

Lehman Brothers Life Insurance Research

The Wall Street Perspective

**A Presentation for the Actuaries' Club of
Hartford and Springfield**

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 28.

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Agenda

◆ **A Few of the The Big Issues:**

- Increased Volatility: Will Hedging Costs Increase?
- Mis-pricing of Old-Aged Mortality: Trouble Ahead?
- Intense competition in Variable Annuities
- News from Capitol Hill
- Continued Upheaval in Long-term Care
- Subprime Exposure

◆ **Issues of Disclosure:** Difficulties that arise when conducting analysis

A few examples of areas of inadequate disclosure

- Lapse Assumptions
- Pricing and Underwriting Discipline
- Claims Experience
- Changing Business Mix
- Investments
- Risk Management

◆ **Company Work:**

- AFLAC: Agents Indicate Sales Turnaround Will Not Occur Soon
- Genworth: Probing GNW's MI Exposure
- Hartford: Looming Top-line Surprise?
- Torchmark: Improved Sales – Not Enough to Move the Earnings Needle

The Environment for Life Insurers Remains, On Balance, Tough

The Positives:

- ◆ The Promise of an In-Retirement Market
- ◆ The Growth Prospects for Asia, including India, China, and Vietnam
- ◆ The Allure of Employee-Paid, Work-Place Marketing

The Negatives

- ◆ The Fixed-Income Environment for Chief Investment Officers Remains Extremely Challenging.
- ◆ Competition in variable annuities remains intense.
- ◆ Life Settlements and the Sale of Life Insurance to Older People Could Spell Trouble
- ◆ Competition in the middle market for group insurance is intensifying
- ◆ A Pickup In Implied Volatility Could Send Hedging Costs Sharply Higher.

The Big Issues

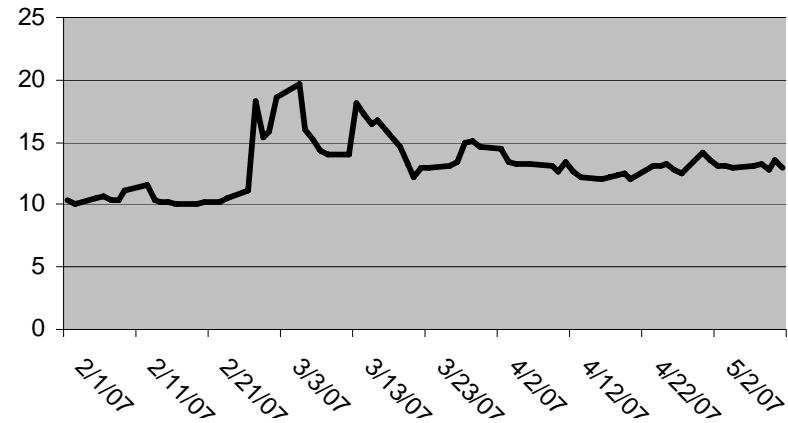
Recent Volatility in Equity Markets and the Impact on the Cost of VA Risk Management

Costs for hedging VA guarantees are not expected to rise due to the recent stock-market volatility

- ◆ While volatility in the equity markets has increased recently, the implied volatility in the 10-year-at-the-money option of the S&P500 has remained the same.
- ◆ Insurers use a basket of derivative instruments to hedge VA guarantees. A typical option purchased is a 10-year-at-the-money put of the S&P500.
- ◆ Volatility earlier this year in the equity markets has had a minimal impact on the cost of VA risk management.

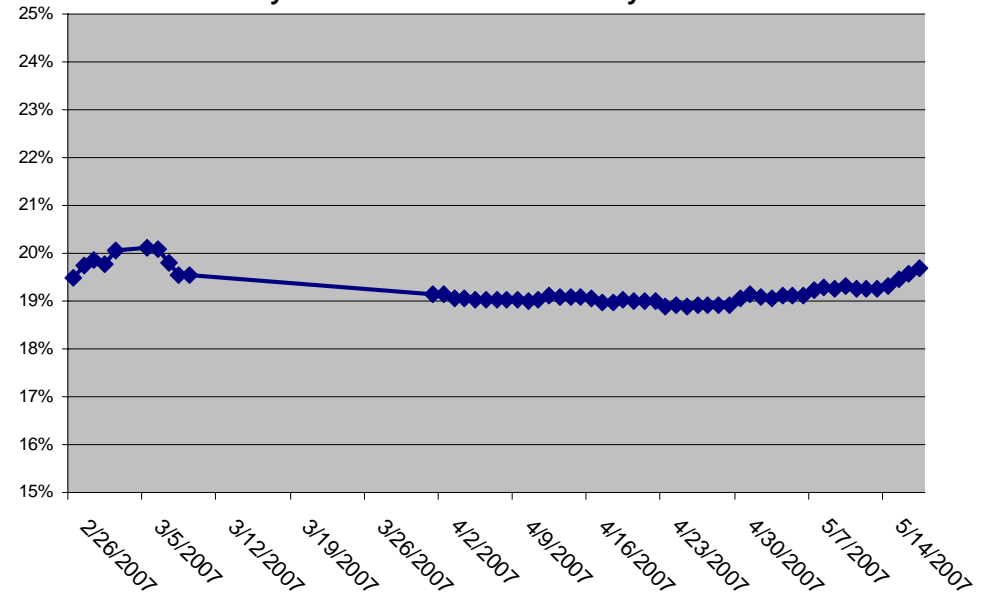
Implied volatility in short-dated options surged earlier this year

CBOE Market Volatility Index (VIX) - 2/1/07 to 5/11/07



...But implied volatility in the 10-year put options used by insurers to hedge really hasn't budged

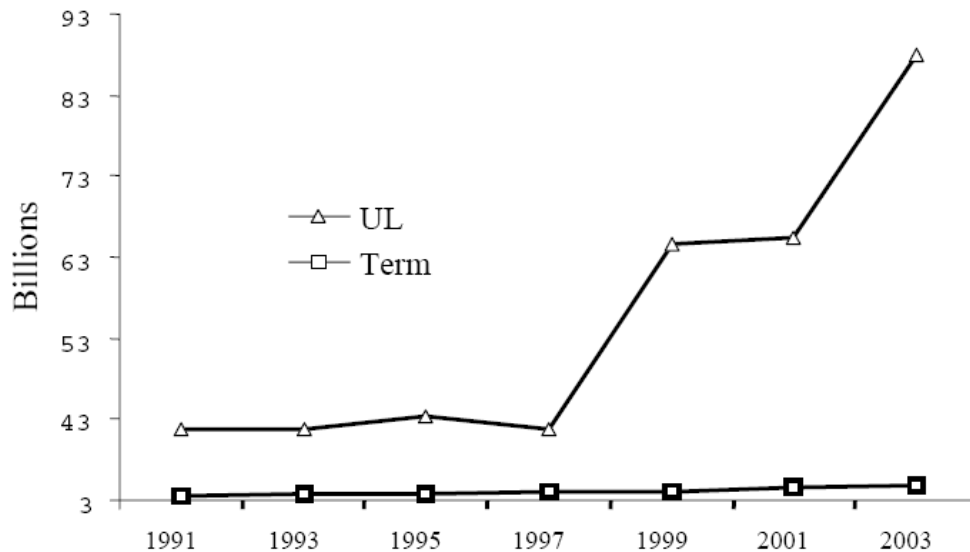
10 yr at-the-market SPX volatility levels



Source: Factset, Lehman

Will Insurers Get Death Rates Among Older Americans Right?

Term and UL sales to individuals age 65+: United States



Source: Presentation to the SOA (10.17.06)

Claims data among old-aged populations have more than doubled

| Older Age Exposure (\$B) | | |
|---|-----------|-----------|
| Experience of Policies in Duration 1-15 for Nonsmoker Males | | |
| Issue Ages | 1990-1995 | 2002-2004 |
| 60-64 | \$51.1 | \$103.8 |
| 65-69 | \$19.7 | \$42.0 |
| 70-74 | \$6.1 | \$15.9 |
| 75+ | \$2.4 | \$7.4 |

Note: 1990-1995 Study used in construction of 2001 VBT

Source: SOA Individual Life Experience Study data compiled by MIB

- ◆ Old-aged business is making up a growing contribution to total sales, yet insurers may not be pricing it correctly.
- ◆ Sales of life insurance to older-aged populations was growing rapidly even before the development of SOLI, which started in 2003.
- ◆ More data on old-age mortality experience have become available recently. Yet the data on which life insurers set reserves and prices are half that of the data-set available. This may be a big problem.

Old-aged Business (Cont'd)

- ◆ The table on the left shows the actual to expected (A/E) mortality ratio for male issue age 70-89. Expected values are based on the Society of Actuaries' 2001 VBT. In duration 11-15, the two mortality ratios for preferred and residuals are about the same. How good is preferred underwriting?
- ◆ Why old-age mortality matters: The right table shows the volume vs. claims of an universal life product. 15% (12% + 3%) of the business generates more than 50% (39% + 20%) of the claims above age 70.
- ◆ Reason for mis-pricing: While current industry tables provide data up to age 121, there is little experience at older ages underlying these tables. These tables were built by extrapolating data from younger ages.

| Males Issue Age 70-89 Experience by Duration | | |
|--|------------|-----------|
| Mortality Ratio | | |
| Duration | Preferreds | Residuals |
| 1-2 | 58% | 76% |
| 3-5 | 46% | 125% |
| 6-10 | 34% | 95% |
| 11-15 | 53% | 66% |
| 16-20 | 98% | 84% |
| 21-25 | 0% | 125% |

Source: SOA 02-04 Preliminary Experience Study

| Volume vs. PV claims distribution | | | | | | | |
|-----------------------------------|----|-----|-----|-----|-----|-----|-----|
| Attained Age | 25 | 35 | 45 | 55 | 65 | 75 | 85 |
| Volume | 5% | 10% | 20% | 30% | 20% | 12% | 3% |
| PV Claims | 0% | 1% | 4% | 14% | 21% | 39% | 20% |

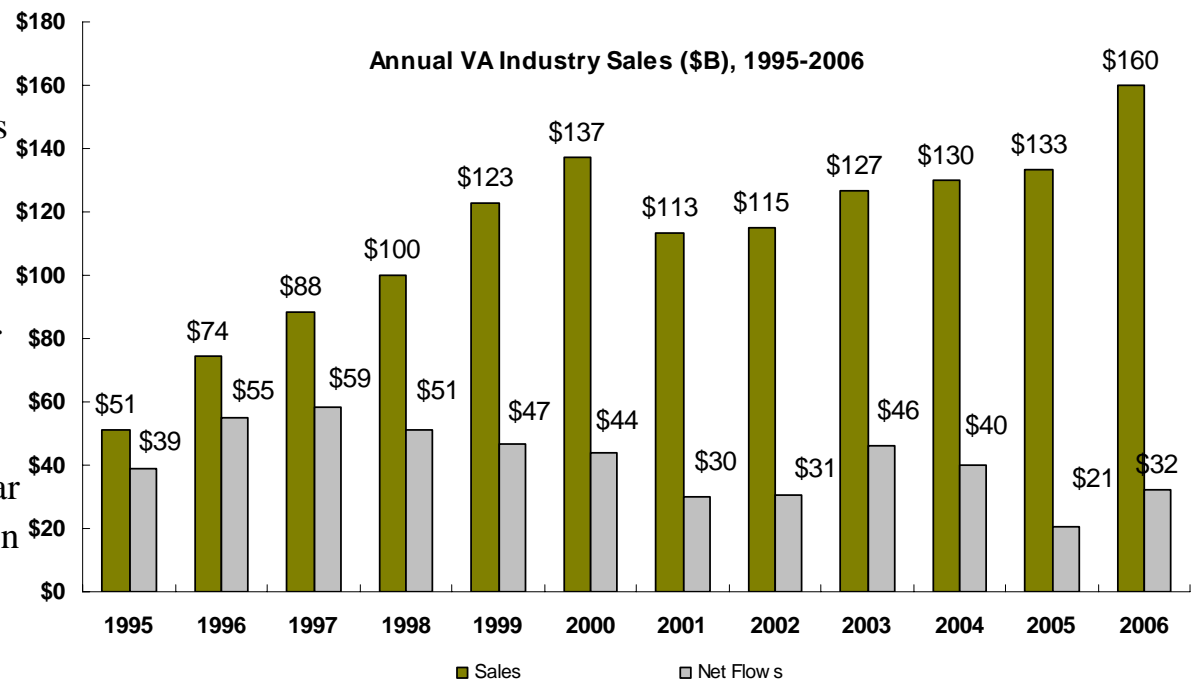
Source: General Re Life Corporation Presentation to SOA Annual Meeting (Oct. 16, 2006)

Intense Competition in VA's

- ◆ The “arms race” in the VA business is intense. Insurers continue to introduce new guaranteed riders on their VA products in hopes to take business from other insurers. The bells and whistles take various forms, but generally fall under the following rider types: GMWB (Guaranteed Minimum Withdrawal Benefit), GMIB (Guaranteed Minimum Income Benefit), GMAB (Guaranteed Minimum Accumulation Benefit), and GPAF (Guaranteed Payout Annuity Floor).
- ◆ The “takeaway” market consists primarily of 1035 exchanges, exchanges of VA products that are tax exempt. Estimates of how much 1035 exchanges make up of total industry sales vary from around 55% to 75%. Assuming that surrenders/withdrawals are attributed to these exchanges, net flows provide a ballpark idea of the amount of real organic growth in the industry. Lower net flows indicate higher occurrence of 1035 exchanges.

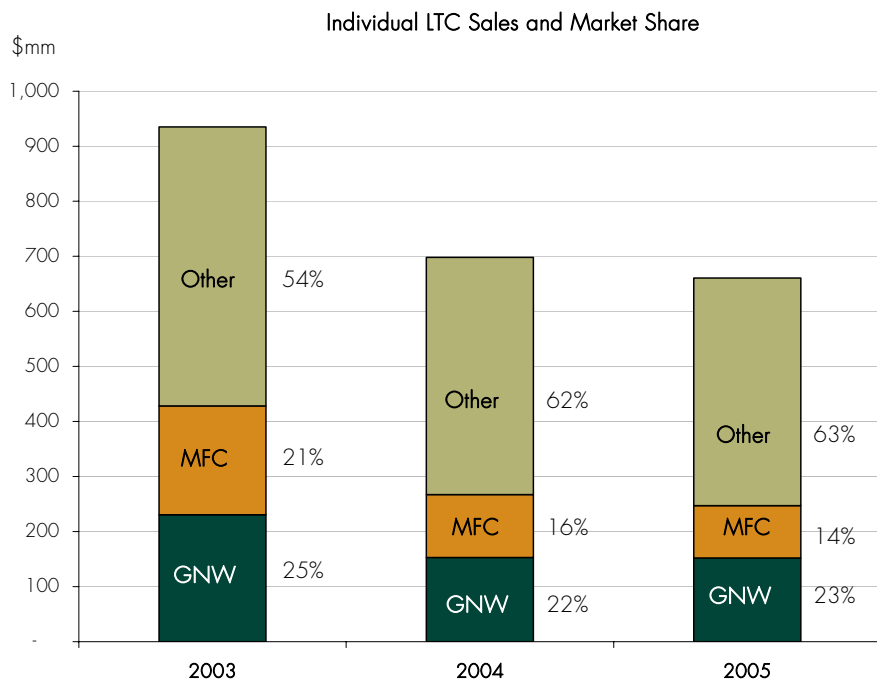
- ◆ The graph shows that the ratio of net flows (indicative of organic growth) to gross sales has decreased from 76% in 1995 to 15.4% in 2005. This decline would indicate increased 1035-exchange activity.

- ◆ While some insurers say that they believe the VA competition will subside in the near future, their actions (continued introduction of new guaranteed riders) would indicate otherwise. Our team does not anticipate the arms race subsiding in the near future.



LTC: Bright Future On Hold

- ◆ The graph on the left below shows how the LTC market has changed. There has been not only a decrease in sales, but also a shift in market share toward other providers.
- ◆ Having predicted an imminent turnaround two years ago, companies and industry experts alike have been repeatedly disappointed and dramatically revised their outlook.
- ◆ Those carriers that remain in the business report that they are “holding market position.” But with only a handful of companies dominating the market, how credible is the validity of managements’ arguments blaming weaknesses on the industry, when each company is such a big part of the industry?



Source: LIMRA International, Broker World, company reports, Lehman Brothers research

Genworth Financial's Outlook for Long-Term Care

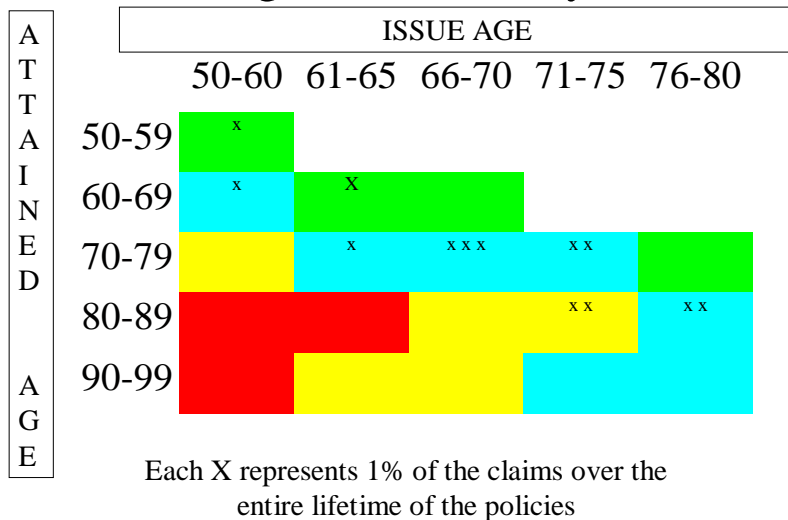
| | IPO (May 04) | Dec 05 Investor Day | Dec 06 Investor Day |
|----|----------------------------------|-----------------------|-----------------------------|
| 1. | Earnings Growth: 12% - 14% | Flat Earnings | N/A |
| 2. | Sales Growth: 11% - 13% | Stable Sales | Sales Growth: 10% y-o-y |
| 3. | Conservative Lapse Assumptions | Continuing Low Lapses | Lapse Rate: 1.5% |
| 4. | Cash Flow Hedging Strategy | Low Interest Rates | ~ 50% Cash Flow Hedged |
| 5. | Diversified Growing Distribution | Distribution Flux | Distribution Acceptance |
| 6. | Favorable Demographic Trends | | Favorable: Aging Population |

Source: Genworth Financial

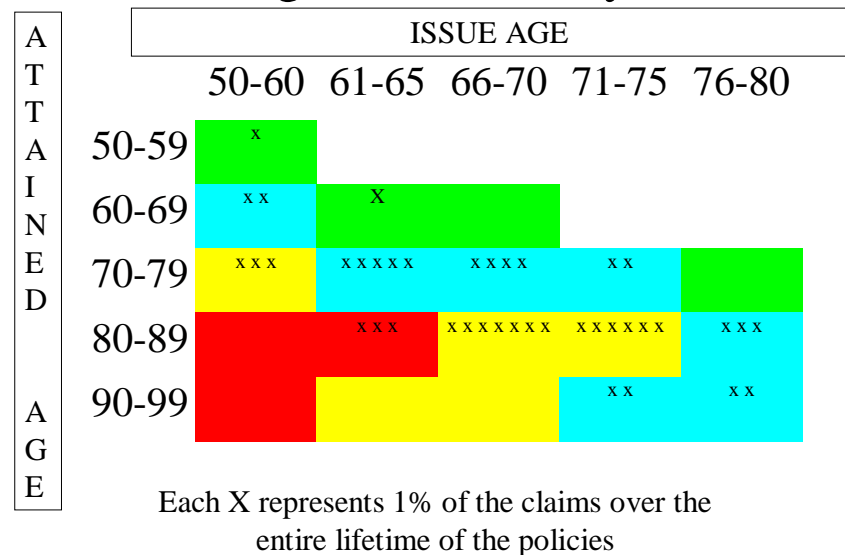
Profitability in Long-term Care Remains as Elusive as Ever

- Even 10 years after a long-term-care block of business has been in existence, only 12 % of the claims have emerged. And it takes a full 20 years for the percentage of claims to start being significant: 40 %.
- Actuarial data suggests that it takes this long for a long-term-care block to mature even if the block of policies includes a significant number of people buying coverage in their late 60's or early 70's. Many investors find this to be surprising.
- The exhibits below show how claims accumulate over time in a long-term-care block of business.

Only 12% of all claim experience emerges in first 10 years



Only 40% of all claim experience emerges in first 20 years



Source: Presentation by William Bigelow, MetLife

Digging Through the Trenches: Life Cos' (Low) SubPrime Exposure

Sub-prime concerns should not be a deciding factor when investing in life insurance companies.

- ◆ We investigated the amount of exposure life insurance companies have to collateralized debt obligations (CDO's) and to collateralized mortgage obligations (CMO's).
- ◆ Our conclusion: None of the life companies we follow, including critically the four life companies we highlight in our investigation – LNC, MET, GNW, and AMP – had meaningful exposure to at-risk CMO's at year end 2006.
- ◆ Even Manulife, the life insurer that based on our study had the largest holdings of at-risk CMO's, had total exposure of only \$29.3 M, a figure that pales in comparison with MFC's \$146.9 B total investment portfolio (or 0.02%).

*The average exposure to potentially problematic CMO's at the companies in our coverage universe was **only \$6.8 million** at year end.*

| Company (\$ in MM) | Exposure to Subprime FICO < 620 | Exposure as % of Total CMOs | Exposure as % of CMOs with reported FICO Score | Exposure to CMOs with FICO < 620 & LTV > 80.0 |
|----------------------|---------------------------------|-----------------------------|--|---|
| AFLAC | - | 0.0% | 0.0% | - |
| Ameriprise Financial | \$16.0 | 0.3% | 0.5% | \$16.0 |
| Delphi | \$0.0 | 0.0% | 0.0% | \$0.0 |
| Genworth | \$77.5 | 1.8% | 4.0% | \$12.8 |
| Hartford Financial | \$0.0 | 0.0% | 0.0% | \$0.0 |
| Lincoln Financial | \$32.1 | 0.6% | 0.7% | \$29.0 |
| MetLife | \$0.0 | 0.0% | 0.0% | \$0.0 |
| Manulife | \$64.9 | 2.3% | 5.7% | \$29.3 |
| Nationwide Financial | \$51.6 | 0.7% | 1.0% | \$0.5 |
| Principal Financial | -- | -- | -- | -- |
| Protective Life | \$0.1 | 0.0% | 0.0% | \$0.1 |
| Phoenix | \$5.5 | 0.3% | 0.4% | \$0.0 |
| Stancorp Financial | -- | -- | -- | -- |
| Sun Life | \$0.0 | 0.0% | 0.0% | \$0.0 |
| Unum | \$8.3 | 0.2% | 0.3% | \$0.0 |
| Average | \$19.7 | 0.5% | 1.0% | \$6.8 |
| Median | \$5.5 | 0.2% | 0.3% | \$0.0 |

Source: HighlineData, Bloomberg, Lehman Research

Issues with inadequate disclosure...

and what we have to do to get around it...

A few examples...

Lapse Assumptions

MET: An In-depth Look at its Lapses

- ◆ A new study we conducted based on just-released, VA-industry customer-retention data concluded that our previous estimates for how much VA business Met will retain this year and in coming years were significantly too conservative.
- ◆ Our new study relied on the most detailed data to become available on the tendency of variable-annuity customers to stick with one company, and enabled us to build company-specific, customized, customer-retention forecasts not only for Met but also for several other major annuity companies.
- ◆ Our most surprising conclusion: Met will likely end up having significantly more variable annuity assets at the end of this year and in coming years than we have thought.

Our annuity lapse assumptions at Met were too high. Below are our old lapse assumptions (LEH Model) and our new lapse assumptions (New Model) based on our analysis.

| (\$MM) | | 2007E | 2008E | 2009E | 2010E | 2011E |
|--------|------------|-------------|-------------|-------------|-------------|-------------|
| Lapses | New Model | \$7,460.2 | \$7,460.2 | \$8,483.7 | \$9,620.8 | \$10,940.2 |
| | LEH Model | 10,371.9 | 11,353.0 | 12,382.5 | 13,475.6 | 14,641.4 |
| | Difference | (\$2,911.7) | (\$3,892.8) | (\$3,898.8) | (\$3,854.8) | (\$3,701.2) |

We concluded that our annuity lapse assumptions at Met were too high through “lapse triangles.”

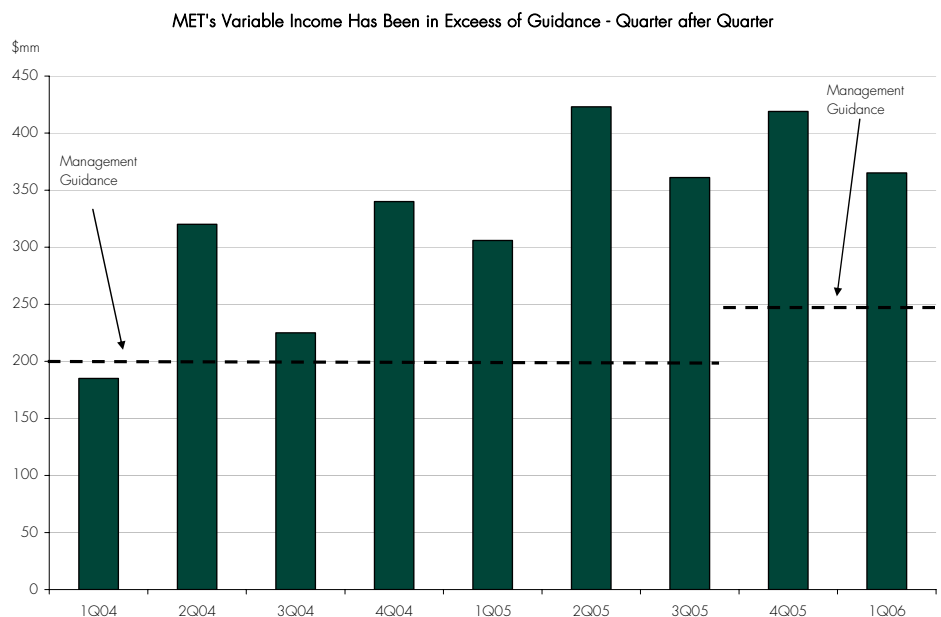
| (\$MM) | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E | 2014E |
|--------------------------|-------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Lapses: | | | | | | | | | | | | | | |
| New Sales | | | | | | | | | | | | | | |
| Sales originated in 2001 | 56.2 | 60.7 | 83.8 | 93.1 | 105.8 | 140.2 | 173.5 | 240.4 | 152.8 | 133.2 | 108.2 | 103.2 | 98.5 | 93.9 |
| Sales originated in 2002 | | 70.7 | 107.8 | 174.8 | 181.0 | 206.5 | 273.6 | 332.2 | 460.3 | 292.7 | 255.0 | 207.1 | 197.6 | 188.5 |
| Sales originated in 2003 | | | 117.7 | 241.5 | 364.7 | 379.2 | 432.7 | 562.6 | 683.1 | 946.6 | 601.8 | 524.4 | 425.9 | 406.3 |
| Sales originated in 2004 | | | | 142.5 | 261.2 | 396.2 | 411.8 | 461.2 | 599.6 | 728.1 | 1,008.9 | 641.4 | 558.9 | 454.0 |
| Sales originated in 2005 | | | | | 170.8 | 300.2 | 455.1 | 464.4 | 520.0 | 676.2 | 821.0 | 1,137.7 | 723.3 | 630.2 |
| Sales originated in 2006 | | | | | | 222.9 | 383.5 | 570.8 | 582.4 | 652.2 | 848.0 | 1,029.6 | 1,426.8 | 907.0 |
| Sales originated in 2007 | | | | | | | 249.7 | 343.2 | 510.9 | 521.3 | 583.7 | 759.0 | 921.6 | 1,277.0 |
| Sales originated in 2008 | | | | | | | | 279.6 | 384.4 | 572.2 | 583.8 | 653.8 | 850.1 | 1,032.1 |
| Sales originated in 2009 | | | | | | | | | 313.2 | 430.6 | 640.8 | 653.9 | 732.2 | 952.1 |
| Sales originated in 2010 | | | | | | | | | | 350.8 | 482.2 | 717.7 | 732.3 | 820.1 |
| Sales originated in 2011 | | | | | | | | | | | 392.8 | 540.1 | 803.9 | 820.2 |
| Sales originated in 2012 | | | | | | | | | | | | 440.0 | 604.9 | 900.3 |
| Sales originated in 2013 | | | | | | | | | | | | | 492.8 | 677.5 |
| Sales originated in 2014 | | | | | | | | | | | | | | 551.9 |
| Total Lapses | 56.2 | 131.3 | 309.3 | 651.8 | 1,083.5 | 1,645.2 | 2,379.9 | 3,254.4 | 4,206.8 | 5,303.6 | 6,326.3 | 7,407.8 | 8,568.6 | 9,711.3 |

Source: Company filings, Lehman research

Earnings: Attempting to Disaggregate Sources of Earnings

Private Equity Investments: Real Progress in Statutory Reporting, While GAAP Disclosure Lags

- ◆ GAAP disclosure on investments is backwards-looking by its nature.
- ◆ At best, in their GAAP filings, companies tell investors what their private equity returns have been in the past.
- ◆ What investors really want to know is how they should think about the sustainability of these returns.
- ◆ Statutory disclosure requirement changed in 2005, making it easier for analysts to get a sense of the exact composition of private equity portfolios.



Source: MetLife, Lehman Brothers research

Top 10 Holdings of MetLife in Partnerships and Hedge Funds, EoY 2005

| | Inception | Book Value, \$ |
|--|-----------|----------------|
| 1 Blackrock Fixed Income Global Opp Fund | 5/31/2005 | 201,020,445 |
| 2 DJJ Merchant Banking Partners III | 9/6/2001 | 145,676,438 |
| 3 Goldman Sachs Hedge Fund Partners III | 6/28/2004 | 106,450,599 |
| 4 Lehman Brothers Diversified Arbitrage Fund | 8/30/2004 | 105,972,867 |
| 5 Burlington Northern And Santa Fe Railway Company | 9/29/2004 | 69,569,407 |
| 6 Blum Strategic Partners II | 8/1/2003 | 62,635,109 |
| 7 EME Homer City Generation | 9/29/2005 | 57,581,865 |
| 8 Union Pacific Railroad Company 2005 - B Trust | 5/31/2005 | 57,377,981 |
| 9 Lehman Brothers Real Estate Mezzanine Associates | 9/19/2005 | 57,000,000 |
| 10 Sterling Stamos Security Fund | 3/31/2005 | 51,626,539 |

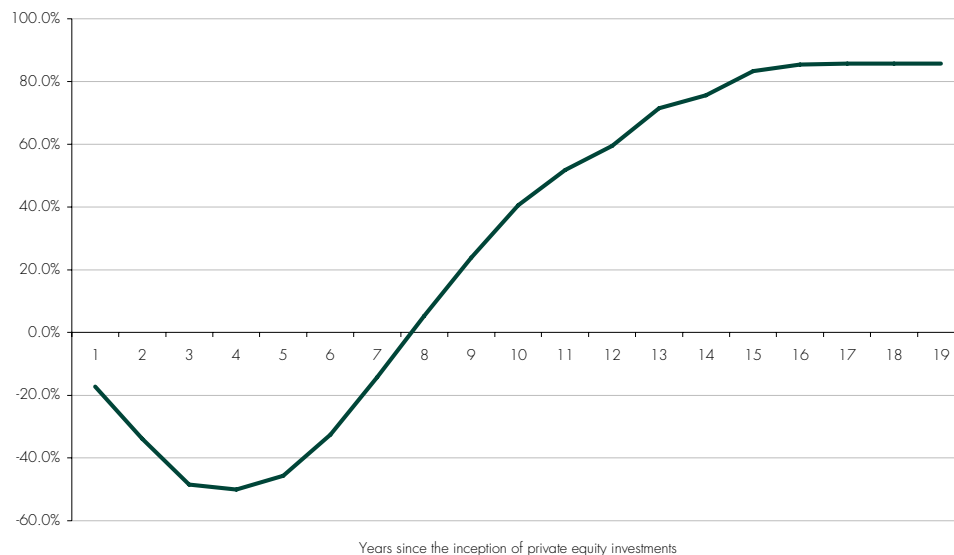
Source: MetLife's 2005 statutory filings

MetLife: Private Equity Earnings Have Consistently Been Higher Than Management's Expectations

- We've just completed follow-up analysis of Met's private-equity investing program and concluded, again, that the level of private-equity earnings likely embedded in Met's yearly EPS guidance is too low.
- Met's forecast assumes that private-equity earnings, in combination with other unusual investment earnings Met calls "variable income," will total \$1.2 B in 2007. We estimate that this number will be \$1.3 billion. This could possibly lead to additional earnings of \$0.09 per share.

| | A x 06 Book Value per 10-K | B = 2007 Return | C 2007 Earnings |
|---|-------------------------------------|-----------------------|-----------------------|
| (\$MM) | | | |
| Other Limited Partnerships | \$4,781 | 12.86% | \$615 |
| Equity Securities | 5,131 | 4.50% | 231 |
| Real Estate Joint Ventures | 1,477 | 11.12% | 164 |
| Prepayment Income and Securities Lending | | | 272 |
| TOTAL Variable Income | | | \$1,282 |
| MetLife's Guidance for Variable Income | | | 1,180 |
| Variable Income Forecast in Excess of Guidance | | | \$102 |
| Average Shares Outstanding 2007 (million) | | | 765.9 |
| Excess Variable Income Forecast for 2007 Per Share | | | \$0.13 |
| Assumed Tax Rate | | | 35% |
| After Tax Excess Variable Income Forecast for 2007 Per Share | | | \$0.09 |

Cumulative Contributions and Distributions in Private Equity Investments, % of total investment (assuming 15% lifetime IRR)



Source: MetLife Reports, Lehman Brothers research

Ameriprise: Uncovering the Profitability of its Underperforming US Money Manager

How RiverSource's Earnings Would Increase if its Profitability Matched that of Peers

| (\$MM) | 2006E |
|-----------------------------------|---------------|
| Estimated current PTE | \$80 |
| Potential PTE | 185 |
| Incremental PTE | \$105.3 |
| Tax (estimated at 27.0% for 4Q06) | 28.4 |
| Incremental net income | \$76.9 |
| Shares outstanding (3Q06) | 246.4 |
| Incremental EPS | \$0.31 |

Source: Lehman Brothers analysis

RiverSource - Pre-tax earnings

| (\$MM) | YTD 3Q06 | 2006E |
|---|----------------------|-----------------------------|
| Ameriprise consolidated pretax earnings | \$832.0 | |
| x Contribution of asset management business | 18% | |
| Asset management earnings | <u>\$149.8</u> x 4/3 | <u>\$199.68</u> |
| Less: Threadneedle PTE | | \$120.04 |
| RiverSource PTE | | <u><u>\$79.6</u></u> |

RiverSource - Pre-tax return on AuM

| (\$MM) | 3Q05 | 3Q06 |
|------------------------------|------------------------|-------------------------------|
| RiverSource mutual funds | \$59,400 | \$57,600 |
| RiverSource collective funds | \$11,300 | \$10,700 |
| RiverSource institutional | <u>\$27,300</u> | <u>\$26,900</u> |
| RiverSource AuM | <u>\$98,000</u> | <u>\$95,200</u> |
| Average AuM | | <u><u>\$96,600</u></u> |
| RiverSource PTE | | \$80 |
| / Average AuM | | 96,600 |
| Pre-tax return on AuM | | <u><u>0.08%</u></u> |

Source: Company, Lehman Brothers research, LehmanLive

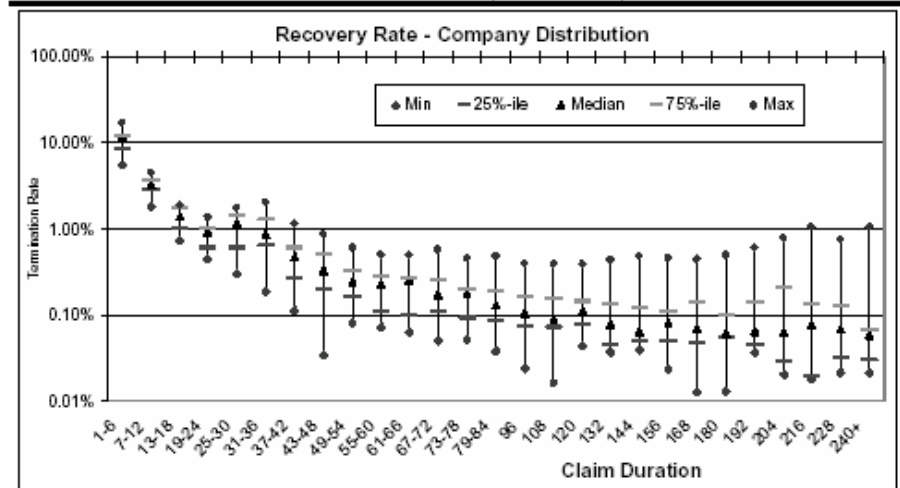
- ◆ We completed a new study that quantified – we believe for the first time – the degree to which profitability at RiverSource, Ameriprise's flagship asset manager, is lagging that of competitors.
- ◆ Our conclusion: While RiverSource is less than half as profitable as competitors, with a pre-tax return on assets of 8 basis points compared with 19 basis points as the median pre-tax ROA at the peers, efforts by Ameriprise to boost profitability at RiverSource are proceeding apace.
- ◆ If we're right that through its various initiatives Ameriprise will lift RiverSource's pre-tax ROA to the industry's 19 bps, the result will be an additional 31 cents in annual per-share earnings at AMP – no small matter for a company expected to earn about \$3.82 (consensus) in 2007.

Claims Experience

Disclosure of Claims Trends – Inadequate in Most Cases

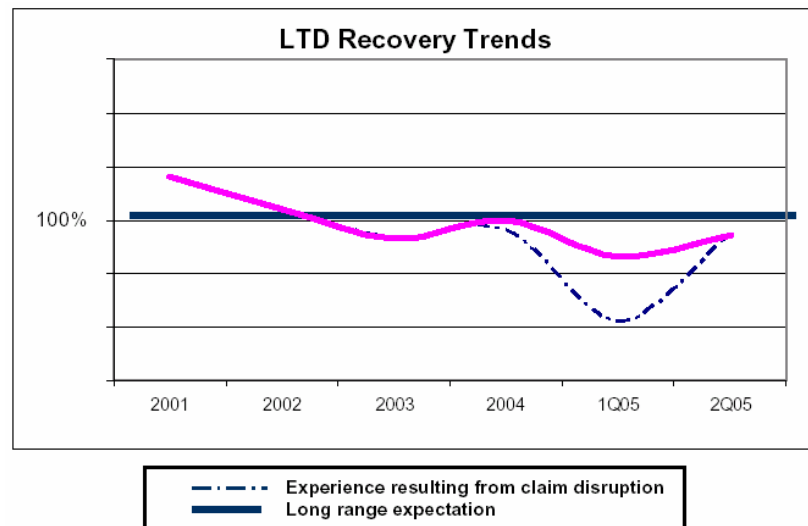
- In most cases, investors have to rely solely on management’s guidance for future claims trends.
- The problem with this approach is that some companies’ management have been consistently wrong in their prediction of claims trends – both short-term and long-term.
- Without gaining access to actuarial-type disclosure of durational recovery rates, incidence and claim reopen rates, we believe investors have no way to produce an independent forecast of future claims trends.

Ideal Disclosure: Actual Recovery Rates by Claim Duration



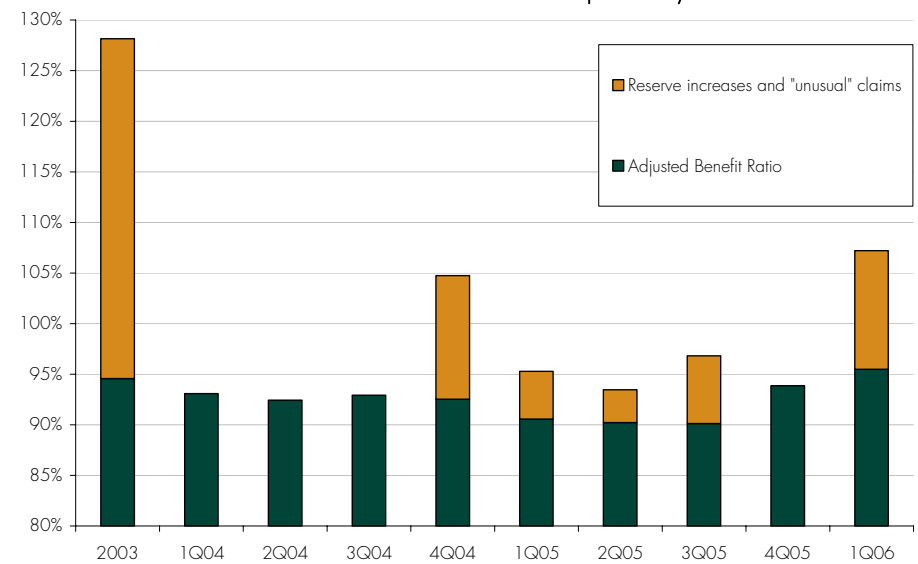
Source: Society of Actuaries

UnumProvident’s LTD Recovery Rates Have Seemingly Improved – Just Before They Got Worse



Source: UnumProvident’s 2005 Investor Day presentations

Benefit Ratio in UnumProvident’s U.S. Group Disability Business



Source: UnumProvident’s financial reports

Claims Among Older-age Populations: Not in GAAP.

Investors need to be vigilant for higher-than-expected claims, especially if those claims start coming from older policyholder cohorts.

- ◆ A new study we conducted suggests that life insurers are underwriting more old-age morality business than in the past. Sifting through statutory statements, we looked at the total amount of medical-underwriting costs insurers' incurred to generate new business, the number of new policies carriers sold last year, as well as those policies' average face amount.
- ◆ At MET, HIG, and LNC, medical-underwriting costs per thousand dollars of new life insurance issued rose last year, as did the average face amounts. That suggests all three carriers, in terms of new business, catered increasingly to an older population last year than they did in 2005. Our research should serve as a warning signal to investors.
- ◆ To further confirm our results we compared the actual growth rate in new premium written to the growth rate we would have expected given the companies' underwriting activity (term and permanent). Our thinking: If actual growth exceeded our expectations, it probably points to more old-age sales. Our finding: MET, HIG, and LNC had growth rates that that exceeded our expected rate.

The average expense per \$1,000 of face value issued for HIG has increased from 2001.

Ratio of Medical Examination Costs of New Business Issued

| # | NAIC Code | Company | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|-----------|---|---------------|---------------|------------------------|---------------|---------------|---------------|
| 1 | 81213 | American Maturity Life Ins Co | -- | -- | -- | -- | -- | -- |
| 2 | C0138 | Hartford Fire and Casualty Consol | -- | -- | <i>Ratio increases</i> | | | -- |
| 3 | 93505 | Hartford Intl Life Reassur Corp | -- | -- | -- | -- | -- | 0.000% |
| 4 | 70815 | Hartford Life & Accident Insurance | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% | 0.000% |
| 5 | 71153 | Hartford Life & Annuity Insurance Co | 0.060% | 0.051% | 0.047% | 0.048% | 0.052% | 0.048% |
| 6 | 74268 | Hartford Life Grp Ins Co | -- | 0.000% | 0.000% | 0.002% | 0.000% | 0.000% |
| 7 | 88072 | Hartford Life Insurance Co | 0.017% | 0.012% | 0.022% | 0.023% | 0.027% | 0.007% |
| 8 | 63444 | Nutmeg Life Ins Co | -- | -- | -- | -- | -- | -- |

Source: HighlineData; Lehman Research

UnumProvident: Old Claims – New Problems?

An analysis we did of filings Unum made recently with state insurance departments revealed that in addition to wrestling with a slowdown in processing of new group-disability claims, Unum is continuing to revise upward its estimate of the cost of old claims.

- New filings show the firm continues to revise upward estimates of the cost of old claims.
- The new filings, which just became available on public web sites, call into question the conventional wisdom that Unum's current difficulties are narrow and temporary.
- The key point from our study: Even if Unum is able to resolve the new-claim backlog that it has said is the sole remaining impediment to its recovery, Unum will still likely not reach one of its primary financial goals of achieving an 88% loss ratio (claims divided by premiums) by year end 2007. That's because the new filings suggest that Unum will continue to be challenged from behind by escalating costs of existing claims that have nothing to do with the new-claim backlog.

LTD Benefit Ratio by Year of Incurral

| | Incurral Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|----------------------|---------------|------|------|------|------|------|------|
| Experience Filed in: | | | | | | | |
| 2000 | | 65% | | | | | |
| 2001 | | 67% | 65% | | | | |
| 2002 | | 69% | 74% | 65% | | | |
| 2003 | | 70% | 75% | 78% | 66% | | |
| 2004 | | 73% | 79% | 81% | 79% | 66% | |
| 2005 | | N/A | 78% | 82% | 78% | 76% | 66% |
| 2006 | | N/A | 80% | 85% | 82% | 77% | 70% |

Source: State Insurance Departments, Lehman Brothers research

Source: Company Materials, Lehman Brothers research

Our Best Company Work

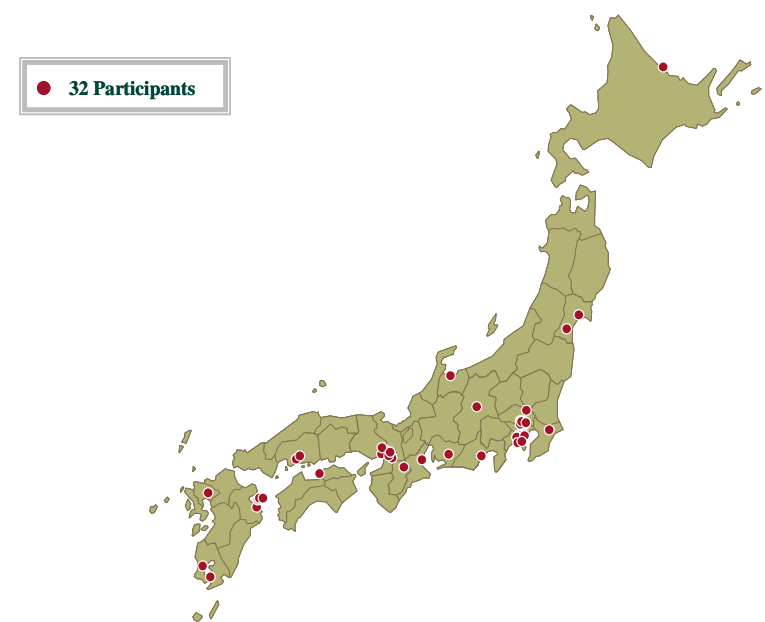
AFLAC: Agents Indicate Sales Turnaround Will Not Occur Soon According to Lehman Survey

- We interviewed AFLAC agents in Japan to ask about the sales environment and the company's recent initiatives to turn around sales. Our conclusion: While AFLAC's initiatives to jump-start Japan sales may bear fruit later this year, we don't expect any impact in the near future. The majority of agents said it hadn't gotten easier to sell medical insurance than it was six months ago – and 25 % of the agents said it had gotten tougher.
- Our call: Based on our findings, we anticipated that y-o-y sales would be significantly down in 1Q07. For the March quarter, AFL reported a decline of 10.6%.
- Another surprise: Agents told us not only that it hasn't become easier to sell over the past six months, but also that they do not think the sales environment will improve near term and that recent FSA scandals have not made their jobs more difficult.

Key Findings from the Lehman Survey

- While the agents surveyed reported increased foot traffic in their shops compared with six months ago, the majority of them said selling hadn't gotten any easier.
- While the agents surveyed were clearly aware of the claims-payment scandals, most of them said they didn't perceive the scandals as having made their daily jobs more difficult.
- The agents surveyed seemed divided as to whether they think the sales environment will improve over the near term. A minority of those interviewed expected improvement; nearly half expected no change or a worsening.
- The agents surveyed have a clear understanding of their shops' service orientation, a solutions- and support-oriented approach that may be distinctive in the business.
- While the agents reached were clearly using "push" techniques such as in-person selling and telephone calls to existing customers, when asked to name AFLAC's main strategies the agents named "pull" techniques more often than "push" methods.
- A surprising number of agents surveyed – 16 out of 32 – seemed unaware of the extent of AFLAC's sales decline in Japan, telling Lehman's interviewers that they believed companywide sales were either up or flat or that they didn't know AFLAC's sales status.
- While the agents surveyed cited the low cost of AFLAC's medical product as a key differentiating factor, the agents interviewed were unable to identify what AFLAC has done *new* to differentiate itself.

Where Lehman Conducted Its Survey



Sources: Lehman Brothers research

Genworth: Probing GNW's MI Exposure

- ◆ We completed a study of Genworth's (GNW) mortgage-insurance business that investigated its exposure to depressed housing markets.
- ◆ Our conclusion: Even if home prices decline further in these markets, it's unlikely GNW will suffer materially.
- ◆ Reason: Our study found that GNW has marginal exposure (about 5 % of its insured loans in dollars terms) to the specific cities where housing prices declined in 1H06.
- ◆ With respect to that 5 %, we found that the majority of those loans (80 %) are in cities where home-price appreciation prior to 2006 was so dramatic that the recent decline in prices pales in comparison.
- ◆ Our study found that GNW's exposure to the troubled slice of the housing market is only about 1 % when compared against the \$2 B of loans that GNW insured around the country since 2003.

| | | Genworth's Exposure | | | | |
|---|-----------------------|--|---------------------------------------|---|-------------------------|-----------------------|
| | | Price depreciation since 4Q05 relative to preceding price appreciation | Amount of exposure - original balance | Exposure as percentage of total securitized | Number of loans insured | Average size of loans |
| Magnitude - House price depreciation | From 0% to -15% | | \$61,918,518 | 3.27% | 472 | \$131,183 |
| | From -15% to -30% | | \$13,178,157 | 0.70% | 128 | \$102,954 |
| | From -30% to -45% | | \$3,483,103 | 0.18% | 39 | \$89,310 |
| | From -45% to -60% | | \$7,019,218 (A) | 0.37% | 57 | \$123,144 |
| | More than -60% | | \$13,199,411 (B) | 0.70% | 113 | \$116,809 |
| | Total exposure | | | \$98,798,407 (C) | 5.22% | 809 |
| Total securitized | | | \$1,892,338,420 (D) | | | |
| Risky MSAs as % of total exposure | | | 20.5% | ((A+B) / (C)) | | |
| Total exposure as % of total securitized | | | 5.2% | (C) / (D) | | |

Source: Office of Federal Housing Enterprise Oversight; LoanPerformance; Lehman Brothers Analysis

MSA specific data

| | | |
|--|------------------------|------------------|
| Total MSAs as defined by Office of Federal Housing Enterprise Oversight | 379 MSAs | 100% |
| MSAs that have experienced house price declines, either year-over-year, in the first half of 2006, or sequentially | 97 MSAs | 26% |
| MSAs which have experienced house price declines in the first half of 2006 | 46 MSAs | 12% |
| Genworth's exposure | | |
| Total loans securitized and insured by Genworth since 2003 | \$1,892,338,420 | (A) |
| Genworth' exposure to 46 MSAs which experienced house price declines in the first half of 2006 | \$98,798,407 | (B) |
| Genworth's exposure to truly* risky MSAs which experienced house price declines in the first half of 2006 of more than 45% relative to preceding house price appreciation since loan was originated | \$20,218,629 | (C) |
| Truly* risky MSAs as % of total exposure | 20.5% | (C) / (B) |
| Total exposure as % of total securitized | 5.2% | (B) / (A) |
| Truly* risky MSAs as % of total securitized loans | 1.1% | (C) / (A) |

* We define "truly risky" MSA's as all those MSA's where the depreciation this year relative to the previous appreciation was greater than or equal to 45 %

Source: Office of Federal Housing Enterprise Oversight; LoanPerformance; Lehman Brothers Analysis

Hartford: Looming Top-line Surprise?

- ◆ We completed analysis that quantified the degree to which Hartford has been overly conservative in its projection of its 2007 variable-annuity sales.

Projecting HIG's 2007 Variable Annuity Sales

| | | Performance of New Riders Relative to 2005 Introduced Rider | | | | |
|--------------------------------|------|---|----------|----------|----------|----------|
| | | 50% | 60% | 70% | 80% | 100% |
| Sales Decline of 2005 Rider | 0% | \$13,801 | \$14,262 | \$14,724 | \$15,185 | \$16,108 |
| | -10% | \$13,570 | \$14,032 | \$14,493 | \$14,954 | \$15,877 |
| | -20% | \$13,339 | \$13,801 | \$14,262 | \$14,724 | \$15,646 |
| | -25% | \$13,224 | \$13,686 | \$14,147 | \$14,608 | \$15,531 |
| | -30% | \$13,109 | \$13,571 | \$14,028 | \$14,489 | \$15,416 |
| | -40% | \$12,878 | \$13,339 | \$13,801 | \$14,262 | \$15,185 |

 Lehman Brothers' forecast

 Most conservative scenario

Company guidance - \$12bn in VA sales

Note: Horizontal axis represents sales of new riders relative to 12-month sales of 2005 rider
Vertical axis represents sales decline in 2005 rider under various scenarios

Source: Company filings; Lehman Brothers research

- ◆ Our call: Hartford has come up with a number for VA sales that is too low. While it projects that its VA receipts this year will come in around \$13 B (the midpoint of its guidance of \$12.5 to \$13.5 B), we estimate, based on our study, that the actual sales number will be around \$14 B.
- ◆ We came to this conclusion by examining HIG's state filings. They showed that the company began selling new VA riders in 3Q06. We produced total VA sales forecasts based on varying assumed levels of new-rider sales (represented by the horizontal axis in the chart on the left) and cannibalization of older products (vertical axis).
- ◆ We believe the \$1 B projected windfall leaves a very real possibility of an earnings surprise in the upcoming quarters.

Torchmark: Improved Sales – Not Enough to Move the Earnings Needle

- ◆ We completed analysis on the impact recent growth initiatives could have on Torchmark’s (TMK) earnings. Investors had been focusing on when and if the company would be able to improve sales. We investigated whether it would really matter.
- ◆ We conducted analysis that looked at the relationship between new insurance sales on one hand and at agent count and agent productivity on the other.
- ◆ Our sobering conclusion: Even if TMK experienced a significant improvement in new insurance sales, due to an increased number of agents and due to increased productivity of those agents, this would not translate into a significant impact on earnings, ie. into a positive EPS surprise.

The Effect of Improving Agent Productivity on EPS

| | 4Q06E | 1Q07E | 2Q07E | 3Q07E | 4Q07E |
|---|-----------------------|------------------------------|--------|--------|--------|
| Consensus EPS Estimates | \$1.30 | \$1.31 | \$1.34 | \$1.37 | \$1.40 |
| Lehman EPS Estimates | \$1.29 | \$1.32 | \$1.33 | \$1.34 | \$1.36 |
| + 5% Surprise (relative to consensus) | \$1.37 | \$1.38 | \$1.41 | \$1.44 | \$1.47 |
| Scenarios for Sales/Agent | | | | | |
| Scenario 1 | \$1.30 | \$1.31 | \$1.33 | \$1.36 | \$1.38 |
| Increase in Sales/Agent Y-o-Y: Liberty: 5% | American Income: 5% | United American Branch: 5% | | | |
| Scenario 2 | \$1.30 | \$1.31 | \$1.33 | \$1.36 | \$1.39 |
| Increase in Sales/Agent Y-o-Y: Liberty: 10% | American Income: 10% | United American Branch: 10% | | | |
| Scenario 3 | \$1.31 | \$1.32 | \$1.34 | \$1.37 | \$1.41 |
| Increase in Sales/Agent Y-o-Y: Liberty: 20% | American Income: 20% | United American Branch: 20% | | | |
| Scenario 4 | \$1.31 | \$1.34 | \$1.37 | \$1.41 | \$1.47 |
| Increase in Sales/Agent Y-o-Y: Liberty: 50% | American Income: 50% | United American Branch: 50% | | | |
| Scenario 5 | \$1.33 | \$1.37 | \$1.41 | \$1.46 | \$1.58 |
| Increase in Sales/Agent Y-o-Y: Liberty: 100% | American Income: 100% | United American Branch: 100% | | | |

* Sources: Torchmark Corporation, Lehman Estimates, LehmanLive

1Q07 Earnings Estimates

| | | Sales / Agent Growth (Y-o-Y) | | | | | | |
|----------------------|------|------------------------------|--------|--------|--------|--------|--------|--------|
| | | 5% | 10% | 20% | 50% | 100% | 200% | 300% |
| Agent Growth (Y-o-Y) | 5% | \$1.30 | \$1.31 | \$1.31 | \$1.33 | \$1.35 | \$1.40 | \$1.45 |
| | 10% | \$1.31 | \$1.31 | \$1.31 | \$1.33 | \$1.36 | \$1.41 | \$1.46 |
| | 20% | \$1.31 | \$1.31 | \$1.32 | \$1.34 | \$1.37 | \$1.42 | \$1.48 |
| | 50% | \$1.33 | \$1.33 | \$1.34 | \$1.36 | \$1.39 | \$1.46 | \$1.54 |
| | 100% | \$1.35 | \$1.36 | \$1.37 | \$1.39 | \$1.44 | \$1.54 | \$1.63 |
| | 200% | \$1.40 | \$1.41 | \$1.42 | \$1.46 | \$1.54 | \$1.68 | \$1.82 |
| | 300% | \$1.45 | \$1.46 | \$1.48 | \$1.54 | \$1.63 | \$1.82 | \$2.01 |

* Sources: Torchmark Corporation, Lehman Estimates

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AFLAC INC (AFL - USD51.76) 3-Underweight / Neutral

Ameriprise Financial (AMP - USD61.37) 1-Overweight / Neutral

Genworth Financial (GNW - USD36.28) 1-Overweight / Neutral

Hartford Financial (HIG - USD104.37) 2-Equal weight / Neutral

MetLife Inc (MET - USD68.53) 1-Overweight / Neutral

Torchmark Corp (TMK - USD69.72) 3-Underweight / Neutral

UnumProvident Corp (UNM - USD27.35) 3-Underweight / Neutral

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