

November 20, 2008

**United States of America
Financial Services
Insurance/Life**

Lincoln National (LNC - US\$ 12.16) 1-Overweight

Company Update

Lincoln's Straight-Up Approach

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Investment Conclusion

□ We view Lincoln's investor-day presentation Wednesday, while disconcerting to listen to because it involved Lincoln's laying out just how severely it is being affected in the current market unrest, as nonetheless positive. We say this because we came away from the presentation with a clear sense of how Lincoln is managing in these extraordinarily difficult conditions: rethinking the price on and details on its annuity guarantees; tuning up its variable-annuity hedging program so to reduce the likelihood in the future of basis risk; trying to build its nonequity businesses as quickly as possible; and hiring 3rd-party outsiders (consultants) to look over Lincoln's shoulder and in general bring a fresh set of eyeballs to the company's risk management.

EPS (US\$) (FY Dec)

	2007		2008		2009		% Change		2009
	Actual	Old	New	St. Est.	Old	New	St. Est.	2008	
1Q	1.36A	1.23A	1.23A	1.28A	1.33E	1.33E	1.18E	-10%	8%
2Q	1.41A	1.32A	1.32A	1.32A	1.40E	1.40E	1.22E	-6%	6%
3Q	1.29A	1.23A	1.23A	1.23A	1.42E	1.42E	1.25E	-5%	15%
4Q	1.16A	1.31E	1.31E	0.90E	1.45E	1.45E	1.30E	13%	11%
Year	5.15A	5.17E	5.17E	4.74E	5.60E	5.60E	5.08E	%	8%
P/E			2.4			2.2			

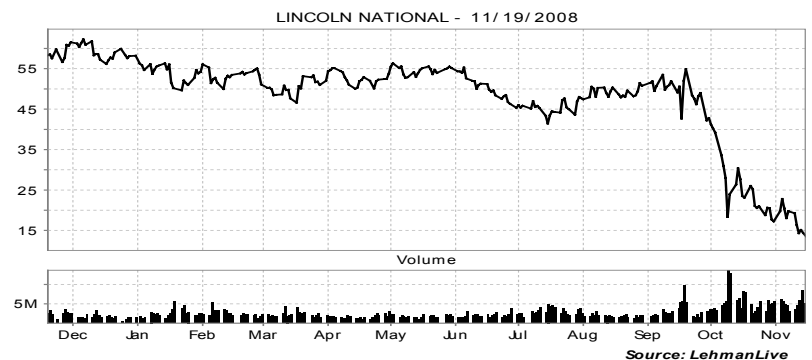
Market Data

Market Cap (Mil.)	3112
Dividend Yield	6.91
52 Week Range	63.26 - 11.26

Financial Summary

Revenue TTM (Mil.)	10382.0
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Stock Overview



Stock Rating

 New: 1-Overweight
Old: 1-Overweight

Target Price

 New: US\$ 60.00
Old: US\$ 60.00

Sector View: 2-Neutral

To us, all this is favorable, even if it does involve Lincoln's laying out for investors just how hard it is being affected in the current quarter by market developments. What would investors prefer: A company that denies or papers over the problems and/or has no strategy to deal with them? Or a company that acknowledges the pressures it is facing and lays out the various tacks it is following to set the ship straight in the face of market forces such as these.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 5

To us, the answer is clear: We'd pick the straight-up company any day. That's why we still like Lincoln, despite the drop in its stock price: It's being direct and blunt with investors. We affirm our 1-Overweight rating and our \$60 price target.

Our view, in short, is that Lincoln's public-relations strategy – and that is exactly what it is and needs to be, a public-relations strategy – is both apparent and intelligent. It is to be the first insurer to report on the negative impact of fourth-quarter developments on the theory, presumably, that the company that reports bad news early will suffer less of a hit to its stock price over the long run than the company that drags out the process. More than being about first, however, the strategy seems to be out laying out the facts about Lincoln as comprehensively and with the least possible positive varnish that Lincoln can use. Management's thinking would appear to be that if Lincoln focuses on the right issues (capital, liquidity and investments), sticks to the facts and doesn't try to sugarcoat the problem or somehow try to persuade investors that there isn't a problem, that Lincoln will end up far better off than if Lincoln were to try to divert investors' attention. We couldn't agree more with this strategy: Being straight up with investors is absolutely the best strategy, in our view, even if over the short term it is costing Lincoln further reductions in its stock price.

In fact, we'd say that while lots of what Fred Crawford, Lincoln's CFO, and other senior financial executives at Lincoln, had to say yesterday was new, none of it should have come as a surprise.

When Mr. Crawford disclosed, for instance, that Lincoln's annuity assets, down \$11 billion at the end of the September quarter from the level those assets achieved at the end of the June quarter, had fallen another \$5 billion so far in the December quarter, none of that should have come as a surprise. After all, the daily grind down in the stock market has been in full view; the fact that the market, as measured by the S&P 500, is down some 27 %, since the end of September, is also in full view and is easily calculable; and the fact, therefore, that both Lincoln's annuity earnings and 401K earnings will be down in the neighborhood of \$35 million and \$10 million respectively in the December quarter before DAC offsets from September-quarter levels should come as a surprise to no one.

The fact that Lincoln may have to take a further write-down of goodwill with respect to its remaining media properties that it inherited from Jefferson Pilot – largely traditional radio stations – should not come as a surprise. Not only has traditional radio been in a secular decline for some time, local radio stations rely heavily on ads from car dealers, a segment of the economy that everyone knows is ailing.

The fact that Lincoln's gross unrealized investment losses, \$5 billion at quarter's end, had swollen to \$8 billion by mid-November is unarguably disappointing news. But we believe this new piece of information, too, should not have caught investors off guard given the dramatic widening of credit spreads across the bond market that has taken place over the last seven weeks.

And the fact that Lincoln's risk-based-capital score, 407 % of minimum, at quarter's end, has since dropped should be the last thing catching investors off guard. After all, it's our sense that even investors who follow this business peripherally know that the capital required to back variable-annuity guarantees goes up each down the stock market drops a point. Why should Mr. Crawford's disclosure that the drop in the stock market since September 30 has shaved 30 points off of Lincoln's RBC score be news to anyone?

We'd go one step further: We believe Mr. Crawford and his financial team are just being forthright. There's no reason that we are aware of to think that the issues that Lincoln is facing – lower fees, pressure on its capital, sharply lower earnings – are any different from those problems being faced by any of Lincoln's competitors. To the contrary, because in our experience covering the company over the years, Lincoln has had a history of being a follower rather than a leader when it comes to product design and because in general it has spurned aggressive product designs, we'd say it's probable that Lincoln's capital and earnings issues are probably less than those of its peers.

Meanwhile, it's been our sense for the several years we have known him that Mr. Crawford, Lincoln's CFO, has always practiced the philosophy of owning the risk-management function himself rather than ceding it to some "quant." It's our strong sense, in other words, that Mr. Crawford has personally been deeply involved in understanding and monitoring both the details on Lincoln's various annuity-guarantee feature as well as its strategy for hedging the guarantee. We don't get the sense that other CFO's have necessarily dug into the issue of risk and its management as deeply as Mr. Crawford has.

Make no mistake: Lincoln is sailing through a bad, bad storm. But it is the same storm that others are smack in the middle of too. We believe the fact that Lincoln is addressing head on and in technical detail how it plans to handle the swells should be

commended. Indeed it is precisely because Lincoln has acknowledged the issues and is talking to the world about how it is managing through them that leaves us thinking it will be among the survivors.

Valuation Methodology:

We value Lincoln Financial using our residual earnings approach. We calculate the value of the stock as the sum of three parts: its current book value, its residual earnings during the next five years based on our earnings model, and its residual earnings in later periods based on our estimate of the residual income persistence for Lincoln Financial. Our price target remains at \$60. The key assumptions behind our valuation model and the valuation summary are presented in the table below:

Assumptions	
Long-term Payout Ratio	30.0%
Beta	1.31
Equity Risk Premium	1.5%
10-Yr Treasury	4.9%
Expected 5-yr Earnings CAGR	9.1%
Residual Income Persistence Factor *	0.95
Previous Quarter Ended	9/30/2008

* - normalized historical estimate

Valuation Model Summary	
Book Value	\$44.18
Stage 1 Residual Earnings	4.78
Stage 2 Residual Earnings	6.57
Intrinsic Value 9/30/08	55.53
Time value adjustment	0.74
Intrinsic Value, current	\$56.27
Implied P/B	1.27
Current Price	12.16
Current Valuation Gap	362.7%
12-months target **	\$60
Expected 12-months Appreciation	396.3%

** Current intrinsic value grossed up at the cost of equity less dividend yield

Source: Barclays Capital Research

Analyst Certification:

I, Eric N. Berg, CPA, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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Company Description:

Diversified financial services company offering annuities, life/health insurance, and pension and asset management products.

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Lincoln National (LNC)

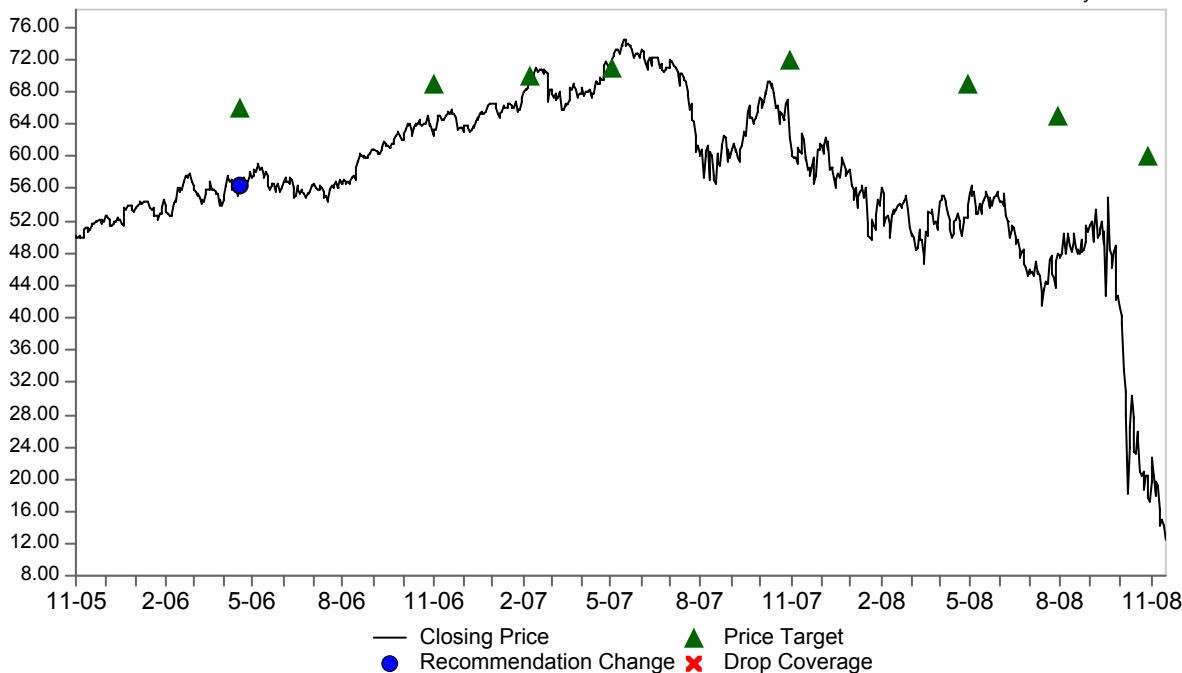
US\$ 12.16 (18-Nov-2008)

1-Overweight / 2-Neutral

Rating and Price Target Chart:

LINCOLN NATIONAL CORP.

As of 17-Nov-2008
Currency = USD



Source: FactSet

Currency=US\$

Date	Closing Price	Rating	Price Target
29-Oct-08	20.50		60.00
30-Jul-08	48.00		65.00
30-Apr-08	53.76		69.00
31-Oct-07	62.37		72.00
02-May-07	72.05		71.00

Date	Closing Price	Rating	Price Target
07-Feb-07	70.42		70.00
01-Nov-06	62.55		69.00
18-Apr-06	56.40		66.00
18-Apr-06	56.40	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

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Barclays Capital and/or an affiliate trade regularly in the shares of Lincoln National.

Valuation Methodology: We value Lincoln Financial using our residual earnings approach. We calculate the value of the stock as the sum of three parts: its current book value, its residual earnings during the next five years based on our earnings model, and its residual earnings in later periods based on our estimate of the residual income persistence for Lincoln Financial. Our price target is \$60. Our key valuation assumptions and conclusions are below:

Assumptions

Long-term Payout Ratio 30.0%

Beta 1.31

Equity Risk Premium 1.5%

10-Yr Treasury 4.9%

Expected 5-yr Earnings CAGR 9.1%

Residual Income Persistence Factor * 0.95

Previous Quarter Ended 9/30/2008

* - normalized historical estimate

Valuation Model Summary

Book Value	\$44.18
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Intrinsic Value, current	\$56.27
Implied P/B	1.27
Current Price	12.16
Current Valuation Gap	362.7%
12-months target **	\$60

Expected 12-months Appreciation 396.3%

** Current intrinsic value grossed up at the cost of equity less dividend yield

Source: Barclays Capital Research

Risks Which May Impede the Achievement of the Price Target: Lincoln is currently engaged in litigation with Swiss Re over the sale of its reinsurance arm, Lincoln Re last year. Additionally, the company faces other risks, including: financial markets; competitors and competing products and services; changes in legislation and regulations (e.g., corporate, individual, estate and product taxation); and debt and claims paying ratings issued by rating organizations. Acts of god and terrorists, the stability of foreign governments, and mortality rates are all risks for Lincoln. The risks for AFC include weak equity market performance; reserve surprises; asbestos exposure and the company not reserving adequately for unexpected future losses; weather and non-weather catastrophes; and prices not rising as quickly as expected.

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Company Name	Ticker	Price	Price Date	Stock / Sector Rating
Lincoln National	LNC	US\$ 12.16	18-Nov-2008	1-Overweight / 2-Neutral

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Hartford Financial (HIG)	Lincoln National (LNC)
Manulife Financial (MFC)	MetLife Inc. (MET)
National Financial Partners (NFP)	Phoenix Companies (PNX)
Principal Financial Group (PFG)	Protective Life (PL)
Prudential Financial Inc. (PRU)	Reinsurance Group of America (RGAA)
StanCorp Financial Group (SFG)	Sun Life Financial (SLF)
Torchmark Corp. (TMK)	UnumProvident Corp. (UNM)

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

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Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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