

Citigroup's Weekly Recap: North American Life Insurance sector for the week ending April 3, 2009

This email summarizes key notes we published in the last week and changes in our ratings and/or estimates.

FIRST CALL NOTES ISSUED THIS WEEK:

LNC - Deteriorating Fundamentals and Balance Sheet Tell the Story (April 2, 2009)

MET - Poised to Build on Competitors' Weaknesses (March 29, 2009)

Please note that hard copies of the following report is available upon request:

Industry - Goodwill and DAC Not Looking So Good - 1Q09 Could See Meaningful Goodwill and DAC Impairments (March 10, 2009)

Industry - Life Insurers & U.S. Bank Debt - Exposure to Financial Services Meaningful for Some (March 9, 2009)

Industry - Goodwill and DAC Not Looking So Good - 1Q09 Could See Meaningful Goodwill and DAC Impairments (March 10, 2009)

AFL - Sell Off on Investment Risk Overdone; Upgrading to a Buy (Jan. 27, 2009)

AMP - Raising Rating to 1H (Buy, High Risk) on Improving Core Strength (Nov. 23, 2008)

LNC - Deteriorating Fundamentals and Balance Sheet Tell the Story (April 2, 2009)

MET - Poised to Build on Competitors' Weaknesses (March 29, 2009)

MFC/MFC.TO - Staying with Proven Winner Despite 4Q08 VA Disappointment (Dec. 29, 2008)

PFG - Investment Portfolio Fears Overshadow Core Operating Strength (Feb. 25, 2009)

PRU - Raising Rating to Buy, Shares Appear Overly Discounted (Dec. 1, 2008)

TMK - Consistency A Virtue - Raising Rating to Buy (Feb. 17, 2009)

UNM - 4Q08 Review Suggests Operating Outlook Steady as She Goes (Feb. 19, 2009)

Lincoln National (LNC, 3S, \$6.90)

Deteriorating Fundamentals and Balance Sheet Tell the Story

- **Throwing in the Towel** – We have lowered our rating to 3S (Sell, Speculative) and reduced our target price to \$5. We have also slashed our 2009-11E to \$1.25, \$2.75 and \$3.25. The impetus behind these changes is an increasingly uncertain financial position and the erosion of our confidence in Lincoln's ability to successfully navigate through what continues to be very challenging equity markets within an overall deteriorating macro-economic climate.
- **Key valuation issues** – These include: liquidity, capital adequacy, variable annuity living benefit guarantees, realized investment losses, and statutory XXX and AXXX reserves backing term and universal life. Near-term for 1Q09, we expect LNC will report the worst earnings quarter in its history. A projected net loss of (\$5.17)/share includes: \$1B goodwill impairment, accelerated DAC amortization of over \$300M, and realized investment losses of \$250M.
- **Viability uncertainty underpins our rating and valuation** – While management's best course of action appears to be an outright sale, we cannot identify any potential buyers for the entire company and see only a limited number of possible candidates for select businesses such as Delaware or the group line.
- **What if Lincoln was to fail** – We have no reason to believe LNC cannot fully honor all of its policyholder and debt obligations. But, in the unlikely event the holding company filed for bankruptcy it would not mean the life insurance operating subsidiaries would do the same. For example, during Consec's bankruptcy its insurance subsidiaries continued to freely operate. Similarly, AIG's continue to operate despite the problems of the parent.

MetLife (MET, 1M, \$25.34)

Poised to Build on Competitors' Weaknesses

- **MET remains our #1 idea** – With life insurer valuations appear to have stabilized following an approx. 34% YTD average drop for our coverage universe, we have returned MET to Top Picks Live. It remains our #1 new money idea and we firmly reiterate our 1M (Buy/ Medium Risk) rating. Within a market where high quality and earnings stability command a premium, we believe the company will emerge as the benchmark global insurance stock.
- **Revising target and estimates** – We have reduced our target to \$35 from \$50 consistent with the performance of the life insurance peer group whose valuations YTD represent nearly 4x the

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decline in the S&P 500. We have also lowered our '09E-11E to \$3.00, \$4.10 and \$4.75. But this does not reflect deterioration in MET's core operating franchises; rather it incorporates the impact of weaker equity markets and reduced investment income.

- **Difficult 1Q09 bottom line** – In addition to accelerated DAC amortization and substantially lower variable investment income, we anticipate a goodwill impairment of \$1B and realized investment losses of about \$400M per quarter for the full-year. Positively we expect sales trends to remain stable, with softer VA deposits more than offset by a switch to FA's. While group revenues will be pressured by customer job cuts, benefit trends should be stable.
- **International M&A could be a catalyst** - There is good potential for EPS and ROE to be meaningfully accelerated given MET's ability to take advantage of M&A both domestically and internationally. AIG's Japanese operations would be a very desirable compliment to MET's existing VA business in Japan.