



Rating Actions: Moody's

Manulife: On March 18, Moody's downgraded the insurance financial strength ratings of Manulife Financial's insurance subsidiaries two notches to Aa3. The ratings apply to all of the John Hancock U.S. operating companies. The rating outlook remains negative.

Moody's stated that the downgrade was based on the company's weakened financial flexibility and capitalization, which is being caused by the global decline in equity markets. The decline in equity markets has necessitated a rise in the reserves and regulatory capital that must be set aside for variable annuity guarantees.

The negative ratings outlook reflects the company's continuing susceptibility to declines in the equity markets. However, Moody's also noted that Manulife's CDN\$2.3 billion common equity issuance in the fourth quarter of 2008 was indicative of the underlying strength of its core businesses in Canada, the U.S., and Asia. Manulife benefits from a diversified earnings base, strong financial flexibility, and well-positioned franchises in North America and Asia.

Prudential: On March 18, Moody's downgraded the insurance financial strength ratings for Prudential Insurance Company of America, and its affiliates, two notches to A2. The rating outlook remains negative.

Moody's stated that the downgrade was due to Prudential's reduced profitability, capitalization, and financial flexibility in the current difficult economic environment, and the sensitivity to further capital strain if conditions worsen. Prudential's financial profile continues to be weakened by its substantial exposure to the variable annuity business with guarantees, as well as increased losses from its investment portfolio.

Moody's said the negative ratings outlook reflects the possibility of additional capital and earnings deterioration under a downside scenario, which would involve further equity market declines and investment losses in excess of current expectations.

New York Life: Moody's announced on March 17 that the financial strength rating outlook for New York Life and its insurance subsidiaries changed to negative from stable. According to Moody's the change in outlook reflects the industry-wide pressures on the company's capital and profitability resulting from the potential for increasing investment losses due to a weak economy. New York Life's insurance financial strength rating, which was maintained, is Aaa.

Rating Action: A.M. Best

Unum: On March 13, A.M. Best affirmed the A- (Excellent) financial strength and issuer credit ratings of the U.S. insurance subsidiaries of Unum Group. In their announcement, A.M. Best noted Unum's improving operating income, its adequate capitalization, and strong name brand in the employee benefits market. Also cited were Unum's low debt-to-capital ratio and the opinion that Unum's insurance subsidiaries are better capitalized on a risk-adjusted basis than they were a few years ago.



A.M. Best did express some concern about the impact of a deepening recession on Unum's disability claims, as claim incidence historically rises during economic downturns. In addition, Unum's exposure to larger realized capital losses or write-downs in their corporate bond portfolio which could reduce the company's capitalization. Overall, Unum remains a financially strong and highly rated company, and is viewed positively by Wall Street analysts.

S&P Offers Analysis on Prudential

On March 18, Standard & Poor's announced that Prudential Financial's AA- financial strength rating reflects the company's very strong competitive positions in the U.S. and Japan, as well as the very strong capitalization of its insurance operating companies, its diverse sources of earnings, and its effective risk management control processes. Earnings and capital sensitivity to equity market performance, and the potential for further investment portfolio losses resulting from deteriorating credit markets, offset these strengths. A full analysis of Prudential by S&P is available upon request from M Financial's Product Management team.

Nationwide Obtains Financial Relief

On March 16 the Ohio Department of Insurance approved financial relief for six state-domiciled insurance groups. The relief pertained to the accounting treatment of deferred tax assets. Among the changes was the permission to include up to 15% of deferred tax assets in reported capital and surplus.

Five companies of Nationwide received approximately \$447 million of relief for deferred tax assets, including \$68.8 million for Nationwide Life Insurance Co. A spokesman for Nationwide said the tax assets, which are real assets already on their books, had previously not been allowed to be counted as part of the company's capital reserves. The Ohio Insurance Department issued the following statement: "The department only granted these permitted accounting practices to insurers that have, with or without the permitted accounting practices, strong financial statements, have demonstrated sound corporate governance and have furnished the department with reasonable strategic purpose for the request."

Obtaining this relief appears to be positive from two perspectives: First, it improves Nationwide's regulatory capital position. Second, it indicates that the Ohio Insurance Department has confidence in the way Nationwide is managing its business.

M Financial 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. If you have any questions or comments, please contact any member of the M Product Management team at 800.656.6960.