



Ratings Actions

Over the last week, Standard & Poor's, A.M. Best, Moody's and Fitch, have been very active, downgrading ratings on several insurance carriers, including M Carriers. M Financial Group had expected that most carriers would be downgraded one or two notches in early 2009 due to significant fourth quarter losses generated by continued asset write downs and the impact of equity market declines on reserves for variable annuity guarantees. Despite these downgrades, each M Carrier continues to maintain strong ratings that represent solid capital positions and a positive outlook on the ability to meet policyholders' liabilities.

Standard & Poor's (S&P)

Changes (or affirmations) to the S&P ratings reflect recent analysis conducted after applying "stress factors" to carrier bond holdings, commercial mortgages, and commercial mortgage-backed securities. The ratings also reflect analysis on the impact of severe equity market declines. S&P's one notch downgrades of M Carriers include Genworth ("A" from "AA-"), Lincoln National ("AA-" from "AA"), Manulife ("AA+" from "AAA"), Pacific Life ("AA-" from "AA"), and Prudential ("AA-" from "AA"). Ratings for Sun Life ("AA+") were affirmed. Despite recent downgrades, S&P believes that the life insurance industry is well positioned to meet its funding requirements. S&P also views the industry as "well capitalized" with strong liquidity.

A.M. Best

A.M. Best recently announced downgrades for Sun Life and Genworth. The Sun Life rating of "A+" from "A++" reflects the impact of prolonged weakness in the US equity markets on Sun's insurance operations through higher reserves, capital charges, and reduced fee income. Despite downgrading Sun one notch, A.M. Best notes that Sun's risk adjusted capital levels remain strong. A.M. Best also noted that a large portion of Sun Life's real estate portfolio is underwritten in Canada, and is expected to continue to perform better than similar investments in the US.

The rating adjustment for Genworth to "A" from "A+" represents a one notch downgrade. This rating action recognizes Genworth's favorable liquidity position and favorable level of capital. However, the ratings downgrade recognizes significant unrealized losses in its fixed income portfolio, declines in earnings, and significant exposure to the mortgage markets in both their asset portfolio and mortgage insurance business. While prudent mortgage underwriting has led to limited delinquencies, A.M. Best expects rising defaults as a result of the current recession.

Moody's

The action by Moody's to downgrade Sun Life from "Aa2" to "Aa3" largely reflects the impact of low equity markets on Sun Life's asset management businesses, asset impairments on its US portfolios, and the weakening of its capital ratios. Despite the



downgrade, Moody's Vice President and Senior Credit Officer, Peter Routledge, stated, "That said (referring to the downgrade), the stable outlook (for SLA) at the new ratings levels for SLF and SLA reflects our expectation that they (Sun Life) will be able to weather this challenge given the strong and profitable underlying life insurance and wealth management franchise in Canada."

Fitch

At the end of last week, Fitch downgraded Manulife's financial strength rating from "AA+" to "AA". This action was primarily driven by an updated review of Manulife's exposure to the global equity markets through its variable annuity block and its common equity holdings. In the same report, Fitch notes that Manulife has good financial flexibility and views the company's ability to raise capital as positive.

Fitch also downgraded Pacific Life from "AA" to "AA-". This action reflects Fitch's view that capital levels have declined over the last calendar year and also reflect Pacific Life's exposure to variable annuities. Despite the downgrade, Fitch believes that Pacific Life is very strong from a liquidity perspective.

Prudential's financial strength rating was downgraded to "A+" from "AA-". This downgrade is based on Prudential's exposure to the equity markets, through variable annuities and variable life insurance, and an above average exposure to subprime residential mortgage backed securities and commercial mortgage backed securities.

Lincoln National was also downgraded earlier this week to "AA-" from "AA". This action reflects Lincoln's exposure to variable annuities and a reduction in the company's risk-based capital. Fitch does believe that Lincoln's hedge program associated with their variable annuities has been effective. However, the program does increase the company's reliance on counterparty performance.

A complete summary of ratings can be found at the end of this update.

AIG

On Monday, AIG reported the largest quarterly loss in U.S. corporate history: \$61.7 billion. As a result, the government announced the availability of another \$30 billion to AIG on an as needed basis. As part of the new package to AIG, repayment of the \$38 billion loans already made will be provided by having the Federal Reserve take stakes in two international units of AIG that will eventually be sold. In addition, the revised deal effectively cuts the interest and dividend payments that AIG will need to make to the government. The government hopes that these changes will help AIG sell some of its businesses, stabilize the company, and facilitate stabilization of the broader financial system.



As the government continues to believe that the failure of AIG would have significant systematic risks to the economy, the government continues to refine solutions to provide AIG with capital. As mentioned in previous communications, this need for relief continues to be related to AIG's Financial Products business, which was involved in the credit derivatives market. It was previously believed that AIG's life insurance subsidiaries would be sold. However, it has been difficult for AIG to find a buyer, and the current expectations are that AIG will either hold on to those businesses or spin them off into separate stock offerings.

Life Insurance Industry Outlook

Similar to many industries, it is clear the life insurance industry is facing significant challenges. Many of these challenges are reflected in the media, stock analysts earnings projections, and the rating agencies' outlook on the industry. Despite these challenges, many analysts still consider life insurers to be stronger than other sectors of the financial services industry.

Colin Devine, senior life stock analyst for Citigroup, made the following comment in a recent report on the state of the life insurance sector. "Large in-force policy blocks, strong recurring premium cash flows, and generally good capital and liquidity positions should allow all but a few life insurers to avoid the meltdown experienced by their bank and brokerage counterparts."

S&P also noted in a recent publication: "Although short-term financial pressures are acute, we believe the industry's long-term fundamental strengths remain intact. In our view, the life insurance sector remains well positioned to capture the opportunities in the retirement market. Despite the unfavorable market, we believe the life insurance industry is generally well positioned to meet its funding requirements. Companies are maintaining excess liquidity in these uncertain times. So far, financial leverage and coverage ratios are within tolerances for the ratings, and most have modest amounts of debt coming due in the second half of 2009 and into 2010."

M will continue to monitor and evaluate developments relating to M Carriers and the industry as a whole in an effort to keep Member Firms and their clients informed.



**M Financial Carriers
Summary of Financial Strength Ratings (March 2009)**

M Carrier	A.M. Best			
	FSR	Description	Category	Last Review
Partner Carriers				
John Hancock	A++	Superior	1st of 15	2/4/2009
Lincoln National	A+	Superior	2nd of 15	2/20/2009
Nationwide	A+	Superior	2nd of 15	1/27/2009
Pacific Life	A++	Superior	1st of 15	6/16/2008
Prudential	A+	Superior	2nd of 15	12/10/2008
Sun Life	A+	Superior	2nd of 15	2/27/2009
UNUM	A-	Excellent	4th of 15	1/29/2008
Sponsor Carriers				
Genworth	A	Excellent	3rd of 15	2/19/2009
ING-Security Life	A+	Superior	2nd of 15	6/18/2008
Lincoln Benefit	A+	Superior	2nd of 15	10/23/2008

M Carrier	Standard & Poor's			
	FSR	Description	Category	Last Review
Partner Carriers				
John Hancock	AA+	Very Strong	2nd of 17	2/24/2009
Lincoln National	AA-	Excellent	4th of 17	2/26/2009
Nationwide	A+	Good	5th of 17	12/28/2008
Pacific Life	AA-	Excellent	4th of 17	2/26/2009
Prudential	AA-	Excellent	4th of 17	2/17/2009
Sun Life	AA+	Very Strong	2nd of 17	2/17/2009
UNUM	A-	Good	7th of 17	6/17/2008
Sponsor Carriers				
Genworth	A	Good	6th of 17	2/26/2009
ING-Security Life	AA	Very Strong	3rd of 17	1/27/2009
Lincoln Benefit	AA-	Excellent	4th of 17	1/29/2009

M Carrier	Moody's			
	FSR	Description	Category	Last Review
Partner Carriers				
John Hancock	Aa1	Excellent	2nd of 19	2/12/2009
Lincoln National	Aa3	Excellent	4th of 19	2/10/2009
Nationwide	Aa3	Excellent	4th of 19	12/19/2008
Pacific Life	Aa3	Excellent	4th of 19	2/11/2009
Prudential	Aa3	Excellent	4th of 19	11/21/2008
Sun Life	Aa3	Excellent	4th of 19	2/12/2009
UNUM	Baa1	Adequate	8th of 19	2/14/2008
Sponsor Carriers				
Genworth	A1	Good	5th of 19	11/10/2008
ING-Security Life	A1	Good	5th of 19	1/28/2009
Lincoln Benefit	A1	Good	5th of 19	1/29/2009

M Carrier	Fitch Ratings			
	FSR	Description	Category	Last Review
Partner Carriers				
John Hancock	AA	Very High	3rd of 18	2/27/2009
Lincoln National	AA-	Very High	4th of 18	3/3/2009
Nationwide	A+	High	5th of 18	1/2/2009
Pacific Life	AA-	Very High	4th of 18	2/26/2009
Prudential	A+	High	5th of 18	2/19/2009
Sun Life	AA	Very High	3rd of 18	1/12/2007
UNUM	A-	High	7th of 18	2/4/2008
Sponsor Carriers				
Genworth	A-	High	7th of 18	2/17/2009
ING-Security Life	AA-	Very High	4th of 18	1/28/2009
Lincoln Benefit	A	High	6th of 18	2/2/2009