

# Financial Profile

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as of 6/30/04



When it comes to safeguarding your assets for the future, you need quality life insurance backed by a sound company. The Lincoln National Life Insurance Company (Lincoln), a Lincoln Financial Group affiliate, is organized into two business segments that provide life insurance and retirement planning solutions. Lincoln prides itself on its financial strength and integrity. In fact, Lincoln consistently earns high marks for its claims-paying ability and financial strength from the four primary independent ratings services.

Lincoln Financial Group (LFG) is the marketing name for Lincoln National Corporation (NYSE:LNC) and its affiliates, a leading provider of financial products and services to the affluent and retirement markets, including annuities, life insurance, 401(k) plans, mutual funds, institutional investment management, financial planning and advisory services.

Lincoln Financial Group has consolidated assets of \$107 billion and had consolidated revenues of \$5.3 billion in 2003.

## Lincoln Facts and Figures

- Lincoln is successful in serving the affluent market, demonstrated by the fact that for policies sold in 2002, the average face value of a Lincoln insurance policy was nearly \$1.1 million<sup>1</sup>, far exceeding the industry average of \$140,100<sup>2</sup> and significantly higher than \$340,000 in 1997.
- Lincoln is the 5th largest life insurer in the U.S.<sup>3</sup>
- Total life insurance in force: \$293 billion<sup>4</sup>
- Capital and surplus: \$2.8 billion<sup>5</sup>
- Total assets: \$78.2 billion<sup>5</sup>
- Total policyholder and other liabilities: \$75.4 billion<sup>5</sup>

## Lincoln's Financial Strength Ratings

**A.M. Best**                      **A+** (2nd highest of 15 rankings)

*"Excellent financial strength...strong ability to meet their ongoing obligations to policyholders."*

**Fitch**                              **AA** (3rd highest of 24 rankings)

*"...high ratings reflect the company's long-standing strong competitive position."*

**Moody's**                        **Aa3** (4th highest of 21 rankings)

*"...offers excellent financial security."*

**Standard & Poor's**      **AA-** (4th highest of 21 rankings)

*"... a recognized leader in the high income market."*

This information was compiled using current information available to the public. These ratings apply only to the company's claims-paying ability. They do not apply to the safety of investment performance of the variable funds. The ratings do not imply approval of the variable products and do not refer to their performance.

<sup>1</sup> Lincoln high-net-worth platform. Excludes First Penn-Pacific Life Insurance Company, large case corporate-owned life insurance, and term.

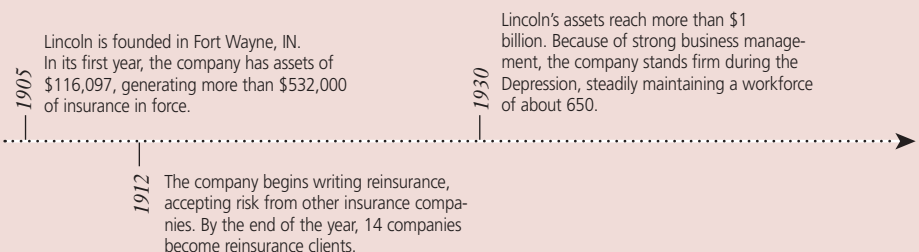
<sup>2</sup> Source: LIMRA International, U.S. Individual Life Insurance Sales Participants Summary Report, fourth quarter 2003 year-to-date, results based on survey results from 75 companies.

<sup>3</sup> The life insurance companies of Lincoln National Corporation, as a group, are rated 5th largest life insurer in the U.S. (measured by total ordinary life in force in 2002, Best's Review, September 2003).

<sup>4</sup> Sold through the life insurance segment of Lincoln, including life insurance sold through First Penn-Pacific. As of 6/30/04.

<sup>5</sup> Lincoln's results as of 12/31/03.

## Almost 100 years of financial strength



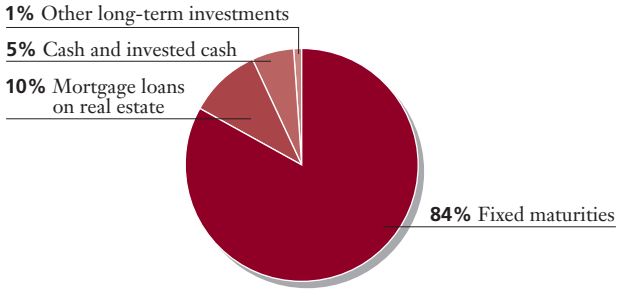
## Total Investment Profile

A sound investment portfolio is a hallmark of a strong life insurance company. Every insurance company has the challenge of building a well-balanced portfolio that maximizes return while minimizing risk.

Lincoln has built and maintained a well-diversified, high quality portfolio, designed to balance the need for long-term stability of principal and maximization of returns with a need for high current income. Maintaining flexibility to change the portfolio profile as needed without jeopardizing the portfolio's overall quality helps Lincoln satisfy long-term investment objectives.

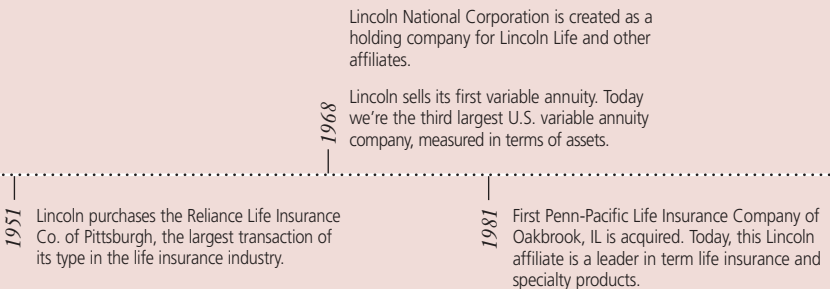
Delaware Investments, Lincoln's investment manager, believes active investment management focused on high current income and preservation of capital over market cycles creates substantial value for clients.

### Total Investment Portfolio



(as of 6/30/04)  
(Percentage of Total Invested Assets)<sup>6</sup>

<sup>6</sup> Excludes assets from Separate Accounts business and other miscellaneous assets.

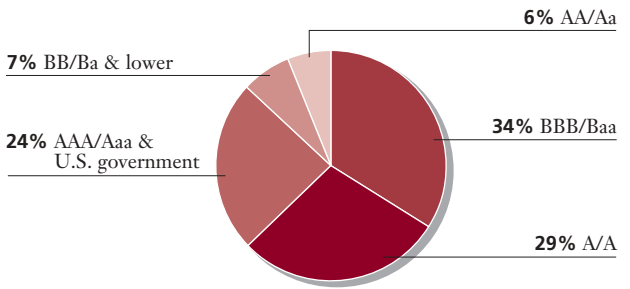


## Bond Allocation

Lincoln's largest investment allocation is to bonds. This includes both public bonds and bonds issued in private placement transactions, with the majority in publicly traded bonds. Lincoln invests in a wide variety of industries, and carefully monitors the ongoing creditworthiness of its investments.

Nearly all public bonds issued receive an investment rating from the major credit rating agencies. The ratings from one such agency, Standard & Poor's, range from AAA, which is the highest, most secure credit rating, to CCC. "Investment-grade bond" ratings range from AAA to BBB ratings. Bonds rated BB and lower are generally considered "below investment grade" and are often called "high-yield" bonds. High-yield bonds experience higher volatility and increased credit risk when compared to other fixed income investments.

Bond Allocation by Quality



(as of 6/30/04)<sup>7</sup>

<sup>7</sup> Internal ratings, based on percentage of market value.

1987

Lincoln and American Funds Distributors create a strategic partnership to develop tax-deferred annuities. The American Legacy product begins operations on March 10, 1987.

1994

Lincoln seeks a license to sell life insurance in China and establishes a representative office in Beijing, the political center, and Guangzhou, the trade center, follow.

Lincoln National Risk Management receives one of the industry's first patents for the Life Underwriting System, a state-of-the-art risk management technology that provides decision support to underwriters.

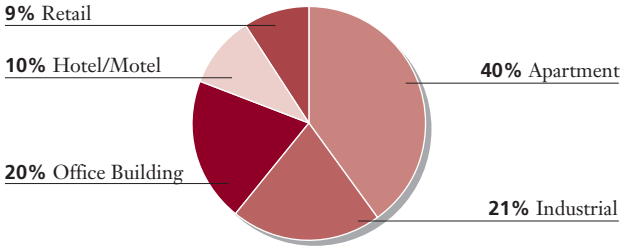
Generally, the lower the credit quality of a bond, the higher the current income because of the additional risk to the owner. In addition to using the major credit rating agencies, Lincoln has its own credit research staff. The credit staff approves the purchase of new investments and monitors ongoing creditworthiness. In addition, they assign internal credit ratings on both public and private placement securities.

Lincoln strives to achieve superior investment results while minimizing exposure to below-investment-grade obligations. The **Bond Allocation by Quality** chart on the previous page shows the current rating breakdown of the company's bond portfolio. There is a significant focus on higher quality bonds; 24% of the company's bond portfolio is in the top-rated category, and 7% are of below-investment-grade quality (in fact, only 5.7% of total invested assets is in below-investment-grade securities as of 6/30/04).

### Mortgages

Lincoln's mortgage loan investments constitute approximately 10% of its portfolio. In this area, Lincoln has a long and proven track record of superior performance. All mortgage loan investments are subject to strict underwriting criteria addressing loan-to-value ratio, debt service coverage, cash flow, tenant quality, leasing, market, location, and financial strength of the borrower.

Mortgage Loan Distribution By Property Type



(Based on Principal Balance as of 6/30/04)

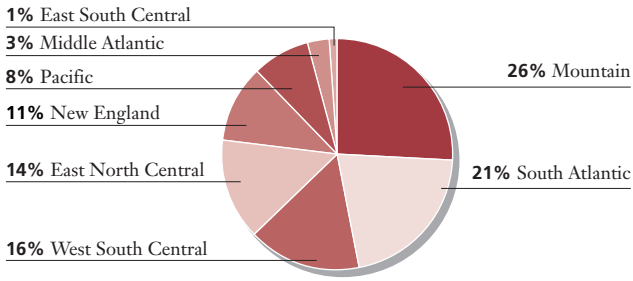
1995 Lincoln acquires Delaware Management Holdings, Inc. of Philadelphia, a pioneer in the mutual fund industry.

1996 Lincoln finalizes the purchase of UNUM's group tax-sheltered annuity business.  
Lincoln obtains a license for a New York subsidiary. A month after earning the license, Lincoln Life & Annuity Company of New York is staffed and operational, administering the former UNUM block of New York business.

1997 The Lincoln Financial Advisors name is adopted by both LNC Equity Sales, Lincoln's broker/dealer and registered investment advisor, and Lincoln Life's field distribution system.

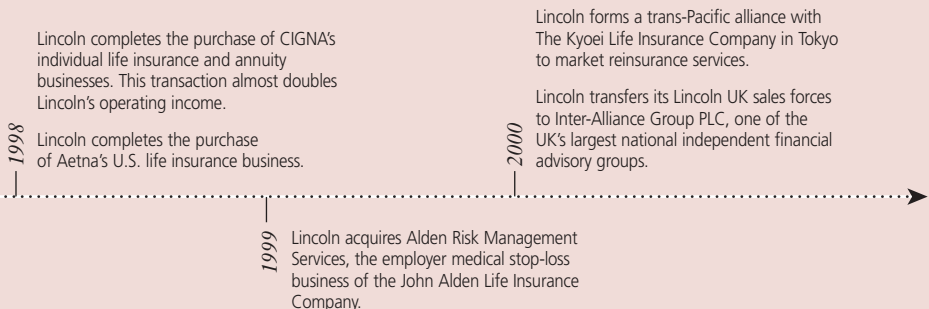
In addition, Lincoln's investment strategy calls for diversification of its mortgage loan portfolio – relative to property type, location, borrower and loan size – to reduce exposure to potential losses. Significant commercial mortgage lending experience, geographic diversification and loan limits allow Lincoln to maintain a seasoned, broadly diversified portfolio. This approach enables Lincoln to manage risk exposure.

### Mortgage Loan Distribution By Region



(Based on Principal Balance as of 6/30/04)

Lincoln continually monitors its mortgage loan portfolio. When a mortgage loan becomes delinquent, the Company aggressively addresses the problem. In fact, as of 12/31/03, delinquencies – including loans in the process of foreclosure – accounted for less than 0.1% of all mortgage loans. The Company's approach to delinquent mortgage loans is aggressive and may lead to foreclosure actions that weaker financial institutions may not have the ability to pursue.



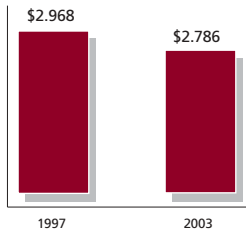
## Measurements of Financial Strength

Over the years, Lincoln has also built a track record for achieving strong financial results. Lincoln maintains a solid capital and surplus position, as well as a tradition of solid investment performance. (Past performance is not a guarantee of future results.)

### Capital and Surplus

In addition to meeting policyholder obligations, capital and surplus fund ongoing operations of a company. Capital and surplus for Lincoln and its subsidiaries indicate the company's financial strength.

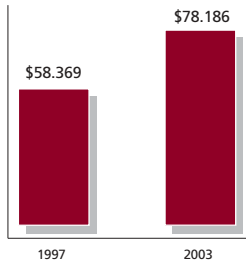
Capital & Surplus (billions of dollars)



### Total Assets

Assets are a measure of a company's economic resources. A steady level of assets supports a company's capital and surplus position.

Total Assets<sup>8</sup> (billions of dollars)



<sup>8</sup> Balance sheet assets. (Source: Corporate Financial Planning and Reporting, 12/31/03.)

2001

Lincoln sells their reinsurance operation to Swiss Re.

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## The Lincoln Financial Group Family

Collectively, the Lincoln companies are focused on providing specialized and sophisticated products that provide estate planning solutions, wealth transfer, income distribution strategies, financial planning and protection for individuals and business owners, and institutional investment management strategies. While we are a large company, we are not a conglomerate. We are a family of companies, joined in the common goal of providing wealth accumulation and financial security for individuals, families and businesses.

### One Group, One Purpose – You.

#### Lincoln Financial Group

The marketing name for Lincoln National Corporation and its affiliates.

#### Lincoln National Corporation

A prominent financial services holding company, providing annuities; insurance; mutual funds; retirement plans; institutional investment management; and financial, estate and business succession planning services through its affiliates. Stock Exchange symbol: LNC

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#### The Lincoln National Life Insurance Company

A life insurance company in the U.S. with two distinct segments, offering annuities, retirement plans and life insurance (including corporate-owned life insurance) through a diverse network of Company-owned and independent distribution channels.

Headquartered in Hartford, CT, the life insurance operation of Lincoln is a market leader in developing life insurance solutions for high-net-worth individuals (investable income of \$1 million and up) and business owners. We offer a complete portfolio of life insurance products, including variable universal life, universal life, whole life and term life insurance.

Lincoln Retirement is the marketing name for the annuities operation of The Lincoln National Life Insurance Co. It provides competitive, innovative income accumulation, income payout and wealth transfer solutions for individuals and small- to mid-size businesses, not-for-profit organizations and governmental units. Lincoln Retirement, which is based in Fort Wayne, IN, also offers a complete portfolio of fixed and variable individual annuities as well as group variable annuities and other financial services through its individual and employer sponsored retirement plans.

#### First Penn-Pacific Life Insurance Company

Located in Schaumburg, IL, First Penn was among the first companies in the U.S. to offer universal life insurance. In the late 1980's, the company introduced one of the first linked benefit life products, a combination of universal life and long-term care insurance (convalescent care in Massachusetts and Washington), to the U.S. market. The company's linked benefit product called MoneyGuard® seized industry leadership in the product category immediately and continues to hold that position today. The company entered the brokerage term market in 1995 and is also among the industry leaders in that intensely competitive market. First Penn is a wholly owned subsidiary of The Lincoln National Life Insurance Company and is licensed to conduct business in the District of Columbia and all states except New York.

#### Lincoln Life & Annuity Company of New York

Located in Syracuse, NY, Lincoln Life New York's high level of customer service continues to broaden as it introduces additional annuity, retirement planning and insurance products. New York state enforces rigorous regulation of the insurance industry and protection of New York policyholders. In fact, less than 10% of life/health insurers in the nation are licensed in New York. Lincoln Life New York is a wholly owned subsidiary of The Lincoln National Life Insurance Corporation.

### Lincoln UK

A financial services company in the United Kingdom that looks after life assurance, pension, unit trust and ISA policies. The UK head office is in Barnwood, Gloucester.

### Delaware Investments

Delaware Investments is a multi-line investment management organization based in Philadelphia, Pa. The company provides investment products and services to individual investors through a broad line of mutual funds, managed account portfolios and retirement plans. Delaware also provides investment products and services to institutional investors, primarily private and public pension funds, foundations, endowment funds, banks and insurance companies.

### Lincoln Financial Advisors and Sagemark Consulting

Lincoln Financial Advisors (LFA) and Sagemark Consulting (a division of Lincoln Financial Advisors Corp.), with a distinguished tradition dating back over 50 years, is a full-service planning organization with offices throughout the U.S.

### Lincoln Financial Distributors (LFD)

LFD is the wholesaling distribution arm of Lincoln Financial Group. LFD markets and sells Lincoln-manufactured annuities, life insurance and investment management solutions through leading financial intermediaries in four primary distribution channels including wirehouses, independent planner firms, marketing general agents and financial institutions. LFD's unique customer-focused and solutions-based wholesaling model allows the company to deliver a broad solutions portfolio and personalized service to meet the needs of today's financial intermediary.

As a whole, Lincoln Financial Group has a reputation for financial strength, a tradition of excellent service, risk management expertise and the strategic focus to succeed in the century ahead.

As one industry analyst said about Lincoln Financial Group:

"This is one company, which in many ways, has been light years ahead of its peers in the identification of an operating strategy and potential business opportunities."

*Clear solutions in a complex world<sup>®</sup>*

NOT A DEPOSIT	NOT FDIC-INSURED	NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
NOT GUARANTEED BY ANY BANK OR SAVINGS ASSOCIATION		MAY GO DOWN IN VALUE



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