



May 19, 2009

## **A Letter from Dennis R. Glass, President and CEO, Lincoln Financial Group**

Lincoln Financial Group is in the business of helping our clients secure their financial futures. Approximately 12 million Americans invest in our products to build, protect, and distribute their wealth during and after their lifetimes, a responsibility that we have taken seriously for more than 100 years. That's why it is so important for our policy holders and our shareholders to understand the fundamental strengths of our company and the steps we are taking to manage through this period of economic stress while also focusing on strategies for long-term growth.

Let me share a few thoughts about how our first quarter results reflected our core strengths and how we are positioning the company moving forward.

### **Our Operating Fundamentals are Sound**

We were pleased with the performance of our core businesses in the first quarter. Lincoln Financial experienced positive net flows and solid sales results in our retirement, insurance and asset management operations despite pressure from the external environment. These results reflect the core strength of our operating model: we have the right mix of businesses and a comprehensive set of product solutions and advice channels that are so needed in today's complex financial marketplace. To capitalize on our momentum, we will continue to strengthen our product offerings, enhance the quality of our distribution force, and manage our expenses carefully. We believe these actions will drive new sales and retention, and help ensure our stability and profitability so that we can provide customers with the support they need to meet their financial goals. While we achieved positive operating income, we did report a net loss for the first quarter; a large portion of the loss was due to a non-cash impairment item related to the continuing weakness in the equity markets. We expect our strong operating model will continue to mitigate the pressure on earnings resulting from the lower equity markets.

The morning after our earnings results were released, Standard & Poor's affirmed our "AA-" insurance financial strength ratings. We believe this announcement validated our operating model and solid business performance even in these challenging economic times.

### **Measures to Strengthen Capital and Liquidity are Working**

Over the past months, we have taken a number of decisive measures to strengthen liquidity within our holding company and build capital within our insurance subsidiaries. Just as many Americans have been doing personally, we paid down a significant amount of our outstanding debt and reduced spending. We also have several initiatives underway which will help us add capital to our operating businesses. And while there have been signs of improved investor and consumer confidence in the markets, given this unprecedented economic environment, we believe it is prudent to continue to explore alternative sources of capital.

One of those alternative sources is the U.S. Treasury Department's Capital Purchase Program (CPP). Treasury informed the industry last week that life insurers, including Lincoln Financial, could qualify

for CPP, a voluntary program of federal investment in healthy financial institutions to support economic development and restore stability to the national economy. This is a significant endorsement of the critical role that the insurance industry plays in providing liquidity to the financial system by investing our assets in the credit markets. In addition, the independent ratings agencies that analyze the ability of insurance companies to meet their obligations have generally received the news favorably. We are pleased by the preliminary approval for inclusion in the program, and are currently reviewing its terms and conditions to make the best decision for our policy holders, shareholders, and employees.

### **Moving Ahead**

I am confident that our balanced model will help us to navigate successfully through this difficult terrain. We will continue to provide the right products and solutions, and we are committed to being the essential partner our clients turn to for their evolving needs.

Thank you for your support and commitment.

Sincerely,

A handwritten signature in black ink that reads "Dennis R. Glass". The signature is written in a cursive, flowing style.

Dennis R. Glass  
President and CEO

Lincoln Financial Group businesses are subject to financial, market, political and economic risks, as well as risks inherent to its business operations. New York products are issued by Lincoln Life & Annuity Company of New York, Syracuse, NY. The Lincoln National Life Insurance Company of Fort Wayne, IN, issues products in all other states. The Lincoln National Life Insurance Company does not solicit business in the state of New York nor is it authorized to do so. The assets and liabilities of the affiliates are separate from Lincoln Financial Group and would be used to meet obligations. Lincoln Financial Group is the marketing name for Lincoln National Corporation (NYSE: LNC) and its affiliates.

## Forward-Looking Statements — Cautionary Language

Certain statements made in this 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 our 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:

- Continued deterioration in general economic and business conditions, both domestic and foreign, that may affect foreign exchange rates, premium levels, claims experience, the level of pension benefit costs and funding and investment results;
- Continued economic declines and credit market illiquidity could cause us to realize additional impairments on investments and certain intangible assets, including goodwill and a 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;
- Uncertainty about the impact of the U.S. Treasury's Troubled Asset Relief Program on the economy; and Lincoln's ability to participate in the program;
- Legislative, regulatory or tax changes, both domestic and foreign, that affect the cost of, or demand for, Lincoln's products, the required amount of reserves and/or surplus, or otherwise affect our ability to conduct business, including changes to statutory reserves and/or risk-based capital requirements related to secondary guarantees under universal life and variable annuity products such as Actuarial Guideline VACARVM; restrictions on revenue sharing and 12b-1 payments; and the potential for U.S. Federal tax reform;
- The initiation of legal or regulatory proceedings against Lincoln or its subsidiaries, and the outcome of any legal or regulatory proceedings, such as: (a) adverse actions related to present or past business practices common in businesses in which Lincoln and its subsidiaries compete; (b) adverse decisions in significant actions including, but not limited to, actions brought by federal and state authorities and extra-contractual and class action damage cases; (c) new decisions that result in changes in law; and (d) unexpected trial court rulings;
- Changes in interest rates causing a reduction of investment income, the margins of Lincoln's fixed annuity and life insurance businesses and demand for Lincoln's products;
- A decline in the equity markets causing a reduction in the sales of Lincoln's products, a reduction of asset-based fees that Lincoln charges on various investment and insurance products, an acceleration of amortization of deferred acquisition costs, value of business acquired, deferred sales inducements and deferred front-end loads and an increase in liabilities related to guaranteed benefit features of Lincoln's variable annuity products;
- Ineffectiveness of Lincoln's various hedging strategies used to offset the impact 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 Lincoln's assumptions used in pricing its products, in establishing related insurance reserves and in the amortization of intangibles that may result in an increase in reserves and a decrease in net income, including as a result of stranger-originated life insurance business;
- Changes in GAAP that may result in unanticipated changes to Lincoln's net income;
- Lowering of one or more of Lincoln's debt ratings issued by nationally recognized statistical rating organizations and the adverse impact such action may have on Lincoln's ability to raise capital and on its liquidity and financial condition;
- Lowering of one or more of the insurer financial strength ratings of Lincoln's insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability of its insurance subsidiaries and liquidity;
- Significant credit, accounting, fraud or corporate governance issues that may adversely affect the value of certain investments in the portfolios of Lincoln's companies requiring that Lincoln realize losses on such investments;
- The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including Lincoln's ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;
- The adequacy and collectibility of reinsurance that Lincoln has purchased;
- Acts of terrorism, war or other man-made and natural catastrophes that may adversely affect Lincoln's 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 Lincoln can charge for its products;
- The unknown impact on Lincoln's business resulting from changes in the demographics of Lincoln's client base, as aging baby-boomers move from the asset-accumulation stage to the asset-distribution stage of life; and
- Loss of key management, portfolio managers in the Investment Management segment, financial planners or wholesalers.

The risks included here are not exhaustive. Lincoln's 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 Lincoln's business and financial performance. Moreover, Lincoln operates 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 Lincoln's business 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 the release.