

Presentation to:



## *M&A in the Life Insurance & Annuity Industry*

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May 1, 2009

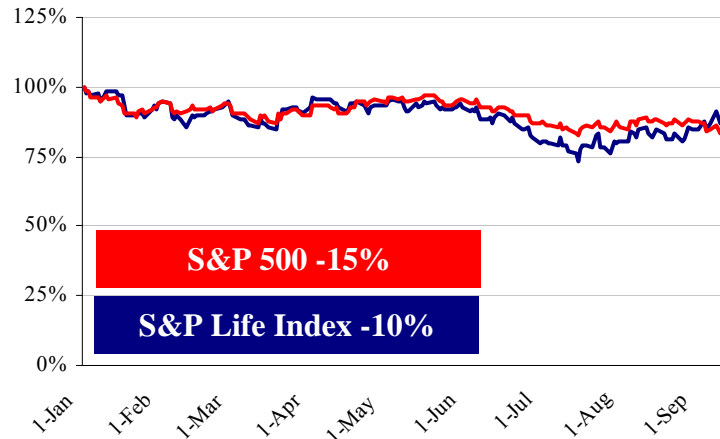


KEEFE, BRUYETTE & WOODS

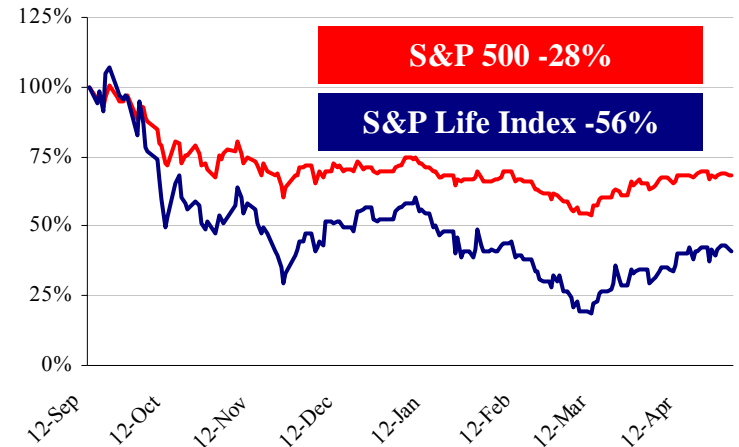
# Publicly Traded Life Insurers Have Underperformed the Market

## Life Insurer Stock Price Performance Compared to the S&P 500:

### Before September 12, 2008



### Since September 12, 2008



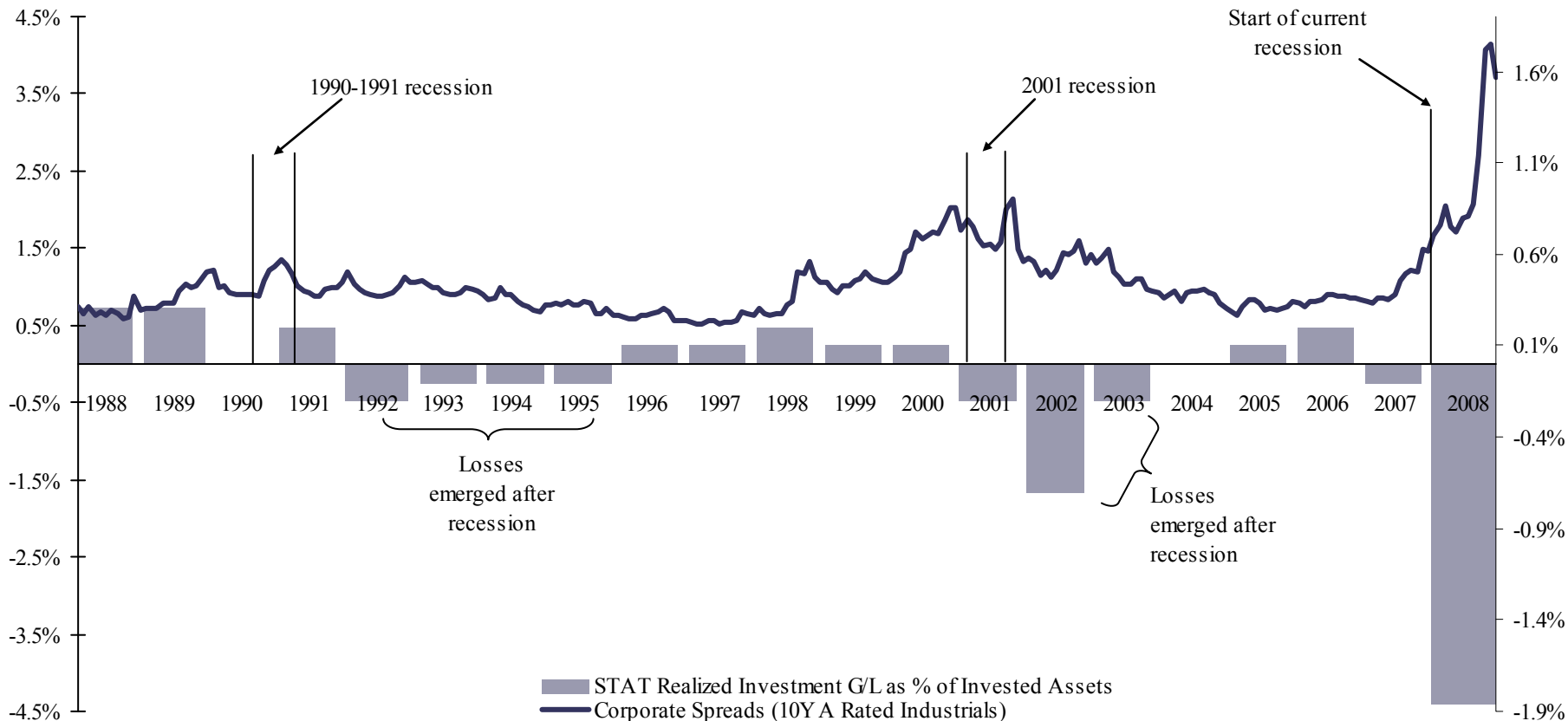
Metric	12/31/07	9/12/08	3/9/09	4/28/09
<b>Life Insurance Industry</b>				
Price / Reported Book Value	1.31x	1.16x	0.32x	0.73x
Price / Fwd Earnings	10.3x	8.7x	2.7x	5.2x

## What Currently Ails Life and Annuity Companies?

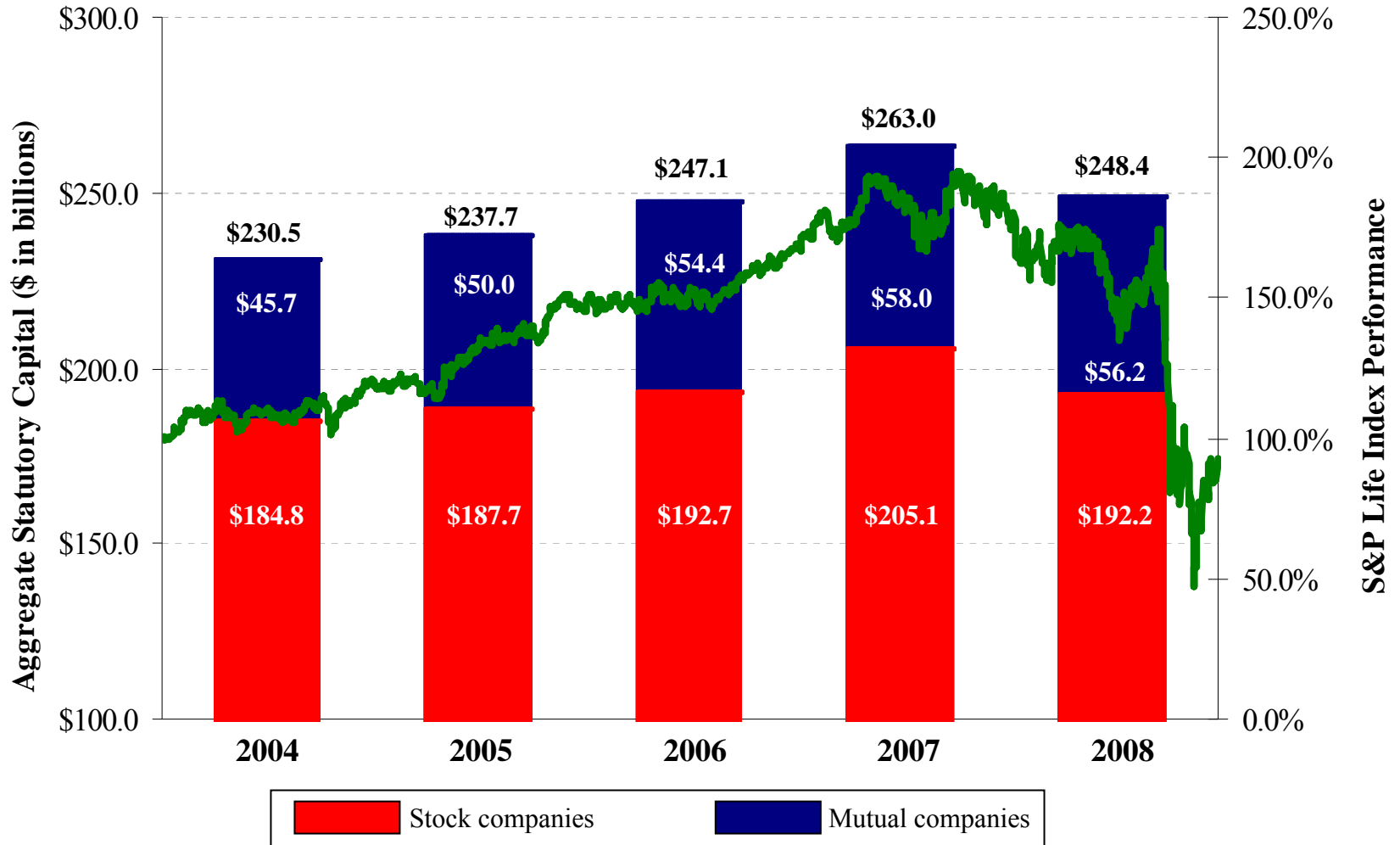
- Investment portfolio
  - ◆ Expected increases in realized losses
  - ◆ Ratings migrations and increased capital charges
- Product design
  - ◆ Embedded guarantees and other design flaws
  - ◆ Ineffectiveness of hedging programs in volatile markets
- Capital and liquidity
- Rating agencies moving goalposts

## If History Repeats Itself, We Can Expect Increases in Realized Losses Over the Next Couple of Years

- If corporate spreads continue to widen during the rest of 2009, the realized loss impact might be even more severe and long-lasting than the two previous recessions indicate



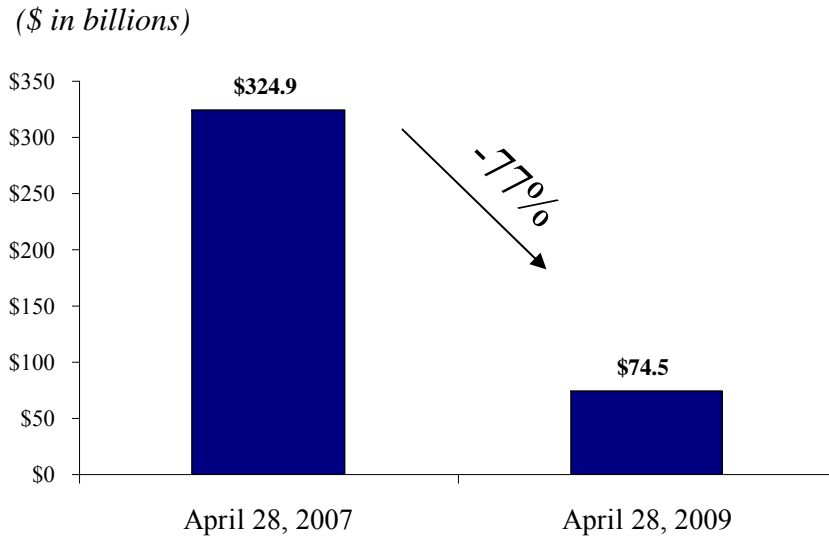
## Current Statutory Capital for Mutuals Remains Reasonably Strong



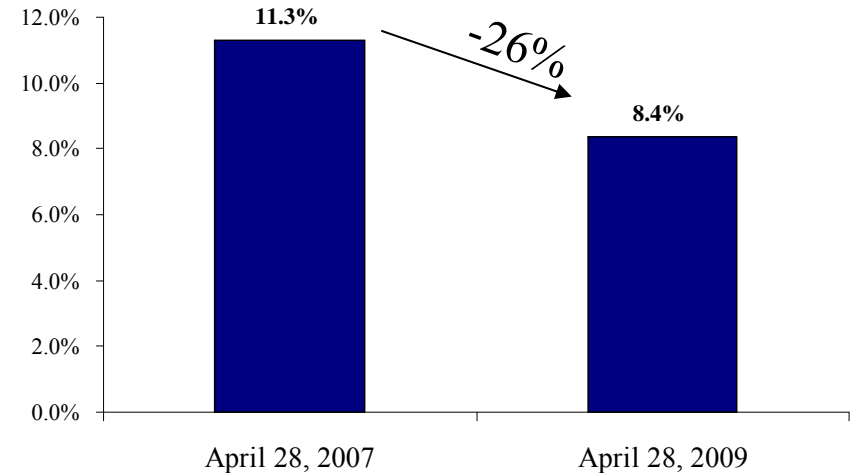
# Publicly Traded Life Insurers Have Lost Substantial Market Value

## Total Life Insurer Market Cap

### Dollar Value



### As a Percent of S&P 500 Financial Sector Index



Note: Life insurer market cap includes 50% of AIG and Hartford market caps  
Source: Bloomberg and FactSet

## Life Insurers Have Looked to TARP and Other Sources to Raise Capital

Pending TARP Applicants	Bank-ownership status	Company Eligibility Estimate
Ameriprise Financial	Owens existing thrift	na
Principal Financial Group	Owens existing thrift	\$0.65 - \$2 billion
Prudential Financial Group	Owens existing thrift	na
Hartford Financial Services	Definitive agreement to acquire thrift	\$1.1 - \$3.4 billion
Lincoln National	Completed acquisition of thrift	\$1 - \$3 billion

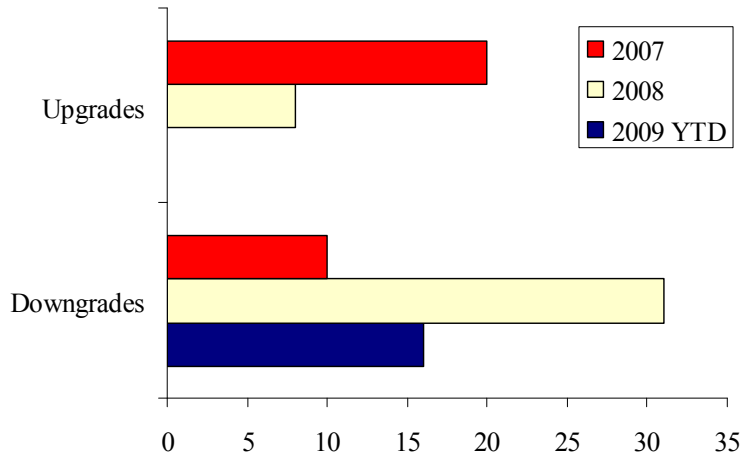
Withdrawn TARP Applicants	Cause
Genworth	Did not receive approval for thrift acquisition in time
Phoenix	Thrift Phoenix intended to acquire failed
Protective	Deal to acquire bank was terminated

Other Capital Raises	Details
MetLife	\$2.3 billion follow-on equity offering in Oct 2008

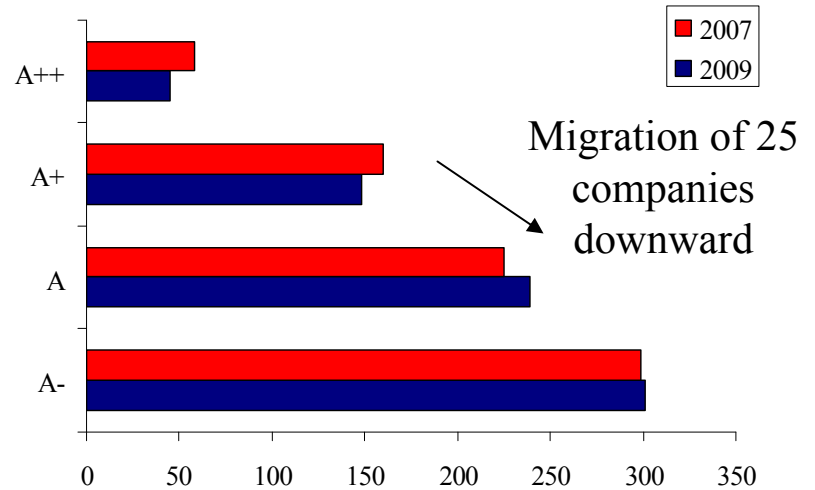
In addition, the 74 insurance company members of the FHLB increased their borrowings from \$28.7 billion to \$54.9 billion in 2008

# The Pace of Ratings Downgrades Has Accelerated

## U.S. Life and Annuity Rating Changes



## U.S. Life and Annuity & Health Rating Distribution

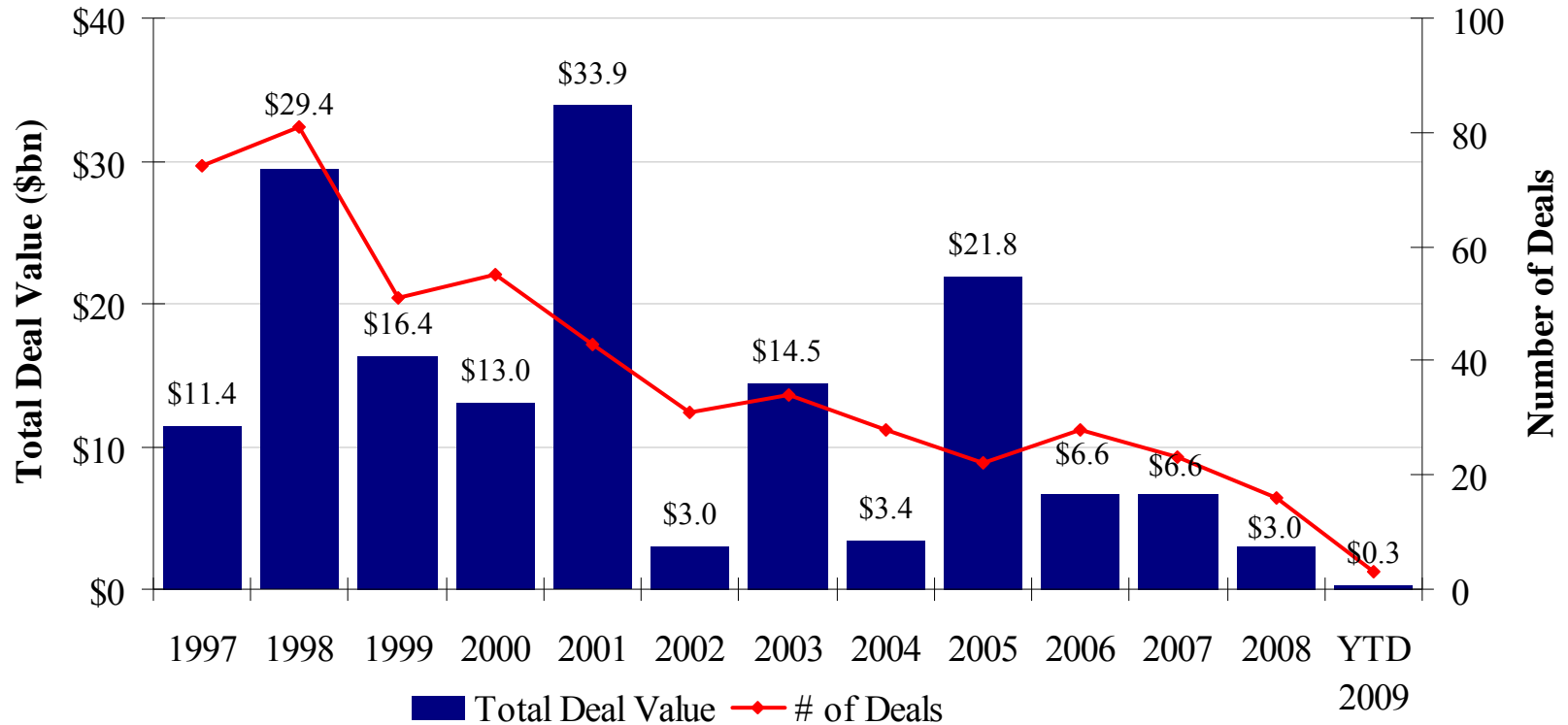


Source: A.M. Best



## Despite This Severe Stress, M&A in the Industry Has Not Increased

### Life Insurance Deal Activity

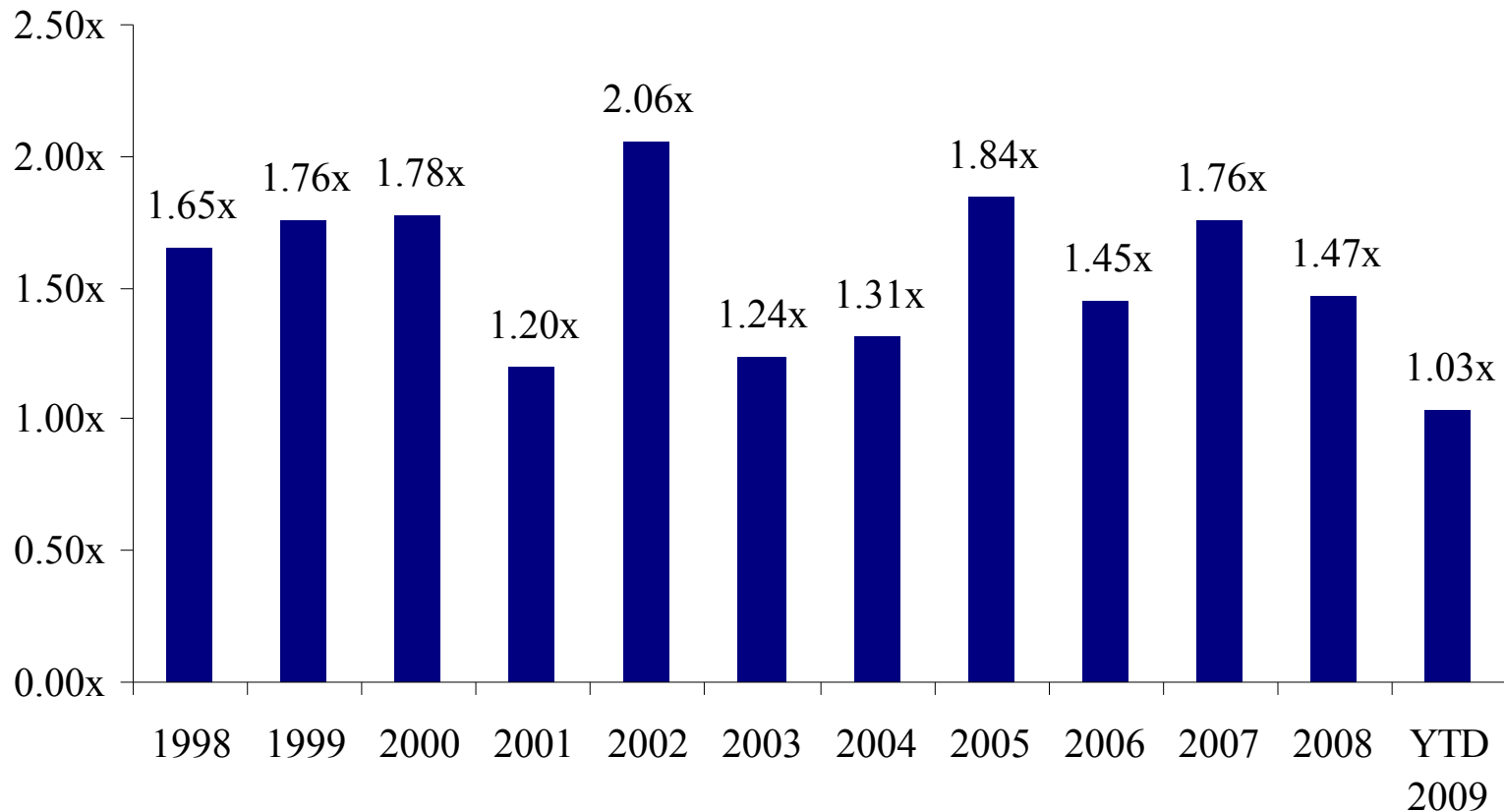


Note: Includes transactions where target was life insurance company and based in the U.S. or one of its unincorporated territories, Bermuda, or Canada.

Source: SNL

## Multiples Paid For Life Insurance Targets Have Been Declining

### Median Multiples in Life Insurance M&A Transactions

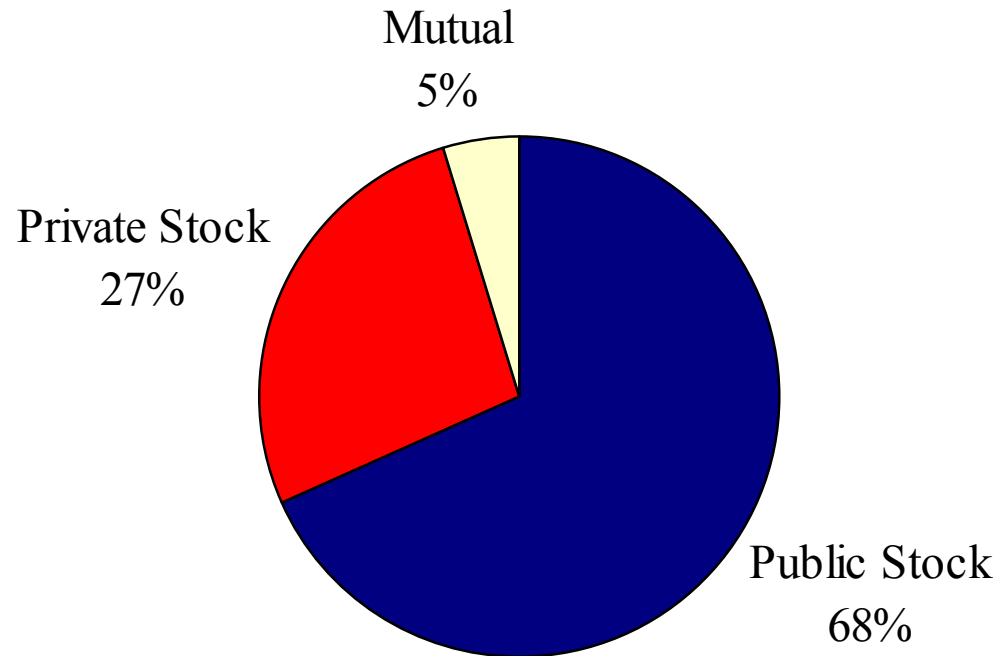


Note: Includes transactions where target was life insurance company and based in the U.S. or one of its unincorporated territories, Bermuda, or Canada.

Source: SNL

## The Public Stock Companies Are By Far the Most Active Players in the M&A Market

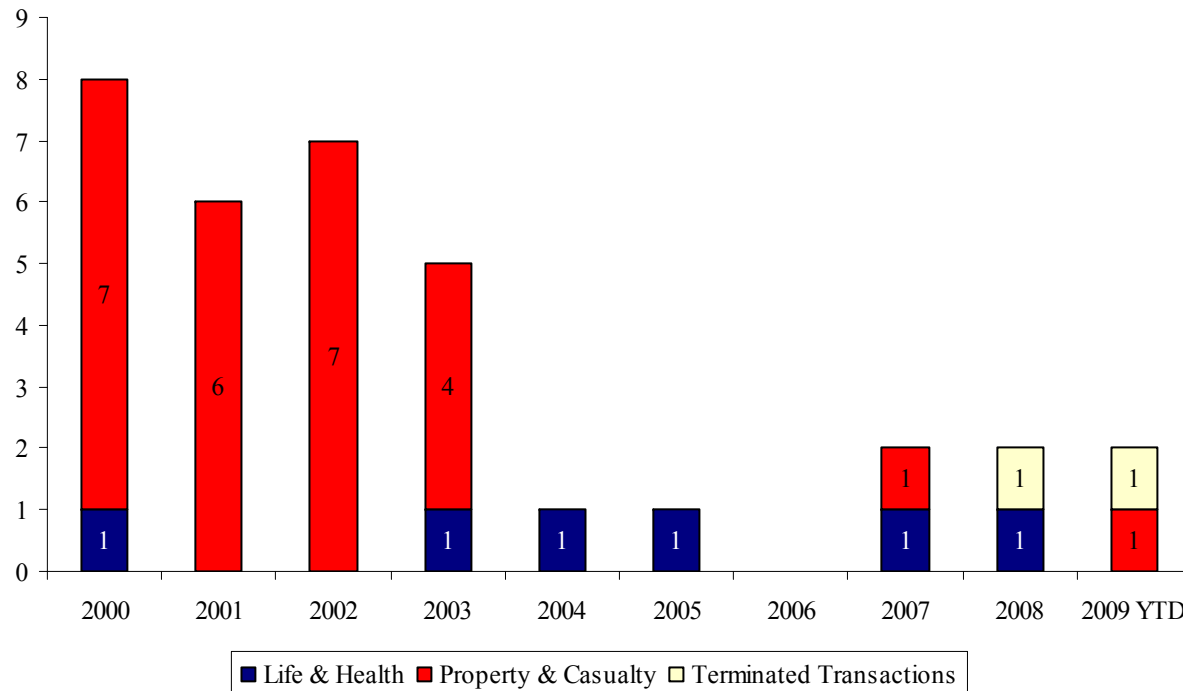
### Percent of Completed Acquisitions by Buyer Ownership Type, 2000 – Present



*Note:* Includes transactions with at least \$50 million in deal value in the U.S., Canada, and Bermuda.  
*Source:* SNL

## Mutual-Mutual Mergers May Increase From Distressed Situations, But the Numbers Remain Small

### Number of Mutual-Mutual Mergers



- Terminated transactions include:

- ◆ Shenandoah Life – terminated merger agreement with American United Mutual Insurance Holding Co.
- ◆ Homesteaders Life Co – terminated merger agreement with American Enterprise Mutual Holding Company

## Why Fraternal/Mutual Life and Annuity Companies Merge

- Succession planning
- Ratings downgrades
- Cost savings
- Product diversification

## Five Deal Issues Exist in Mergers of Fraternal/Mutual Companies

- Management leadership
- Board composition
- Brand name
- Headquarters location
- Employment levels