

Did Enterprise Risk Management Really Work?

The Case of Lincoln Financial Corporation

By Scott Engle¹

January 2008 was a typical January in Philadelphia, the weather was, on average, as cold as it had been for the past couple of years. There was neither more nor less snow, on average, compared to other years. Headquartered in Philadelphia, Lincoln Financial Corporation was viewed by the market, on average, as a conservatively run, low risk, average-return insurance company. Its external senior debt ratings were Moody's A3, S&P A+, AM Best single A. Its stock price was trading in the mid \$50 range, which was roughly its preceding five-year average. Its equity market Beta (vs. the S&P 500) was 1.009, suggesting a stock no more risky than the overall market itself. Its CDS spreads on senior debt were at 60 basis points suggesting a market view that its risk of default was very modest. The full force of the financial crisis arrived in mid-September 2008 and by the following March Lincoln was experiencing the most profound crisis of its 103 year history. Lincoln had been downgraded to the equivalent of BBB+; its stock price was trading at \$6.69², close to an all-time low, and its beta had jumped to 2.55³, suggesting a stock that was two and a half times as risky as the market as a whole. Perhaps most troubling of all, the market perception of its risk of default, as measured by its credit default spread, had jumped to an astronomical high of 2,361 basis points, comparable to the market perceived default probability of Venezuela at 1,940 and Argentina at 3,523.

What happened? Besides the obvious answer of the financial crisis, why did Lincoln experience this extreme stress? Why did Lincoln experience this extreme impact when other competitors in the market, while impacted, did not experience the same extremes?⁴ Can it be observed from public information that the enterprise risk management of Lincoln integrated the collective risks on its balance sheet and the market perception of those risks? The active or legacy choice, of product, market and client mix significantly defines the eventual impact of risk events, however the market perception of the company's collective risks is potentially even more important. This paper will examine the thesis that Lincoln was profoundly impacted by the financial crisis because of its particular business mix and that mix gave rise to a rapid decline in the market-perceived viability of Lincoln. This near catastrophic reduction in access to third-party liquidity was not anticipated and it appears there was no contingency plan. This

resulting “Black Swan” event appears, from the outside, to have been completely unexpected.

Enterprise Risk Management must not only focus on the component risks of a company, it must also consider the fundamental structure of the business and the mix of the business together. Understanding the “business mix” risk inside the company may give rise to better understanding and hedging of market-perceived viability risk. Working only with publicly available information this paper will examine: First: What happened to Lincoln and when? Second: What businesses did Lincoln operate and what structural risks were associated with those businesses? Third: What key risk areas for Lincoln were impacted by the crisis? Finally: Is business mix and/or the market perception of that mix a key hedgeable risk? It is not the intention of this paper to evaluate or criticize Lincoln Financial and its management. Rather its intention is to examine the experience of Lincoln and posit whether its experience can be a useful lesson to other companies.

What Happened to Lincoln and When?

Examine first what happened to Lincoln and the timing of actions during and after the financial crisis. As noted earlier prior to September 15th 2008, Lincoln was, by and large, a stable highly rated insurance company. Its stock price had recovered in line with the market from the slump of July and was trading at a relatively stable level.

Table A



Bloomberg Lincoln National Corporations Stock Price Weekly 1/4/08 – 9/12/08

Its credit default spread levels, though up since the summer of 2008, were stable. At that time, there was a general trend in the market for the CDS spreads on financial company bonds to trade up.⁵

Table B



Bloomberg LNC CDS USD SR 5Y Weekly 1/1/08 – 9/12/08

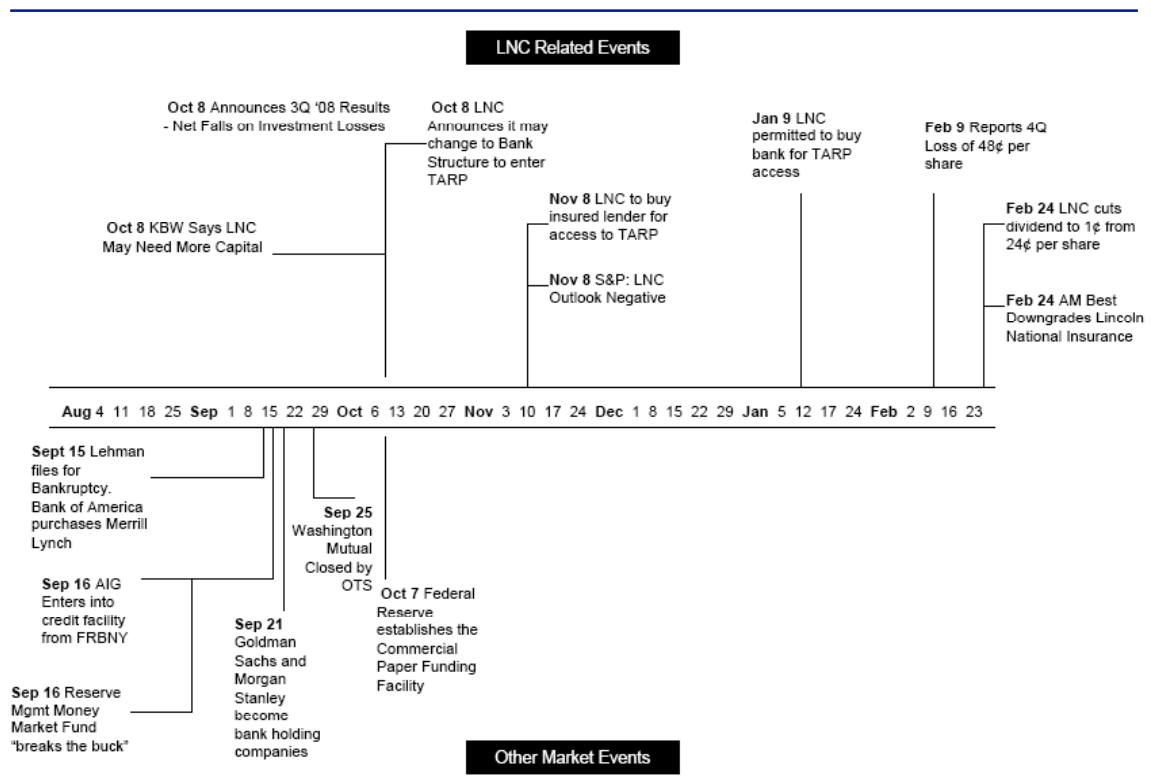
The days surrounding the onset of the financial crisis are well documented, it is sufficient to note that with the announcement of the bankruptcy of Lehman Brothers on September 15th and the government rescue of American International Group on September 16th, the markets were in full turmoil. The Dow Jones Industrial Average fell 2,970 points from September 12th to October 10th, the day Lincoln announced its 3Q 2008 results. During that same four-week period the price of many fixed income bond instruments fell dramatically and it was this destruction of asset value that first impacted Lincoln, whose president and CEO Dennis R. Glass said on October 10, 2008:

“Even in difficult economic conditions, our core retirement and insurance businesses performed well and we remain well-positioned to execute on our business strategy. While external conditions have pressured our earnings and stock price and have led to higher asset impairments, our liquidity position is strong both at the holding company and within our insurance operations.”

The key issue for Lincoln, at this point, was the impact of “higher asset impairments”, or said another way, the impact of price declines on the fixed income investment portfolio used to support its insurance operations. While the cash and liquidity impact of these

price declines was modest, as most bonds were being held to support long-term insurance reserves, the mark-to-market losses on the bonds would adversely impact the reported capital position of the company. Keefe Burette and Woods issued a research note on October 22nd, which stated that Lincoln might need more capital. The note was followed within a week by an announcement from Lincoln that it would change to a bank structure in order to take advantage of the Troubled Asset Relief Program (TARP), a program just recently approved by Congress. Within just a couple of weeks Lincoln announced that it would buy an OTC regulated thrift in order to gain access to TARP, and immediately thereafter S&P changed its outlook on Lincoln to Negative. This was the start of the first of many events that were to impact Lincoln.

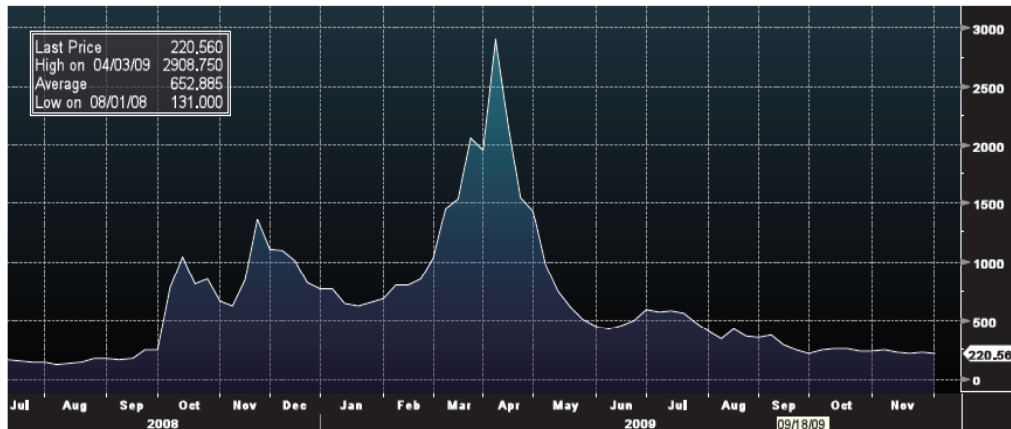
Table C



Lincoln continued to be under stress through the end of 2008 and into the first quarter of 2009; judging from its public announcements it had paid considerable attention to its difficulties and was organizing a program to augment capital. Rating agency downgrades continued and by early March 2009 the Dow Jones Industrial Average had reached a

new low of 6,547, off 42% from its level in September 2008. Lincoln’s access to external capital became more problematic as its CDS spreads widened to historic highs.

Table D



Bloomberg LNC CDS USD SR 5Y Weekly 7/4/08 – 11/30/09

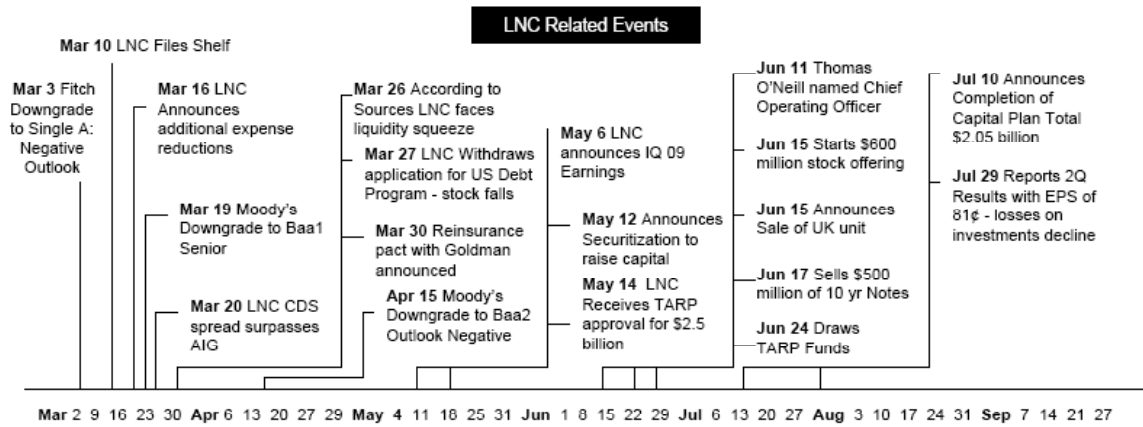
On February 9th 2009 Lincoln reported its full year results and they were very disappointing. Commenting on the results Dennis R. Glass, President and CEO said:

“This quarter’s disappointing results reflect the volatile financial markets and deteriorating economy. We have made prudent decisions regarding capital, liquidity and core earnings to maintain financial flexibility. In recognition of the market environment we took steps during the fourth quarter and the first quarter to reduce run-rate expenses by approximately \$75 million and expect to achieve total annualized savings of \$125-150 million by the end of 2009. Our product solutions and distribution expertise provided a strong defense against the challenging external climate, and our retirement and insurance net flows were positive in the quarter and the full year. Actions have been taken to reduce the risk profile of our variable annuity products, and as we look forward to 2009, we remain confident in our competitive position and our ability to adapt to an evolving landscape.”

Finally with the full impact of the stock market decline, the fall in Lincoln’s stock price and the external CDS spreads widening to historic highs, Lincoln actually surpassed AIG in the price of senior debt default protection. On March 20th 2009 the LNC credit default swap spread was 2,060 basis points and that of AIG was 1,926 basis points. Lincoln

announced full year 2008 results on February 9th, 2009, and the announced fourth quarter loss of \$506 million caused continued pressure on Lincoln’s capital resources.⁶

Table E



The newswire reported on March 26th that “according to sources” Lincoln faced a liquidity squeeze. The company was actively working to secure more capital and began with a new reinsurance pact announced on March 30th. April saw very difficult market conditions and continued stress on its capital base. Finally Lincoln seemed to turn the corner on May 12th when it announced a securitization to raise capital and two days later announced that it had finally received TARP approval to access \$2.5 billion of borrowings from the Federal government. Lincoln was in active capital raising mode well into June with a \$600 million stock offering, a \$500 million debt offering, the sale of its UK subsidiary and the drawing down of TARP funds. On July 10th it announced that its capital campaign of \$2.05 billion was complete. It had weathered the storm.

“The successful execution of our balanced and prudent capital plan will benefit Lincoln, our policy-owners, shareholders, employees and partners. We are very pleased with the strong demand we saw for our common stock and debt offerings, and appreciate that the ratings agencies have recognized the significant benefits of our capital plan. We are confident that our enhanced capital and financial flexibility supports our continued business growth and positions Lincoln very solidly for the future, even if external market conditions deteriorate from current levels.” Dennis R. Glass, President and CEO

Using a number of key market indicators how did Lincoln fare against its competitors? Bloomberg analytics suggests the following peers for Lincoln, some larger and some smaller.⁷ Note the change for Lincoln in each area. All competitors were effected, Lincoln ultimately worse than others. Only Lincoln resorted to accessing TARP funds among these competitors.

Table F

(\$ billions)	Lincoln	MetLife	Prudential	Ameriprise	Unum	Principal
Market Cap Jan 1 2008	\$15.383	\$44.934	\$41.809	\$12.551	\$8.585	\$17.836
Market Cap Mar 31 2009	\$1.712	\$18.627	\$8,080	\$4.490	\$4.140	\$2.126
Percentage Change	-89%	-58%	-80%	-64%	-52%	-88%
Enterprise Value Jan 1 2008	\$18.886	\$57.597	\$71.948	\$10.733	\$11.076	\$18.723
Enterprise Value Mar 31 2009	\$1.880	\$26.475	\$29.616	\$0.869*	\$6.551	\$1.873
Percentage Change	-90%	-54%	-59%	-91%	-41%	-89%
CDS Spread Jan 1 2008	60 bps	49 bps	70 bps	n/a	70 bps	n/a
CDS Spread Mar 31, 2009	2,601 bps	855 bps	1,075 bps	n/a	402 bps	n/a
Change	+2,541 bp	+796 bps	+1,005 bps	n/a	+332bps	n/a

Source: Bloomberg

* Ameriprise reflects substantial cash positions

Composition of Lincoln's Business

Lincoln reported at its 2008 Conference for Investors and Bankers⁸ that its business, from an earnings perspective, was approximately 52% Insurance Solutions, 42% Retirement Solutions, 3% Investment Management and 3% from Lincoln UK (the latter two segments were sold in late 2009). Management described its earnings from a margin perspective as 40% coming from spreads, 30% coming from earnings on the asset base and 30% coming from Mortality and Morbidity. In essence 70% of the earnings were dependent directly or indirectly on the financial markets. In very simple terms the earnings from spreads would have come from Retirement Solutions, principally from the fixed and variable annuity business, and the earnings from the asset base would have come largely from assets held to support Insurance Solutions. This was a fairly typical mix for a life insurance company. A closer look at the detailed product range may assist in understanding specific financial market exposure⁹:

Table G

Product Type	Key Risk Type	Asset Class	Key Market Risks
Term Life	Asset Risk	Fixed Income - Largely Corporates	Credit Risk, Price Risk, Spread Risk
	Mortality Risk	Fixed Income - Largely Corporates	Credit Risk, Price Risk, Spread Risk
Universal Life	Asset Risk	Fixed Income - Corporates, ABS	Credit Risk, Price Risk, Spread Risk
	Mortality Risk	Fixed Income - Largely Corporates	Credit Risk, Price Risk, Spread Risk
LT Disability	Asset Risk	Fixed Income	Credit Risk, Price Risk, Spread Risk
		Asset Backed, MBS, Corporates	Credit Risk, Price Risk, Spread Risk
Variable Annuities	Spread Risk	Equities	Equity Market Level Risk*
	Surrender Risk		Hedge Risk (on guarantees)
Fixed Annuities	Spread Risk	Fixed Income, Cash	Counterparty Risk (on hedges)
			Price Risk*, Credit Risk*
			Spread Risk
403b Plans	Spread Risk	Fixed Income, Equities	Counterparty Risk (on cash positions)
			Equity Market Level Risk*
			Spread Risk
			Credit Risk*, Price Risk*

* Risks carried by the policyholder not the insurer

It will come as no surprise to understand that each of the key liability products underwritten and sold by Lincoln give rise to particular asset needs, which in turn give rise to particular risk exposures. In the case of several products, the individual policyholders carry a large part of the market risk, notably in variable annuities. The insurer, not the policyholder, carries the key fixed income risks, notably credit spread, and interest rate risk.

It is important to understand that the choice of liability product offerings, by definition, gives rise to specific market risks. Examining each product family, its corresponding market risks and then the market risks together, is helpful in understanding the overall exposures Lincoln experienced.

Term Life is a core product of many life insurance companies, including Lincoln. It is a product whose risk composition is primarily mortality, with a very small amount of spread risk in the underlying assets used to support the mortality reserves. The mortality

reserves required by the regulators are often more conservative than the actual mortality experience, sometimes giving rise to redundant reserves. These reserves can be securitized, as Lincoln was subsequently to do in its capital program. Term Life investment assets are most often conventional corporate and financial institution issued bonds. The assets held to support Term Life reserves are exposed to price risk composed of spread risk (an unexpected change in the spread of the bond relative to risk free investments) and interest rate risk. Those assets will also be exposed to credit risk (largely from credit migration of the bond ratings moving downward). The first and second risk would cause a mark-to-market loss on the bonds and the third would cause the risk-based capital charge to increase. Though there is limited cash effect, the combined effect on equity is to signal reduced capital capacity.

Universal Life has a mortality and investment component. The mortality risks are similar to term life, mentioned above. Universal Life also has a component of surrender risk, which gives rise to the reversal of expense assumptions, impacting bottom line profitability. Price risk from early surrender is most often placed back to the policyholder and does not have a direct and immediate impact on the insurer. The investment component of the UL product has both fixed income and equity risks. The assets invested in fixed income selections would have similar market risks to term life assets, price, interest rate and credit. In the absence of surrender the insurer would carry these risks. If any portions of the surplus premium, those that are the investment portion of the contract, are invested in equities, or equity-like derivatives, they would be subject to equity level and volatility risk.

Long-term Disability, which is by nature a morbidity product, is most often supported by fixed income investments. This product is often backed by higher yielding asset-backed fixed income investments. These investments would include ABS, CMBS and RMBS structures. Historically speaking, these investments would have been highly rated. They would have attracted favorably small capital charges, and would have generated better yields than traditional corporate bonds for comparable amounts of credit risk according to the ratings. It is now fully understood that these asset types have substantial price and credit risk, both migration and default. Price risk would again give rise to mark-to-market issues, credit migration risk would cause risk-based capital issues. Both risks would be non-cash events. Loss from credit default risk would be a cash event. The

cash loss and would be perceived negatively by the broad investor market and would have an adverse impact on perceived capital strength and capacity.

Variable Annuities are primarily an investment product with a modest amount of insurance risk, however the structure is in the form of an insurance policy. The investment selection is policyholder directed, and as the name implies, variable. This means that the investment choices are largely equity-market related. There are often both cash and bond investment choices, but overwhelmingly they are equity focused. Market conditions in recent times have also added to these policies a variety of additional guarantees intended to protect the policyholder in the event of adverse market conditions at the time the VA is to annuitize or begin paying out. Lincoln primarily offered three types of guarantees 1) GMDB – Guarantee Minimum Death Benefit, 2) GMIB - Guaranteed Minimum Income Benefit and 3) GMWB - Guaranteed Minimum Withdrawal Benefit. Policyholders paid fees to enjoy these guarantees. These guarantees were in line with market competitors. Lincoln, like nearly all its competitors, structured market hedges to protect itself against the adverse impact of the guarantees being used by the policyholder. Variable Annuities as a product offering give rise to a variety of risks:

1. Equity risk, in the form of market level declines. The policyholder carries the lost value risk until the point at which one of the guarantees attaches. The policyholder then effectively transfers additional losses to the insurance company. Largely a risk-based capital impact, there is a modest cash impact from the guarantees as a policy annuitizes
2. Hedge effectiveness risk is carried entirely by the company. Cost effective market-based hedges do not provide exact hedge correlation to the underlying guarantee, there remains some amount of basis risk between the two. This results in a risk-based capital impact and to the extent the hedge is not effective, it would cause a decline in surplus. The insurance company will need to honor the guarantee without regard to its hedge effectiveness. The perception by the investor market that the hedges are not effective would cause the investor market to perceive a weakening of capital strength and capacity.
3. Counterparty risk, stemming from the hedging process, is now well understood in light of the experience of Lehman and AIG, as hedge providers. In the worst

- case the insurance company could find itself with a substantial guarantee to its policyholder without a hedge counterparty capable of honoring its obligations. This could potentially be a large cash risk depending on the ability of the counterparty to honor its obligations. It would also have very profound consequences on perceived capital strength and capacity.
4. Surrender risk resulting from withdrawals. This is the risk that policyholders in an extreme market situation will seek to have cash and, without regard to potential guarantees, will nonetheless surrender the variable annuity. It is a modest immediate risk as the policyholder carries both the cost of the market decline and the loss of the guarantee. Surrenders would also cause a reversal of deferred acquisition costs (DAC), resulting in increased current expenses and lower book income. Although DAC reversal would not be a cash event, it could cause significant perceived future income loss risk to the insurer. If the surrender is of sufficient scale the perceived loss of future income could have a real and immediate impact on the market perception of the insurance company's capital strength and capacity.
 5. Sales risk follows all else. Once a profound equity market correction takes place, new sales of variable annuities fall significantly. This "following risk" is very significant because it can cause the market to assume the insurance company will not have new sales to help offset current losses.

Fixed Annuities is the sister of variable annuities. The policy structure is very similar in both premiums and annuitization, notably however the underlying assets are largely fixed income investments. This gives rise to a fixed return when annuitized and takes away any equity market exposure. As the investment strategy is intended to deliver a fixed return, the key risks are similar to the fixed income risks discussed earlier; price interest rate and credit risk. The insurance company guaranteed the return; to the extent that the underlying bond investments decline in value, the resulting shortfall would be paid by the insurer, conversely the insurer retains returns above the guaranteed amounts. Notably different from variable annuities because there is lower surrender and sales risk.

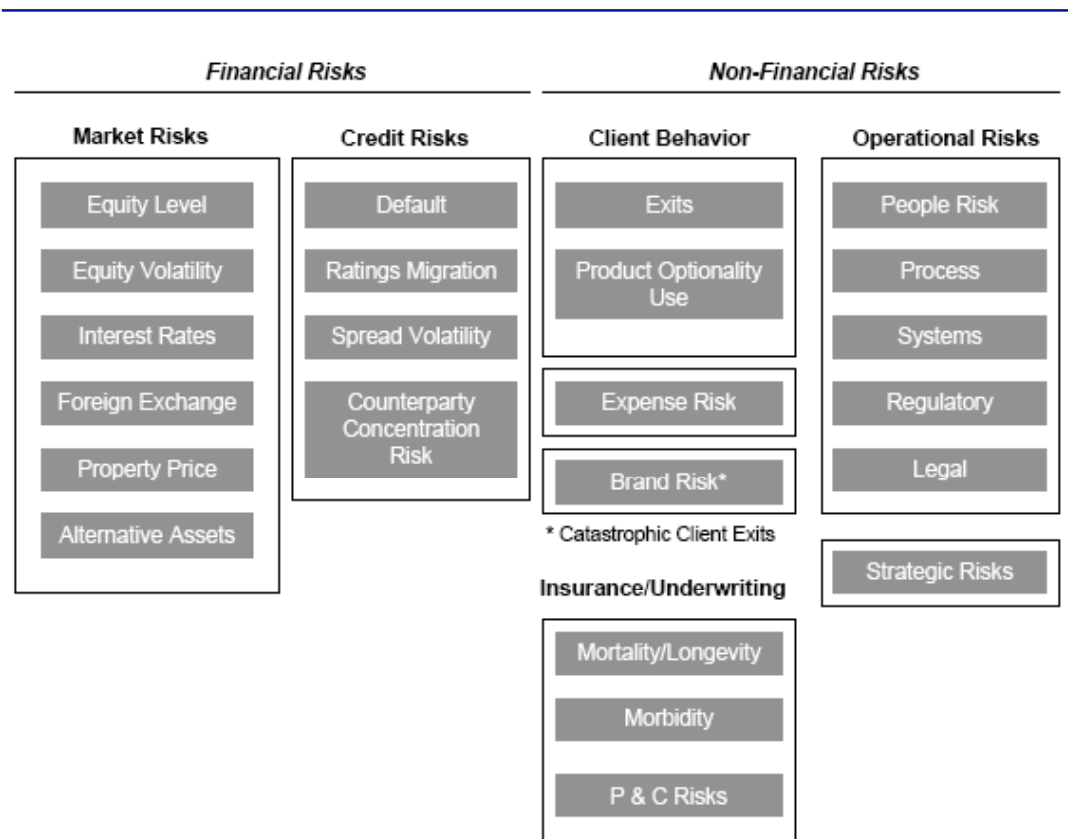
Retirement plans in the form of 403(b), the not-for-profit equivalent of the 401(k), is largely an investment product with no insurance risks. This product is sold to groups,

both large and small, as a retirement savings tool for employees. The investments are largely investor directed and with the exception of guaranteed-return sub-accounts the insurance company offering this product has modest investment risk. There is modest surrender risk as the product is tax-advantaged, effectively discouraging early withdrawals. Sales risk is a function of the group marketing effort and so potential lost future income is also modest. This business is largely a fee and spread business and can be very stable.

Key Risk Areas Impacted by the Crisis

Using a risk template presented at the 2008 ERM Symposium, Table H shows the key risk areas common for most insurers.¹⁰

Table H



Source: Anant Bhalla; ERM Symposium April 15, 2008

All financial risks were impacted. The variable annuity book was impacted by equity level and equity volatility. The fixed income portfolios were impacted by interest rates,

defaults, ratings migration, spread volatility and counterparty concentration risk. Most likely values in property and alternative investments were also impacted, however this is more difficult to observe from public information. The crisis also brought forward several key non-financial risks, notably client exits and product optionality use, which gave rise to significant brand risk (in the form of potentially catastrophic client exiting). Insurance/underwriting risk and most of the operational risks were perhaps less impacted by the financial crisis. Missing however from the risk spectrum is the total effect on Lincoln, the effect of future sales risk and most importantly the impact of the deteriorating investor view of Lincoln.

Conclusion

While the financial crisis significantly impacted investment portfolios, client behavior, equity market exposures and reported capital capacity, it profoundly impacted what the investor base equity, debt and bank, thought of Lincoln and its business mix. The combination of events, together with the future sales and revenue risks, caused nearly all external liquidity providers to abandon Lincoln. Liquidity could not be found at any price. As the crisis progressed in the spring of 2009, Lincoln reported continued losses and reduced capital capacity¹¹. As the investor market observed this decline a snowballing effect took over. The company's reduced stock price resulted in limited access to the equity markets, which it could be argued caused the credit default market to assume the worst and bid up its CDS spreads significantly. This widening caused access to the bond market to be problematic, and led directly to reduced bank credit capacity (as banks link lending rates and amounts to market CDS levels).¹² Thus in a very short amount of time, that spring, Lincoln was left with few options. It was effectively shut out of the capital markets and appeared to be on the verge of catastrophic levels of client exit. Its only certain form of raising capital was the sale of assets, and extraordinarily, access to the Troubled Asset Relief Program by virtue of acquiring a qualified thrift.

Let's step back for a moment and look at all the pieces of this puzzle.

First, Lincoln is an insurance company that sells a chosen set of liability products and by definition it has specific types of financial assets supporting its product liabilities.

Second, financial assets are exposed to various types of risks that would cause a sudden and unexpected change in value

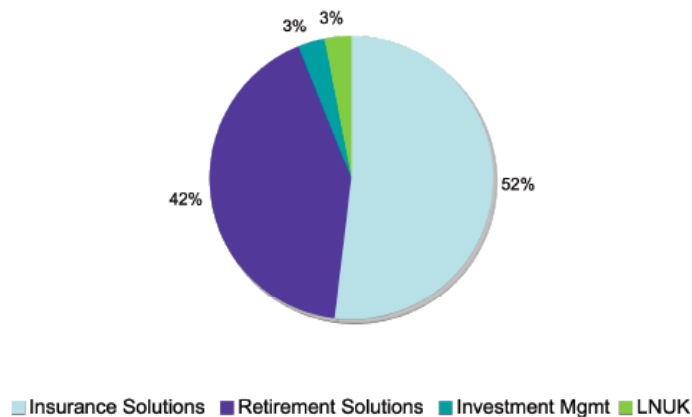
Third, enterprise risk management endeavors to quantify the key financial risks and together with an understanding of other non-financial enterprise risks, enterprise risk management strives to reduce enterprise-wide risk.

Fourth, Lincoln depends on external market perception for both the regular and continued sale of liability products, but also for regular and continued access to external liquidity (in the form of equity, public debt and bank borrowings).

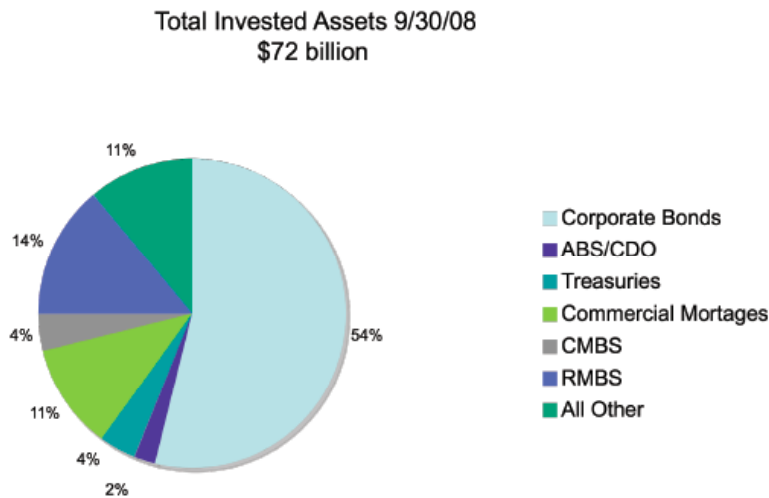
A look at the mix of liability products offered by Lincoln suggests that no single product line was dominant, however Lincoln was exposed to financial risks in all common product areas.

Table I¹³

Product Type by Earnings 9/30/08



The financial crisis, for the first time arguably since the Great Depression, gave rise to a decline in almost all financial assets at the same time. Further, the price decline in certain asset classes, such as asset-backed securities, was profound.

Table J¹⁴

Lincoln therefore experienced a decline in all aspects of its investment portfolio, also triggering guarantees offered in its Variable Annuity portfolio. Lincoln felt the full weight of the decline of all asset types, corporate bonds, asset-backed bonds and equities. This three-pronged decline was significant, caused corresponding mark-to-market losses and reduced book capital. That event was not in and of itself a defining liquidity or cash event, it was however significant in the market perception of Lincoln's capital strength and capacity. Whatever hedging Lincoln may have done to protect itself from this three-pronged asset decline, it was not understood by the external market and as a result the perception of reduced capital capacity took hold. Once external market liquidity providers believed that Lincoln did not have sufficient capital, in the face of the three pronged asset decline, perception became reality. At that point Lincoln did not have enough capital capacity and its "Black Swan" moment had arrived. Liquidity became most important.

Publicly available information does not confirm whether Lincoln planned or hedged around the possibility of a "Black Swan" event in its ERM and risk planning. However, this external review of the events of 2008-2009 confirm that any such planning or hedging did not provide the help necessary to prevent the extreme liquidity situation faced by Lincoln. Two key unhedged risks brought Lincoln to the edge, 1) the lack of absolutely certain access to external liquidity and 2) the market perception that future sales and company viability would be adversely impacted by the three-pronged decline in asset values.

The mix of Lincoln’s businesses was well diversified across liability products. The diversification of liability products did not diversify the correlation of its assets. Lincoln needed liquidity, and indirectly capital, to deal with the “Black Swan” event and apparently had not prepared, or hedged for that eventuality. In this instance it appears that whatever ERM framework was used by Lincoln was sufficient only to slow the snowballing effect of perceived equity or capital decline. Fortunately, “slowing” was enough, and with its capital program, in particular access to TARP, Lincoln survived. In announcing the second quarter 2009 results Dennis R. Glass, President and CEO remarked,

“We have responded to the external challenges by taking aggressive steps including a diverse set of capital actions, expense-save initiatives, and product and distribution enhancements to accommodate changing client preferences and the economic realities. These actions have improved our capital position, better protect the company against further capital market fluctuations and support the continued growth of our businesses as we move forward.”

In retrospect, it was only the quick and focused effort of Lincoln’s senior management in developing and successfully executing a capital program that saved Lincoln from further declines. Though not to pre-crisis levels, the external measurements of the company have recovered and stakeholders have every reason to be optimistic.¹⁵

	<i>January 5, 2010</i>	<i>March 20, 2009</i>	<i>January 5, 2008</i>
<i>Stock Price</i>	\$25.90	\$6.41	\$56.12
<i>Credit Default Spread</i>	150 bps.	2,601 bps.	60 bps.
<i>Market Capitalization</i>	\$7.81 billion	\$1.64 billion	\$4.8 billion
<i>Enterprise Value</i>	\$10.62 billion	\$1.88 billion	\$4.44 billion
<i>Beta</i>	2.45	2.55	1.009

Source: Bloomberg

¹ Scott Engle is the former Treasurer of AIG Consumer Finance Group, Inc., the international consumer finance arm of the American International Group, which operated banks and credit card companies in fifteen emerging markets. While there, he was responsible for liquidity, funding, and market risks together with balance sheet risks before and during the financial crisis in the fall of 2008. He was part of the senior management team responsible for stabilizing the company immediately after the crisis and then worked to sell all its subsidiaries and close the company, per Federal government directives. He has extensive experience as a treasurer and is an investment banker by training having focused largely on the insurance sector during his years at Citibank, Salomon Brothers and Swiss Re. He can be found at www.linkedin.com/in/scottengleny.

² Source Bloomberg

³ Source Bloomberg

⁴ See Page 7 for competitor comparison on Table F

⁵ Senior corporate debt with 5 year maturity is the CDS reference through-out the paper

⁶ Source Bloomberg newswire

⁷ Enterprise Value is defined as Market Cap plus preferred equity plus minority interest plus Short/Long term debt minus cash and cash equivalents.

⁸ See www.lfg.com/investor for the detailed presentation

⁹ Product types provided in company reports, corresponding risk types estimated from industry data

¹⁰ See "Development of EC using Stress testing and linkage with capital management framework" by Anant Bhalla presented at the ERM Symposium April 15, 2008.

www.erm-symposium.org/2008/pdf/handouts/DM/DM1_murphy_bhalla_shaieh.pdf

¹¹ See May 6th 2009 Earnings announcement by Lincoln Financial Group

¹² Level and/or decline of Lincoln's bank credit capacity is not publicly known. This observation is from market conditions and personal observation of bank behavior

¹³ Source: Lincoln Financial Group 2008 Conference for Investors and Bankers

¹⁴ Source: Lincoln Financial Group 2008 Conference for Investors and Bankers

¹⁵ Enterprise Value by quarter over 20 quarters, source Bloomberg

