

## Fitch Revises Outlook on Manulife Financial to Stable; Rates Sub Debt 'A-'

Written by Australian Business

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CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed Manulife Financial Corporation (MFC) and its primary insurance related operating subsidiaries' ratings, including The Manufacturers Life Insurance Company (MLI) and John Hancock Life Insurance Company (U.S.A.) (JHUSA). A full list of rating actions follows at the end of this release. At the same time, the Rating Outlook was revised to Stable from Negative for all ratings.

Fitch has also assigned an 'A-' rating to previously issued MLI CAD250 million 2.926% fixed/floating subordinated debentures due 2023 (MFC guarantor).

### KEY RATING DRIVERS

The revision of the Outlook to Stable is driven by an improvement in MFC's reported and core earnings and Fitch's view that earnings volatility going forward will decline. While rising interest rates and equity markets have had a favorable impact on earnings in 2013, Fitch also believes that de-risking initiatives taken by MFC over the past several years will improve the consistency of earnings going forward. Key strategies included increased hedging of public equity market exposure and interest rates, shifts in business mix and product re-pricing of long-term care (LTC) and universal life products.

Return on common shareholder's equity increased to 10% through the first nine months of 2013 as MFC's reported net income to common shareholders increased to CAD1.7 billion versus CAD650 million for the same period in 2012. Results in both periods reflect the direct effect of capital markets, which Fitch adjusts for in its analysis. Core earnings for 2013 were up 14% to CAD1.9 billion and investment related gains in excess of investment related experience included in core earnings were again strong at CAD491 million. Key drivers of the improved profitability in 2013 were reduced direct effects of interest rate and equity markets, the absence of goodwill impairments and a significant decline in charges for changes in actuarial methods and assumptions, including product-related experience and policyholder behavior.

Key challenges that could impact MFC's ability to further improve profitability are sustained low interest rates, equity market volatility, and a faltering of the economic recovery. Fitch expects these factors could constrain MFC's earnings growth over the near term, and in a severe, albeit unexpected, economic scenario, they could significantly

affect the company's earnings and capital.

Fitch's rationale for the ratings also includes MFC's strong capital position, below-average exposure to credit-related risk, good liquidity and strong business profile with significant geographic and product diversity.

Offsetting these positives is MFC's debt service capacity, which Fitch views as low for the rating category. Fixed-charge coverage on a reported earnings basis was 5.8x on a trailing 12 month basis through Sept. 30, 2013 and 6.4x on a core earnings basis. Fitch expects core earnings-based, fixed charge coverage to improve to over 7x in 2014.

Fitch believes MFC is well-capitalized on a risk-adjusted basis, with a minimum continuing capital and surplus requirement (MCCSR) ratio for MFC's leading operating company, MLI, at 229% at Sept. 30, 2013. Fitch notes that MFC has made significant progress in reducing capital volatility with regards to equity markets and interest rate fluctuations. MFC's financial leverage was 23% at Sept. 30, 2013 versus 24% at year-end 2012. Total debt and preferred stock to capital of 31% is at the high end of expectations and is expected to remain elevated in 2014. Financial leverage ratios are expected to decline modestly in the intermediate term driven by improved organic capital generation.

MFC's liquidity is considered strong with a high-quality, liquid fixed-income portfolio. Fitch believes that under Canadian regulations, MFC has greater flexibility to upstream common stock dividends from operating subsidiaries to the regulated holding company without regulatory approval than most U.S. peers.

### RATING SENSITIVITIES

Key rating triggers for MFC that could lead to a downgrade include:--Decline in core earnings;--Elevated charges for actuarial methods and assumptions or experience losses;--Fixed-charge coverage on a core earnings basis below 5.5x;--An increase in financial leverage to over 25% or an increase in total leverage to over 35%.--A sustained drop in the company's risk-adjusted capital position with no plans or ability to rectify. This would include the MCCSR ratio falling below 200%. The ratings on the U.S. insurance subsidiaries could be impacted if the U.S. risk-based capital ratio fell below

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400%.

Key ratings triggers for MFC that could lead to an upgrade include:--Continued improvement in profitability on both a core earnings and reported net income basis;--An increase in fixed-charge coverage on a core earnings basis to near 10x;--Sustain current capital and earnings sensitivity to interest rate and equity markets;--A decline in financial leverage to near 20%.

Fitch has assigned the following rating:

The Manufacturers Life Insurance Company--CAD250 million 2.926% fixed/floating subordinated debentures due 2023 (Manulife Finance Corp. guarantor) 'A'.

Fitch has affirmed the following ratings with a Stable Outlook:

Manulife Financial Corporation--Issuer Default Rating (IDR) at 'A';--CAD1 billion medium term notes 4.896% due 2014 at 'A';--CAD550 million medium term notes 5.161% due 2015 at 'A';--USD600 million senior notes 3.40% due 2015 at 'A';--CAD900 million medium term notes 4.079% due 2015 at 'A';--CAD400 million medium term notes 5.505% due 2018 at 'A';--CAD600 million medium term notes 7.768% due 2019 at 'A';--USD500 million senior notes 4.90% due 2020 at 'A';--CAD350 million 4.10% class A, series 1, preferred stock at 'BBB';--CAD350 million 4.65% class A, series 2, preferred stock at 'BBB';--CAD300 million 4.50% class A, series 3, preferred stock at 'BBB';--CAD450 million 6.60% non-cumulative, preferred class A, series 4 stock at 'BBB';--CAD350 million 5.60% non-cumulative rate reset, preferred class 1, series 1 stock at 'BBB';--CAD200 million 4.20% non-cumulative rate reset, preferred class 1, series 3 stock at 'BBB';--CAD200 million 4.40% non-cumulative rate reset, preferred class 1, series 5 stock at 'BBB';--CAD250 million 4.60% non-cumulative rate reset, preferred class 1, series 7 stock at 'BBB';--CAD250 million 4.40% non-cumulative rate reset, preferred class 1, series 9 stock at 'BBB';--CAD200 million 4% non-cumulative rate reset, preferred class 1, series 11 stock at 'BBB';--CAD200 million 3.8% non-cumulative rate reset, preferred class 1, series 13 stock at 'BBB'.

The Manufacturers Investment Corporation--IDR at 'A';--Short-term IDR at

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'F1';--Commercial paper at 'F1'.

Manulife Financial Capital Trust II--CAD1 billion 7.405% MaCS II series 1 at 'A-'.

Manulife Finance, L.P.--CAD550 million 4.448% fixed/floating senior debentures due 2026 (Manulife Finance Corp. guarantor) at 'A-';--CAD650 million 5.059% fixed/floating subordinated debentures due 2041 (Manulife Finance Corp. guarantor) at 'BBB+'.

The Manufacturers Life Insurance Company--Insurer Financial Strength (IFS) at 'AA-';--IDR at 'A+';--CAD550 million 4.21% fixed/floating subordinated debentures due 2021 (Manulife Finance Corp. guarantor) at 'A-';--CAD500 million 4.165% fixed/floating subordinated debentures due 2022 (Manulife Finance Corp. guarantor) at 'A-';--CAD200 million 2.819% fixed/floating subordinated debentures due 2023 (Manulife Finance Corp. guarantor) at 'A-'.

John Hancock Life Insurance Co (U.S.A.)--IFS at 'AA-';--IDR at 'A+';--USD450 million surplus notes 7.375% due 2024 at 'A'.

The John Hancock Life Insurance Company of New York--IFS at 'AA-'.

John Hancock Life & Health Insurance Company--IFS at 'AA-'.

John Hancock Global Funding II--Global MTN program at 'AA-'.

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:--'Insurance Rating Methodology' (Nov. 13, 2013)

Applicable Criteria and Related Research: Insurance Rating Methodology -- Amended  
[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=723072](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072)

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