Rating Action: Manulife (Affirmation)

A.M. Best
On December 20, A.M. Best affirmed the 'A+' (Superior) financial strength ratings of the life insurance subsidiaries of Manulife Financial Corp. (Manulife), including John Hancock Life Insurance Co. (USA). The outlook for the ratings is stable.

According to A.M. Best, the affirmation reflects Manulife's solid market position in global markets, progress in de-risking its balance sheet, and revised product focus on less capital-intensive business lines. A.M. Best noted that Manulife has increased its hedging programs to moderate the impact of macroeconomic challenges and equity market volatility on its balance sheet and operating performance. Other positive factors cited by A.M. Best include Manulife's significant scale in its core businesses and growing assets under management.

A.M. Best said it remains concerned with Manulife's exposure to equity market and interest rate risk, reduced interest coverage, and elevated financial leverage. While Manulife discontinued sales of variable annuities (VA), which were primarily written through John Hancock, A.M. said it believes the company will continue to face challenges in managing it large in-force business in the face of the low interest rate environment and equity market uncertainty. Other factors cited as concerns to A.M. Best are Manulife's long-term care (LTC) book of business and exposure to real estate in direct commercial loans and commercial real estate holdings.

Moody's Investor Services
On December 19, Moody's Investors Service affirmed the 'A1' (Good) insurance financial strength ratings of the principal life insurance operating subsidiaries of Manulife Financial Corp. (Manulife), including John Hancock Life Insurance Co. (USA). The rating outlook is stable.

According to Moody's, the affirmation of John Hancock's rating reflects the progress the company has made to hedge the equity and interest rate risks in its legacy VA block and in obtaining regulatory approvals for rate increases for its LTC business. Moody's also attributed the rating to John Hancock's strong brand in the U.S., leading market positions in several core business lines, and good product diversification.

Partially offsetting these strengths in Moody's opinion are John Hancock's sizeable exposures to VA and LTC, which remain subject to equity and interest rate risks.

Rating Action: Sun Life U.S.

Following the announcement by Sun Life Financial, Inc. (Sun Life) that it has agreed to sell its U.S. life and annuity subsidiaries (Sun Life U.S.) to Guggenheim Partners, LLC for $1.35 billion, several ratings agencies commented on the ratings impact to both Sun Life and Sun Life U.S.

A.M. Best
A.M. Best downgraded the financial strength ratings of Sun Life U.S. to ‘A-’ (Excellent) from ‘A’ (Excellent) and placed the ratings under review with negative implications. The ratings for Sun Life Financial were unchanged.

Fitch Ratings
Fitch placed the ‘A-’ (Strong) insurer financial strength ratings of Sun Life U.S. on Rating Watch Negative. Fitch said resolution of the rating watch will occur following discussions with management and the completion of the sale. Fitch said it was likely that the ratings could be lowered by at least one notch.

Moody’s Investors Service
Moody’s said the transaction was a credit positive for Sun Life Financial because it eliminates the Canadian insurer’s exposure to the earnings volatility and potential for capital calls from its U.S. subsidiary. The credit profile for Sun Life U.S. is weaker and has more downside risk under Guggenheim than it did as a subsidiary of Sun Life.

Standard & Poor’s
S&P lowered its financial strength ratings for Sun Life U.S. to ‘BBB’ (Good) from ‘BBB+’ (Good). The ratings outlook was revised to developing from stable. The developing outlook reflects S&P’s uncertainty regarding Guggenheim’s plans for the company. S&P said it could raise the ratings if Guggenheim provides suitable explicit support of Sun Life U.S.

M Commentary
M Financial Group is currently in discussions with Sun Life regarding the transaction and the impact on blocks of business sold by M Member Firms. Sun Life has represented to M Financial that Guggenheim Partners has a good track record of managing life and annuity blocks, including the purchase of a $4 billion general account life block from Security Benefit Life.

M Financial is also currently in discussions with Guggenheim regarding the in-force policies sold by M Member Firms and our expectations regarding service and in-force management going forward.

It is important to note that approximately 500 employees of Sun Life Financial U.S. in Wellesley, Massachusetts; Lethbridge, Alberta; and Waterford, Ireland, will continue to support the acquired businesses, which will be renamed Delaware Life Insurance Company.

Below is a summary of the Sun Life products that will be sold to Guggenheim:

- All M Proprietary Variable Life Products
    - Prime VUL (Accumulator and Performance)
    - Prime SVUL
    - MAGNASTAR® Private Placement Life Insurance (single, joint, and COLI)

- M Proprietary Annuity Product
  - MAGNASTAR® PPVA
- All Shelf Variable Life Products
  - Variable COLI/BOLI – Large Case PPVUL, Large Case VUL, Sun Executive VUL, and Futurity Corporate VUL
  - All Variable UL
- All Annuity Products
  - PPVA
  - Variable Deferred
  - Fixed Deferred
  - Fixed Immediate
- All New York Products – Life and Annuity

The Sun Life/Guggenheim transaction is of great importance and is a high priority for M Financial. M Financial will provide additional information as discussions with Sun Life and Guggenheim progress. In the meantime, questions may be directed to Wayne Tonning (503.414.7430 or wayne.tonning@mfin.com).

Rating Action: Lincoln Benefit (Affirmation)

On December 14, Fitch Ratings affirmed the 'A-' (Strong) insurer financial strength ratings of the life insurance subsidiaries of The Allstate Corp. (Allstate), including Lincoln Benefit Life Co. The rating outlook is stable.

According to Fitch, the rating on Allstate's life operations reflects Fitch's view of its limited strategic importance within the Allstate enterprise and that the standalone rating is in the 'BBB' (Good) range. Fitch noted the rating of the life operations continue to benefit from the Capital Support Agreement from Allstate Insurance Co. and its access to the holding company credit facility.

Fitch stated that the life operations focuses on traditional underwritten products and de-emphasizes spread-based products, which improves its risk profile.

Rating Action: Aviva USA

Following the announcement by Aviva plc that it has agreed to sell its U.S. life and annuity business (Aviva USA) to Athene Holding Ltd. for $1.8 billion, several ratings agencies commented on the ratings impact to Aviva USA .

A.M. Best
A.M. Best downgraded the financial strength rating of Aviva USA to 'A-' (Excellent) from 'A' (Excellent) and said the rating will remain under review pending discussions with the new ownership group.

Moody's Investors Service
Moody's downgraded the insurance financial strength rating of Aviva USA to 'Baa2' (Adequate) from 'Baa1' (Adequate). The rating outlook is negative. Moody's said the downgrade was driven by its expectation that the business and financial profile of the company will weaken under Athene's ownership as compared to the current profile as a subsidiary of Aviva plc.

Standard & Poor's
S&P affirmed the 'A-' (Strong) financial strength rating of Aviva USA. The rating remains on CreditWatch Developing, which S&P initially placed on November 12. S&P said the continuance of the CreditWatch reflects the level of uncertainty regarding Aviva USA's credit profile as it is sold and transitioned to its new owner.

Rating Action: AXA Group (Downgrade)

On December 18, S&P lowered its financial strength ratings on the core operating entities of AXA Group, including AXA Equitable Life Insurance Co., to 'A+' (Strong) from 'AA-' (Very Strong). The rating outlook is stable.

According to S&P, the downgrade reflects its view that unfavorable investment market conditions and weak economic prospects are likely to dampen AXA Group's earnings growth prospects. S&P also said that the group's risk-adjusted capital adequacy is a weakness in relation to its financial strength ratings. While the company has taken steps to de-risk its balance sheet, the sensitivity in capital adequacy to market conditions is still high.

S&P said the ratings remain supported by AXA Group's very strong competitive position and very strong operating performance. AXA Group also benefits from sizeable business lines and geographic diversification.

Rating Action: Northwestern Mutual (Affirmation)

On December 20, Fitch Ratings affirmed the 'AAA' (Exceptionally Strong) insurer financial strength rating of Northwestern Mutual Life Insurance Co. (Northwestern Mutual). The rating outlook is stable.

According to Fitch, the affirmation reflects Northwestern Mutual's very strong competitive position in the U.S. individual life insurance market, exceptionally strong balance sheet, and stable earnings profile. Fitch stated that Northwestern Mutual's balance sheet exhibits very strong risk-based capitalization, modest financial leverage, excellent liquidity, and relatively low-risk liability profile.

Rating Action: Penn Mutual (Affirmation)

On December 14, A.M. Best affirmed the financial strength rating of 'A+' (Superior) of Penn Mutual Life Insurance Co. (Penn Mutual). The outlook for the rating is stable.

According to A.M. Best, the affirmation reflects Penn Mutual's large excess surplus position and strong risk-adjusted capitalization. A.M. Best also cited the company's conservative fixed income investment portfolio which has a good liquidity profile and is currently in a large net unrealized gain position.

Partially offsetting these positive factors in A.M. Best's opinion are the challenges to sustain and improve its operating performance and grow its surplus including Penn Mutual's decision to self-fund AXXX reserve requirements on its secondary guarantee business and the impact of the low interest rate environment and volatile equity markets. A.M. Best also said Penn Mutual maintains an elevated exposure to the real estate market relative to total surplus through its commercial mortgage-backed securities (CMBS) investments which could create losses if the U.S. economy deteriorates. However, A.M. Best noted that the CMBS portfolio is currently in a net unrealized gain position and is almost entirely in the highest-rated tranches.

Fitch Issues Rating Report for Lincoln National

On December 27, Fitch Ratings released its rating report for Lincoln National Corp. (Lincoln National) and its insurance subsidiaries. The report details the rationale for Fitch's 'A+' (Strong) insurer financial strength rating for Lincoln National's insurance subsidiaries.

Fitch stated that operating income for Lincoln National was down 9% for the first three quarters of 2012 as compared to 2011 as a result of spread compression and higher administrative expenses. Fitch said Lincoln National's risk-adjusted capitalization remains strong despite equity market exposure and significant reserve requirements associated with secondary guarantees. However, the company's financial leverage ratio is above Fitch's expectations for the rating level.

A copy of the report can be obtained from M's Product Management team.

Moody's Says U.S. Life Insurers Would Be Exposed to Prolonged Low Rates in a Fiscal Cliff

In a special report Moody's said that U.S. life insurers' creditworthiness will be adversely affected if the "fiscal cliff" results in a recession and interest rates remain at very low levels. The U.S. government's credit quality would be weakened by the fiscal cliff and would also negatively affect U.S. life insurers. Among the possible impacts of the fiscal cliff are the following:

- Equity market volatility would increase, which would impact insurers with large books of variable annuities.
- Reduced demand for life insurance products, which is negatively impacted by recessions.
- Low investment returns as a result of a continuing low interest rate environment.

Moody's added that the capital requirements for life insurers enable them to cope with severe stress scenarios, such as the financial crisis of 2008-09, and that the liability profiles of life insurers are generally long-duration enabling them to hold bond assets at book value despite price declines over the near and medium term.

A complete summary of M Carrier financial strength ratings can be found at the end of this update.

M Financial Group will continue to monitor and evaluate developments relating to M Carriers and the industry as a whole. If you have any questions or comments, please contact any member of the M Product Management team at 800.656.6960.

M Financial Carriers
Summary of Financial Strength Ratings
(December 31, 2012)

	A.M. Best				
M Carrier	FSR	Description	Category	Outlook	Eff Date
John Hancock	A+	Superior	2nd of 15	Stable	12/20/2012
Nationwide	A+	Superior	2nd of 15	Negative	3/27/2012
Pacific Life	A+	Superior	2nd of 15	Stable	7/6/2012
Prudential	A+	Superior	2nd of 15	Stable	6/12/2012
TIAA-CREF	A++	Superior	1st of 15	Stable	4/11/2012
UNUM	A	Excellent	3rd of 15	Stable	3/15/2012
ING-Security Life	A	Excellent	3rd of 15	Stable	7/23/2012
Lincoln Benefit	A+	Superior	2nd of 15	Stable	1/26/2012
Lincoln National	A+	Superior	2nd of 15	Stable	11/30/2012
Sun Life of CA	A+	Superior	2nd of 15	Stable	4/11/2012
Sun Life (US)	A-	Excellent	4th of 15	Negative	12/18/2012

	Standard & Poor's				
M Carrier	FSR	Description	Category	Outlook	Eff Date
John Hancock	AA-	Very Strong	4th of 20	Stable	3/21/2012
Nationwide	A+	Strong	5th of 20	Stable	8/31/2012
Pacific Life	A+	Strong	5th of 20	Stable	6/20/2012
Prudential	AA-	Very Strong	4th of 20	Stable	8/30/2012
TIAA-CREF	AA+	Very Strong	2nd of 20	Negative	5/25/2012
UNUM	A	Strong	6th of 20	Stable	10/26/2012
ING-Security Life	A-	Strong	7th of 20	Stable	3/20/2012
Lincoln Benefit	A+	Strong	5th of 20	Negative	5/15/2012
Lincoln National	AA-	Very Strong	4th of 20	Stable	12/4/2012
Sun Life of CA	AA-	Very Strong	4th of 20	Stable	3/20/2012
Sun Life (US)	BBB	Good	9th of 20	Developing	12/18/2012

	Moody's				
M Carrier	FSR	Description	Category	Outlook	Eff Date
John Hancock	A1	Good	5th of 21	Stable	12/19/2012
Nationwide	A1	Good	5th of 21	Stable	11/12/2012
Pacific Life	A1	Good	5th of 21	Stable	12/6/2012
Prudential	A2	Good	6th of 21	Positive	12/19/2012
TIAA-CREF	Aaa	Exceptional	1st of 21	Negative	12/11/2012
UNUM	A2	Good	6th of 21	Stable	8/16/2012
ING-Security Life	A3	Good	7th of 21	Stable	7/16/2012
Lincoln Benefit	A1	Good	5th of 21	Negative	11/26/2012
Lincoln National	A2	Good	6th of 21	Positive	11/16/2012
Sun Life of CA	Aa3	Excellent	4th of 21	Negative	12/17/2012
Sun Life (US)	Baa2	Adequate	9th of 21	Under Review	12/17/2012

	Fitch Ratings				
M Carrier	FSR	Description	Category	Outlook	Eff Date
John Hancock	AA-	Very Strong	4th of 21	Negative	5/21/2012
Nationwide	A	Strong	6th of 21	Stable	5/14/2012
Pacific Life	A+	Strong	5th of 21	Stable	11/1/2012
Prudential	A+	Strong	5th of 21	Stable	12/6/2012
TIAA-CREF	AAA	Exceptional	1st of 21	Stable	7/13/2012
UNUM	A	Strong	6th of 21	Stable	8/3/2012
ING-Security Life	A-	Strong	7th of 21	Evolving	7/12/2012
Lincoln Benefit	A-	Strong	7th of 21	Stable	12/14/2012
Lincoln National	A+	Strong	5th of 21	Stable	12/27/2012
Sun Life of CA	AA-	Very Strong	4th of 21	Negative	5/17/2012
Sun Life (US)	A-	Strong	7th of 21	Negative	12/17/2012