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Research Update:

Manulife Financial Corp. And Operating Subsidiaries Downgraded Due To Equity Risk Exposure And Earnings Pressure

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Rationale

On Feb. 24, 2008, Standard & Poor's Ratings Services lowered its ratings on Manulife Financial Corp. (TSX: MFC; Manulife Financial) and all of its rated operating companies by one notch. Its key operating subsidiaries include: The Manufacturers Life Insurance Co., John Hancock Life Insurance Co., John Hancock Life Insurance Co. (U.S.A.), Manulife (International) Ltd., and Manulife Life Insurance Co. Ltd. (collectively known as Manulife). All of these operating insurance companies now have long-term counterparty credit and financial strength ratings of 'AA+'. The counterparty credit rating on Manulife Financial is 'AA-'. The outlook is stable. (See ratings list.)

In our opinion, the downgrade reflects the decline and ongoing volatility of the global equity markets, the resultant impact on earnings, reserves, capital and financial leverage, and the company's reduced level of financial flexibility. Currently, equity markets are down almost halfway from their peak in the major markets where Manulife competes. While we believe that Manulife Financial has done relatively well managing itself through an equity market tail event, we believe the increased earnings and capital volatility are not consistent with the previous 'AAA' rating.

We also expect the deterioration within the global equity and credit markets to lead to a decline in fee revenues from the group's significant wealth management businesses, an increase in hedging and borrowing cost, and continued pressure on the investment portfolio over the next 12-18 months. We believe that much of the earnings pressure from Manulife's wealth management operations will be tempered by the underlying strength and diversity of the company's earnings base, which includes large blocks of more stable protection businesses. Our rating action is a part of our ongoing review of the insurance industry in a deteriorating economy.

As the equity markets have declined, Manulife's earnings have also been affected by reserve and capital requirements that are based upon the spot price of equity markets at each quarter-end, even though the guarantees embedded within many of its life insurance products have no immediate cash calls and are usually very long dated contingent obligations. Many of these adjustments are accounting accruals that do not reflect realized losses. As such, we expect that many of these accruals will be reversed if equity markets recover.

Although the most recent quarterly assessment of equity risk reflected in Manulife Financial's financial reporting might eventually be reversed before losses are realized on the long tailed life insurance liabilities that these assets support, it does, in our view, highlight the firm's decision to maintain an equity risk tolerance above our expectations for a higher rating.

Because of the tail event within the equity markets, the firm's decision to limit its equity hedging activities ultimately led to significant near-term losses due to Canadian reserving requirements. The company estimates that for every 10% decline in the equity markets from its Dec. 31, 2008, level, its minimum continuing capital and surplus requirement (MCCSR) ratio would decline by 20%, and each C\$1.0 billion in new capital would improve its MCCSR ratio by about 12%-13%. Standard & Poor's anticipates that the firm will maintain its current enterprise risk management practices, although we will continue to consider in our analysis how the company assesses and manages its appetite for higher-than-average risk and retention of equity risk.

Manulife's aggregate equity position has grown rapidly over the past few years as it has continued to rank among the top 10 in variable annuity and segregated fund (VA) sales in the U.S., Canada, and Japan and given that much of this new risk has not been hedged. Taking aside its VA exposure, we currently consider other components of Manulife's franchise to be strong given the company's leading business position in most of the major markets where it competes. We believe that its business fundamentals remain sound, as demonstrated by its steady growth in new business embedded value, level and quality of reserves, and what we view as a strong multichannel distribution network and insurance sales. Since the John Hancock acquisition, we are of the view that the company has de-risked its fixed income portfolio. We believe that this has helped it to side-step many of the trouble spots that we are seeing today. We also note that it stopped writing any new institutional spread lending business, as we understand that it did not believe that the risk matched the returns that could be generated by this business.

Standard & Poor's believes that the group's liquidity profile remains very strong, given its C\$17 billion in cash and cash equivalent and C\$24 billion in government bonds held within its investment portfolio; and the profile of its policy liabilities. The company's next significant debt maturity is C\$395 million in senior debt that comes due in 2011. Capital in our opinion remains robust, with The Manufacturers Life Insurance Co. reporting a MCCSR ratio of 233%, and John Hancock Life Insurance Co. reporting a RBC ratio of about 400% as of December 2008. Almost all of the group's VA risk is captured in the MCCSR ratio as it is consolidated up into The Manufacturers Life Insurance Co.

Outlook

The stable outlook reflects our view that the group's still-substantial financial flexibility is commensurate with the current rating level. The outlook also reflects our expectation that the core after-tax operating earnings will remain above C\$3.5 billion on a normal run rate basis in 2009, fixed charge on a core operating earnings basis will remain above 10x, asset quality issues will be less significant than those of its North American peers, and reserve requirements for equity risk will not cause capital at the operating companies to fall below the 'AA' level as measured by our capital models. We expect that we could revise the outlook to negative if there is any evidence of deterioration in one or more of the above metrics, or if the global equity markets remain in a deep and prolonged decline.

Ratings List

Ratings Lowered

	To	From
John Hancock Life & Health Insurance Co. Manulife (International) Ltd. John Hancock Variable Life Insurance Co. John Hancock Life Insurance Company (USA) John Hancock Life Insurance Co. of New York Counterparty Credit Rating Local Currency	AA+/Stable/--	AAA/Negative/--
John Hancock Life & Health Insurance Co. Manulife Seimei Hoken Kabushiki Kaisha Manulife (International) Ltd. Manufacturers Life Insurance Co. (The) John Hancock Variable Life Insurance Co. John Hancock Life Insurance Company (USA) John Hancock Life Insurance Co. of New York John Hancock Life Insurance Co. Financial Strength Rating Local Currency	AA+/Stable/--	AAA/Negative/--
John Hancock Life Insurance Company (USA) Financial Enhancement Rating Local Currency	AA+/--/--	AAA/--/--
Manulife Financial Corp. Senior Unsecured (3 issues) Preferred Stock (3 issues)	AA- A	AA A+
John Hancock Financial Services Inc. Senior Unsecured (2 issues)	AA-	AA
John Hancock Global Funding II Senior Secured (14 issues)	AA+	AAA
John Hancock Global Funding Ltd. Senior Secured (3 issues)	AA+	AAA
John Hancock Life Insurance Co. Senior Unsecured (1067 issues) Subordinated (1 issue)	AA+ AA-	AAA AA
Manufacturers Investment Corp. Preferred Stock (1 issue)	AA-	AA
Manufacturers Life Insurance Co. (The)		

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Subordinated (1 issue)	AA	AA+
Manulife Finance (Delaware) L.P. Senior Unsecured (1 issue)	AA-	AA
Subordinated (1 issue)	A+	AA-
Manulife Financial Capital Trust Preferred Stock (2 issues)	AA-	AA
John Hancock Capital Corp. John Hancock Life Insurance Co. Counterparty Credit Rating Local Currency	AA+/Stable/A-1+	AAA/Negative/A-1+
John Hancock Financial Services Inc. Counterparty Credit Rating Local Currency	AA-/Stable/A-1+	AA/Negative/A-1+
Manufacturers Life Insurance Co. (The) Counterparty Credit Rating	AA+/Stable/A-1+	AAA/Negative/A-1+
Manulife Financial Corp. Preferred Stock (3 issues)	P-1(Low)	P-1
Manulife Financial Capital Trust Preferred Stock (2 issues)	P-1	P-1(High)
Ratings Affirmed		
John Hancock Financial Services Inc. Commercial Paper Local Currency	A-1+	
John Hancock Financial Services Inc. Commercial Paper (1 issue)	A-1+	

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

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