both including and excluding average goodwill within average equity.

Income (loss) from operations, operating revenues and return on equity (including and excluding average goodwill within average equity), excluding AOCI, using annualized income (loss) from operations are financial measures we use to evaluate and assess our results. Management believes that these performance measures explain the results of the company's ongoing businesses in a manner that allows for a better understanding of the underlying trends in the company's current business because the excluded items are unpredictable and not necessarily indicative of current operating fundamentals or future performance of the business segments, and, in most instances, decisions regarding these items do not necessarily relate to the operations of the individual segments.

The company uses its prevailing corporate federal income tax rate of 35% while taking into account any permanent differences for events recognized differently in its financial statements and federal income tax returns when reconciling non-GAAP measures to the most comparable GAAP measure.

**Lincoln National Corporation**  
**Reconciliation of Net Income to Income from Operations**

(in millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Total Revenues</b>	\$ 3,282	\$ 2,999	\$ 6,457	\$ 5,838
Less:				
Excluded realized gain (loss)	(5)	(51)	(63)	(142)
Amortization of deferred gains arising from reserve changes on business sold through reinsurance	1	1	1	2
<b>Total Operating Revenues</b>	<u>\$ 3,286</u>	<u>\$ 3,049</u>	<u>\$ 6,519</u>	<u>\$ 5,978</u>
<b>Net Income (Loss) Available to Common Stockholders – Diluted</b>	\$ 399	\$ 317	\$ 727	\$ 556
Less:				
Adjustment for deferred units of LNC stock in our deferred compensation plans <sup>(1)</sup>	1	-	-	-
<b>Net Income (Loss)</b>	<u>398</u>	<u>317</u>	<u>727</u>	<u>556</u>
Less <sup>(2)</sup> :				
Excluded realized gain (loss)	(3)	(33)	(42)	(92)
Benefit ratio unlocking	7	(2)	9	12
Income (loss) from reserve changes (net of related amortization) on business sold through reinsurance	-	1	1	1
<b>Income (Loss) from Operations</b>	<u>\$ 394</u>	<u>\$ 351</u>	<u>\$ 759</u>	<u>\$ 635</u>
<b>Earnings (Loss) Per Common Share – Diluted</b>				
Income (loss) from operations	\$ 1.47	\$ 1.27	\$ 2.80	\$ 2.29
Net income (loss)	<b>1.48</b>	1.15	<b>2.69</b>	2.01
<b>Average Stockholders' Equity</b>				
Average equity, including average AOCI	\$ 14,968	\$ 14,089	\$ 14,469	\$ 14,504
Average AOCI	<u>2,826</u>	<u>2,737</u>	<u>2,417</u>	<u>3,216</u>
Average equity, excluding AOCI	<u>12,142</u>	11,352	<u>12,052</u>	11,288
Average goodwill	<u>2,273</u>	<u>2,273</u>	<u>2,273</u>	<u>2,273</u>
Average equity, excluding AOCI and goodwill	<u>\$ 9,869</u>	<u>\$ 9,079</u>	<u>\$ 9,779</u>	<u>\$ 9,015</u>
<b>Return on Equity, Excluding AOCI</b>				
Net income (loss) with average equity including goodwill	<b>13.1%</b>	11.2%	<b>12.1%</b>	9.9%
Income (loss) from operations with average equity including goodwill	<b>13.0%</b>	12.4%	<b>12.6%</b>	11.3%
Income (loss) from operations with average equity excluding goodwill	<b>16.0%</b>	15.4%	<b>15.5%</b>	14.1%

<sup>(1)</sup> The numerator used in the calculation of our diluted EPS is adjusted to remove the mark-to-market adjustment for deferred units of LNC stock in our deferred compensation plans if the effect of equity classification would result in a more dilutive EPS.

<sup>(2)</sup> We use our prevailing 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.

**Definition of Book Value Per Share Excluding AOCI**

Book value per share excluding AOCI is calculated based upon a non-GAAP financial measure. It is calculated by dividing (a) stockholders' equity excluding AOCI by (b) common shares outstanding. We provide book value per share excluding AOCI to enable investors to analyze the amount of our net worth that is primarily attributable to our business operations. Management believes book value per share excluding AOCI is useful to investors because it eliminates the effect of items that can fluctuate significantly from period to period, primarily based on changes in interest rates. Book value per share is the most directly comparable GAAP measure. A reconciliation of book value per share to book value per share excluding AOCI as of June 30, 2014 and 2013 is set forth below.

	<b>As of June 30,</b>	
	<b>2014</b>	<b>2013</b>
Book value per share, including AOCI	\$ <b>59.24</b>	\$ 50.37
Per share impact of AOCI	<b>12.27</b>	7.16
Book value per share, excluding AOCI	<b>46.97</b>	43.21

**Lincoln National Corporation**  
**Digest of Earnings**

(in millions, except per share data)

	<b>For the Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<hr/>	<hr/>
<b>Revenues</b>	\$ 3,282	\$ 2,999
<b>Net Income (Loss)</b>	\$ 398	\$ 317
Adjustment for deferred units of LNC stock in our deferred compensation plans <sup>(1)</sup>	<b>1</b>	-
<b>Net Income (Loss) Available to Common Stockholders – Diluted</b>	<b>\$ 399</b>	<b>\$ 317</b>
<b>Earnings (Loss) Per Common Share – Basic</b>	<b>\$ 1.52</b>	<b>\$ 1.19</b>
<b>Earnings (Loss) Per Common Share – Diluted</b>	<b>1.48</b>	<b>1.15</b>
<b>Average Shares – Basic</b>	<b>262,271,670</b>	<b>266,367,162</b>
<b>Average Shares – Diluted</b>	<b>268,935,567</b>	<b>275,658,348</b>
	<b>For the Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<hr/>	<hr/>
<b>Revenues</b>	\$ 6,457	\$ 5,838
<b>Net Income (Loss)</b>	\$ 727	\$ 556
<b>Earnings (Loss) Per Common Share – Basic</b>	\$ 2.77	\$ 2.07
<b>Earnings (Loss) Per Common Share – Diluted</b>	<b>2.69</b>	<b>2.01</b>
<b>Average Shares – Basic</b>	<b>262,503,816</b>	<b>268,305,694</b>
<b>Average Shares – Diluted</b>	<b>270,523,996</b>	<b>277,114,439</b>

<sup>(1)</sup> The numerator used in the calculation of our diluted EPS is adjusted to remove the mark-to-market adjustment for deferred units of LNC stock in our deferred compensation plans if the effect of equity classification would be more dilutive to our diluted EPS.

## Forward Looking Statements — Cautionary Language

Certain statements made in this press release and in other written or oral statements made by Lincoln or on Lincoln's 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 Lincoln's businesses, prospective services or products, future performance or financial results, and the outcome of contingencies, such as legal proceedings. Lincoln claims 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;
- Actions taken by reinsurers to raise rates on in force business;
- Declines in or sustained low interest rates causing a reduction in investment income, the interest margins of our businesses, estimated gross profits and demand for our products;
- Rapidly increasing interest rates causing contract holders to surrender life insurance and annuity policies, thereby causing realized investment losses, and reduced hedge performance related to variable annuities;
- Uncertainty about the effect of rules and regulations to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act on us and the economy and 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, or "DAC," value of business acquired, or "VOBA," deferred sales inducements, or "DSI," and deferred front end sales loads, or "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 accounting principles generally accepted in the United States, or "GAAP," including convergence with International Financial Reporting Standards ("IFRS"), that may result in unanticipated changes to our net income;
- Lowering of one or more of our debt ratings issued by nationally recognized statistical rating organizations and the adverse effect such action may have on our ability to raise capital and on our liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of our insurance subsidiaries and the adverse effect such action may have on the premium writings, policy retention, profitability of our insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud, corporate governance or other issues that may adversely affect the value of certain investments in our portfolios as well as counterparties to which we are exposed to credit risk requiring that we realize losses on investments;
- Inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others;
- Interruption in telecommunication, information technology or other operational systems or failure to safeguard the confidentiality or privacy of sensitive data on such systems from cyberattacks or other breaches of our data security systems;
- The effect of acquisitions and divestitures, restructurings, product withdrawals and other unusual items;
- The adequacy and collectability 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 SEC include additional factors which could impact our business 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 impact 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, Lincoln disclaims any obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this presentation.

The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities.