

**March 9, 2011 / 10:30 am**  
**MFC Presentation at the Citi 2011 Financial Services Conference**

**MANULIFE FINANCIAL CORPORATION**  
**CITI 2011 FINANCIAL SERVICES CONFERENCE**  
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**Colin Devine**, *Equity Research Analyst, Citi -*

All right, we'll get going with our next presentation. Our speaker is Paul Rooney, the President and Chief Executive Officer of Manulife Financial's Canadian division.

Mr. Rooney is actually a true lifer, 24 years of Manulife, and he's also frankly my favorite kind of executive because he's an actuary and I think that's certainly something. When you look at life companies, there are those run by salespeople and those run by actuaries. And I think what you want as investors are those companies with a very strong actuarial discipline.

Manulife is a company that certainly has had some challenges over the past few years. I think it's fair to say those challenges have largely resided with its John Hancock operations here in the States.

I know what Mr. Rooney's, Paul's going to talk about today is really to me what's the backbone of this company and what is truly one of the great global franchises in life insurance, but that is its Canadian business. Back in Canada where I'm from, Manulife is a household name. It truly is an oligopoly up there. And when you look at the strength of this franchise and its ability to generate consistent cash flow and stable earnings, I think it is second to none.

And so with that, why don't I turn it over to Paul.

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**Paul Rooney**, *President and Chief Executive Officer, Manulife Canada -*

Thank you, Colin. Can everyone hear me all right? Good morning, everyone. I hate to disappoint Colin but I'm not just going to be talking about the Canadian division. I'm going to be talking about the worldwide franchise and our strategies, not only in Canada but around the world.

I think one of the best parts about Manulife is diversification and balance. We have balance by geography. We have balance by product line. We have balance by risk. He is correct in that we might have become a little imbalanced in some of our risks but we've taken great strides to improve that in the recent past and we have plans to continue along those lines to ensure that we don't have any one risk on our balance sheet that overwhelms any of the others.

First, I'll need to start with the legal disclaimer. I think you've seen it all before regarding forward-looking statements. I'll give you eight seconds to read all of this and then I'll move on with my presentation.

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The agenda for today: I'm going to start with a high level overview of the strategy of the company and I'm sure some of you will be aware of this but I think it'll be a useful exercise for members of the audience who are not as familiar with Manulife. I then want to talk about some key areas of focus that we've highlighted in the past. And then I want to discuss the exciting opportunities ahead for us, but not just in general, by major division, U.S., Canada, and Asia, because each territory has unique opportunities and unique strategies. And then in conclusion I want to talk about the progress that we've made on meeting some of our objectives, specifically in the areas of risk management.

So let's start with the overview of the company and the strategy. As Colin said, we're a global presence, one of the -- thank you, Colin -- one of the most successful I think you said or one of the strongest global presences in our industry. We have a very recognized brand and very strong financial strength.

We operate as John Hancock in the United States, which is one of the most recognizable brands in the world. We trade on multiple exchanges, the TSX, New York Stock Exchange, the Hong Kong exchange, and we are exceptionally well capitalized with a capital ratio at historic highs. We demonstrate strong claims paying ability and exceptional financial strength.

As you can see from this slide, we are one of the world's largest life insurance-based companies and one of the largest top tier in North America as well. This is in terms of market capitalization.

We have a multi-faceted strategy for our business worldwide. The key theme is that we want to accelerate growth. Coming through the economic crisis and some of our challenges on risk, we haven't been as focused on growth but we now find ourselves in a position where we have strong capital positions, significant proportions of our risk are behind us, and now we want to accelerate our growth theme.

In order to do this, we want to grow businesses. We want to grow the right businesses. We want to focus on businesses with high ROEs, low capital, high margin businesses. And I know that sounds easy but when you have some businesses that are long tail in nature, long tail guaranteed insurance in nature where low interest rates tend to make it more challenging to earn high ROEs, it's important to build that balance. So while we plan on deemphasizing certain product lines or maintaining share in certain product lines, there are a lot of lines around the world where we see opportunities for accelerated growth and accelerated ROE.

We also want to actively promote and manage our brand, Manulife in Canada and elsewhere in the world and of course John Hancock in the US. And we want to manage our capital very effectively and keep it at unprecedentedly high levels so that we can ensure that all of our policy holders have nothing to worry about in our ability to meet our claims. At the end of the day in the insurance business, you're only in the business of making promises and our ability to keep those promises are fundamentally driven off of our expected reserves, the provisions for adverse deviation that we hold against those reserves, and finally our ultimate capital position. And when I look at our provisions for adverse deviation today and our total level of capital that we hold, I have absolutely no concern and none of our policyholders around the world should have any concern of our ability to meet our obligations.

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Another key focus of our strategy is to become less reliant on long-term guaranteed products and more reliant on adjustable and fee-based products. Our strategy is to drive our key strategic priorities and objectives that were highlighted at our Investor Day last November. These are very simple and perhaps a little bit obvious but we put a lot of emphasis on them in the company.

Number one is growth. We also want to maintain a strong capital and financial strength, improve our ROE, manage our risks, and continue to offer very high quality value propositions for our clients. We want to increase our net income to \$4 billion by 2015 and I believe that will be very high quality earnings when we achieve that result. We will maintain a strong capital and financial strength and maintain our very, very, very strong MCCR ratio.

We intend to improve our ROE to 13 percent by 2015 and you should know that we have for some time been pricing all of our products well in excess of 14 percent and those will move into our in-force base over time. We want to shift the business away from products containing excessive risk, particularly interest rate and equity risk and we want to hedge or reinsure exposures through this capital and earnings at risk measure. And finally, we'll continue to deliver solutions for clients around the world.

So that's just a brief overview of our strategy. Next, I want to talk a bit about our way forward and where we're going and I want to do this territory by territory.

Now it's important to note that we are very well diversified and operating in three of the largest economies and four of the top ten in the world. Now you'll notice that we don't have any presence in Europe. We've looked at Europe. We've looked at the market itself. We don't see a Pan-European strategy that's successful today. And at this point we don't have any intention of going directly into Europe but that doesn't mean that we would never be there as a broad-based international diversified financial services company. We would also always entertain opportunities but it would likely come with other opportunities attached to it around the world.

All three of our regions generate a very balanced approach and a very balanced contribution to our bottom line. You can basically see here that our three major operating territories each contribute roughly equal proportions of our after-tax earnings. The third piece is corporate and reinsurance. Reinsurance is a smaller piece of that 23 percent. We also have a number of earnings contributors from the corporate office.

It's important to note that unlike some of our peers, however, that Asia is not just a future growth story, but it's a current success story. It generates significant earnings for us and it is our most powerful engine for growth today and going forward.

However, the characteristics of each of these regions and markets are very different and this slide highlights how they vary. We can see the differences in GDP and the projected growth rates for the life insurance premiums and the key features of each market. The presence of these different characteristics mean that we have fundamentally different strategies for each region.

In Asia, where GDP growth is higher, insurance penetration is low and projected insurance growth rates are higher, especially in the emerging Asian countries. It's important to note the

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projected insurance premium growth rates in emerging Asian economies is 9.4 percent and we currently have offerings in all of these economies in China, Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Canada and the U.S. are more mature, slower growth markets but still offer tremendous opportunities for growth.

We plan to accelerate growth in Asia and have an opportunity for double digit growth on a continuous basis, not just by targeting the faster growing economies like China and the ASEAN countries but also high value and mature economies such as Japan, Hong Kong, Taiwan, and Singapore.

Asia is expected to be our growth engine and one of my key roles as head of the Canadian division is not only to run a low risk, well diversified financial services company but also to deliver strong distributable earnings to our shareholders and to allow us to continue to over-invest in Asia where we see the greatest growth potential. We are repositioning ourselves in the U.S. market to focus on higher fee-based products including mutual funds and retirement plan services. And in Canada we expect to maintain our diversified financial services approach and to focus on retaining our in-force clients as well as cross-selling to our in-force clients.

Now let's see the progress that we're making on the following slides. First in Asia: We're seeing our targeting efforts in Asia paying off. Insurance is our primary focus and insurance sales have grown to over \$1 billion in 2010. This is a key milestone for the company and we are very proud of this accomplishment. Another sign of the progress in Asia is the number of agents that we have. We've seen a 21 percent growth rate now and have over 42,000 agents and this not only delivers strong current growth but also bodes very well for future growth. We're also seeing an impact with the new bank distribution channels as we've been adding these and they're starting to contribute quite nicely. Twenty-one percent of our insurance sales in the fourth quarter came from the bank channel, up from just six percent the prior year.

Asia is expected to lead the world's economic growth. I don't think I have to tell anyone in this room that. But it's also expected to be a big contributor for us. The GDP is projected to increase from 32 percent in 2008 to 37 percent in 2015. In addition, the addressable population is expected to grow beyond 2.2 billion by 2015, increasing by over one billion in that short time span and the addressable population is really the part of the population that we believe will be growing in their economic power and have the needs for the products and services that we sell. And given these strong metrics, we will continue to focus heavily on these regions.

With a Pan-Asian strategy to expand our presence and target a range of opportunities, all Asian territories are expected to grow. We plan to build our brand and manage our distribution channels to add wealth to our insurance products. This is core to the Asia strategy.

However, there are ten different markets in Asia and each one has slightly different characteristics and we will be employing different tactics. We are growing in China and will continue to aim to be the number one foreign insurer in China. We have expanded in ASEAN by adding bank insurance and are now adding wealth management to our insurance product offerings. In Hong Kong, we are focused on retention efforts and leveraging our strong brand to cross-sell products and services. And finally, in Japan we are adding fixed annuity and mutual fund wealth products to our insurance focus and expanding our distribution channels.

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Now moving along to John Hancock, we are transforming our business here to focus on higher return, fee-based products and services. We are in a great position to leverage our strong brand and to grow our businesses in the targeted areas. And these targeted areas are our mutual funds and our retirement plan services within wealth management. In insurance, we have leading shelf space with distributors and an industry-leading position in variable universal life and are repositioning our universal life lineup to improve the pricing to find a better balance between returns for our shareholders and value to our clients.

The one thing we probably don't stress enough is the value of the brand in John Hancock and as we go through this transition in John Hancock, there are two things that I believe will make the difference in our ability to effectively execute that transition. The first is the brand and the second is our distribution strength, which I'll talk about in just a few minutes.

We're making very good progress towards our repositioning efforts and here are some early results: We grew our mutual fund business by 48 percent in 2010 with just under \$10 billion in new deposits. And I come from Canada and there are companies in Canada who consider themselves mutual fund companies who don't have \$10 billion in assets under management. So great progress on the mutual fund side.

The 401K business continues to grow and flourish, up 16 percent year-over-year. And we've reduced our focus on variable annuities and the fixed product business, both down approximately 50 percent year-over-year. We remain in the market for both of these businesses but are only going to participate in a way that makes sense for us and our shareholders. As part of our repositioning efforts, we are happy to give up some market share in these businesses but price the products to deliver margins that make sense. We believe repositioning efforts in the US are going to work well and drive our management objectives towards our 2015 goals.

We also remain exceptionally well positioned in distribution in the United States. Distribution is one of our key competitive advantages and you can see from this slide that we are number one or number two ranked as a life insurance company amongst independent distributors. We believe distribution is a key component of our success in both insurance and wealth management.

On the wealth management side, we are reducing our emphasis on variable annuity products but are using our distributors and our wholesalers to reposition ourselves on the targeted business like the 401K business and our mutual fund business. These same distributors are the ones that sell into the small and medium sized businesses which will augment our 401K offerings. It's this combination of a wonderful brand and the strong distribution presence that gives us confidence that we will be able to successfully continue to reposition our US business.

And lastly, I'd like to talk a bit about Canada. I said at the beginning our focus in Canada is a broad-based diversified financial services company and the theme is all about balance. We want to be in a multitude of businesses, each with significant share in the market that they serve and no one risk or one product line dominating our balance sheet or our income statement.

We have leading positions in many businesses, about 20 percent share of the life insurance business in Canada, about 22 percent of the group benefits business in Canada. So those businesses will have a more difficult time trying to reach double digit growth and I don't think we

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should expect them to in a mature market. However, we have a number of businesses like the bank, like our mutual funds business, like our defined contribution business, like our affinity business and our small case group businesses which can easily continue to generate double digit growth in top line and bottom line. And it's one of our key competitive advantages in Canada which is our leading distribution capabilities where we are number one in all the three major independent distribution channels in Canada.

But again, the key to success is balance, balance across all product lines, balance across all risk categories. Our distribution varies by major business but we are in virtually every major distribution channel in Canada in a meaningful way except for career distribution. We have shied away from career distribution and have no plans to enter career distribution in the foreseeable future.

On the retail side, we are ranked number one in all three retail channels, independent advisors, the national accounts, and managing general agents. Since 2008 we have been number one in life insurance sales in all three of these channels and we really need to be and our focus is on being number one or number two in sales with every advisor that we deal with. If you look at the stats, the vast majority of advisors will give 80 percent of their business to their top two providers, not only in their life business but also in other businesses.

If I look to this stat, our universal life advisors, we took the top 500 universal life advisors and out of the top 500, 499 of them sold other Manulife products and services. Almost 80 percent of these advisors not only sold life products like universal life, term life, disability insurance and critical illness, but they also sold--70 percent of them also sold wealth products, being mutual funds, banking products or segregated funds and variable annuities. And it's this distribution focus of helping advisors build a broad-based financial services approach and then delivering the products and services to meet those needs which is core to our success in Canada.

On the group side, we sell through many of the same independent channels but we also sell through group brokers and consultants who deal in the large case market. And finally, we're growing our abilities in the direct channel. Our affinity markets business is all about direct to consumer business. I ran it at one time and it was a very small business earning very little for the company. Today it is a meaningful part of the Canadian division and we continue to grow and expand our direct distribution and our direct sales at double digit rates, as well as Manulife Bank where we are starting to see some consumers coming directly to us although Manulife Bank is largely an internet-based bank sold through advisors.

This is one of the greatest opportunities we have within the Canadian division. We serve one in five Canadians today. We have about seven million customers in our Canadian division and they vary all over the map from individual life customers to mutual fund customers to bank customers to group benefits customers, etcetera. And one of the great growth strategies that we have within the Canadian division is our opportunity to cross-sell to these clients and to bring our products and services to them in multiple ways.

I'll give you a couple examples just to give you a sense of some of the initiatives we have. The group benefits business, you can see we have about three million customers in our group benefits business and these customers look like any other Canadian. About a third of them are going to retire in the next 10 to 15 years. They're Boomers. And the phenomenon that's

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occurring in Canada is that employers are moving away from providing post-retiree benefits. So these people are going to be retiring with no post-retiree benefits and in need of dental, vision care, some small life insurance benefits to replace what they had in their group benefits plan.

We have our affinity markets business which sells individual health and disability products and dental products, etcetera. We have an individual health business that's flourishing in affinity markets. What they've done together is built a program called Follow Me. When someone retires from one of our group plans, they are then offered a Follow Me product which looks exactly like what they left from the group plan basis except now it's sold on an individual basis and we keep that client. Some of the employers actually will pay the first couple years' premiums on behalf of the retiree to transition them into retirement.

Another simple example is between group benefits and group retirement solutions. When you look at the customer base, they're the same customer base and we're dealing with the same CFO or the same head of human resources in these companies that we're trying to bring benefit plans or pension plans to. And in the past, we have not done a good job looking at those clients and leveraging the benefit of selling them multiple products.

We've changed our focus quite dramatically. We're sharing distribution between those businesses now. We're working on pricing activities together. We're building common websites so the employees of these companies don't need to go to their benefits website or to their pensions website. They can have one Manulife website where they can see all their benefits and pensions together. And this convergence is working very, very well for us.

Almost 20 percent -- or sorry, 23 percent of our group pension sales last year and we had a record sales year last year where we're number one in market share in the group pensions business, 23 percent of our sales came from existing group benefits clients. So continuing to leverage our client base and our relationships across these boundaries is a strong growth engine for us in Canada.

One area that we don't talk enough about in terms of broad-based financial services company is our bank and as you can see from 10 short years ago where the bank earned virtually nothing, contributed next to nothing to our bottom line and had less than a billion dollars in net lending assets, today we have over \$13 billion of net lending assets, over \$16 billion of assets in the bank and it's contributing about \$121 million to after-tax earnings for the Canadian division. It's our fastest growing business. It will continue to be our fastest growing business and it's built off of a very unique product called Manulife One.

Manulife One reshapes the way Canadians bank. We have no competitors nor serious competitors in the marketplace today. And quite simply, instead of having a mortgage and a checking account and a savings account and lines of credit and all of these different inefficient pieces where the banks are making a lot of money on the float by borrowing money from you at a very, very, very low rate and lending it back to you at a very, very high rate, it collapses everything into one account where you can leverage the value of compound interest and become debt-free years and years sooner and save thousands of dollars in interest.

We sell this product through our advisors and this is becoming a critical arrow in the quiver for our advisors. A lot of advisors are starting to lead with this product as they start relationships

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because once they develop the relationship and help clients save thousands of dollars in interest and help them become debt-free sooner, they're much more comfortable talking about mutual funds, segregated funds, insurance products, disability products because they now have a trusted advisor that has helped them in their banking relationship. It's our fastest growing product line and we continue to expect it to be our fastest growing product line for the foreseeable future.

In closing on Canada, our focus is on balance, our focus is on continuing to build a broad-based diversified financial services company where no one risk dominates the balance sheet.

Lastly, I just want to take a few minutes to talk about our progress on risk management because I think our position is fundamentally different than where it was just a year or two ago. And the first area is on our equity sensitivity. It's kind of a tricky chart to look at. But the important thing is that the two lines in the bottom and the top are converging so that the positive earnings impact of a 10 percent equity market increase is lower, down to under \$500 million, but also the potential losses to a 10 percent equity market decline as a company has reduced from about \$1.2 billion down to \$740 million at the fourth quarter of 2010. We are actively hedging and we're reducing both on a dynamic basis and a macro basis our equity sensitivity.

We're not done. We set goals to be 60 percent of our earnings at risk hedged by 2012 and 75 percent by 2014. We're very close to hitting the 2012 targets and if we continue this momentum we will be able to achieve our 2014 targets well before year-end 2014. It's a critical element of our strategy and one that I believe we're executing very well.

The other area is our interest sensitivity and as you can see from this slide we've reduced our interest rate sensitivity from \$2.7 billion in the second quarter of 2010 down to \$1.8 billion in the fourth quarter of 2010. And these sensitivities are sensitivities to 100 basis point decline in interest rates.

I think part of the story that we're not telling as well as we should is what the real economic impact is on declining or increasing interest rates. As you can see, the \$1.8 billion is the impact of 100 basis points decline in interest rates on our liability segments.

However, we hold significant long bonds and liquid assets in our surplus segment as well. And under Canadian accounting, you mark the liabilities to market but you do not mark the surplus assets to market, so we have a natural hedge in our surplus segment so if interest rates fell 100 basis points we would have a \$1.8 billion loss in our liability segment offset by \$1.2 billion of market gains in our bond segments in the surplus and if we chose to sell those assets our true economic exposure would be about \$600 million. And if interest rates do fall, we would harvest some of those gains in the surplus segment as a natural hedge to our earnings sensitivity on this measure. But I think it's important to note that the true economic sensitivity is much, much smaller than the \$1.8 billion.

We're also making great progress on changing our product mix and reducing our risk by adjusting the balance of our products. As you can see, on the insurance side we've grown quite dramatically and most importantly in Asia where we've set our sights on significant growth and we're achieving those results. On the products that we still want to grow in Canada and the

U.S., we're seeing great success. All of our products that don't have the long tail guaranteed nature in Canada are growing.

We've increased prices on long-term care, on no lapse guarantee universal life in the U.S. and on level COI universal life in Canada to the tune in Canada of about 20 percent. We're trying to find a better balance between shareholder return and policyholder value. And the best news of all is that in Canada all of our key competitors have also announced price increases as well and we will continue to look at our pricing and potential price increases going forward as this low interest environment persists.

On the wealth management side, we're very pleased with our progress in the 401K business in the U.S., exceptionally thrilled with our progress in the mutual fund business, both in Canada and the U.S., and all of the businesses that we want to grow or we like the risk profile continue to grow. So not only from a balance sheet perspective are we changing our risk profile, but also from a product perspective.

In conclusion, we are very well positioned for growth. We continue to address the challenges head-on and are improving our risk profile. Our three operating divisions have very unique characteristics but each has a strategy for growth.

In Asia, we must capitalize on our accelerated growth opportunities and a disproportionate share of all of our investment dollars will be funneled to Asia. We have a focused transformation strategy well underway in the U.S. and our strong brand and our strong distribution capabilities give us great confidence that we will execute well on this transformation. In Canada, we want to maintain the broad-based financial services approach.

And the key to success around the world is balance: Balance across product lines, balance across geographies, balance across risk profiles. If we can achieve that balance, any one cog in the wheel may not be working perfectly, but none of the -- any broken cog or any cog that might be challenged will not slow us down one iota. And it's this balanced theme that we'll be driving going forward.

I hope this provides you with a reasonable overview of Manulife and now I'm opening the floor to questions. Thank you. Any questions this morning? Yes, sir?

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## Q & A

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### **Unidentified Speaker #1 -**

Regarding the business in Asia, a few questions. First, can you talk about the exposure of in terms of the investments or the footprint of both assets and liabilities on the Asian book? And I guess the next -- or few questions, the second one being what is the experience like competing against the state-sponsored companies in China?

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**Paul Rooney -**

Well, I'm not going to give as crisp an answer as you'd like because Bob Cook runs the Asian operations, but in terms of our asset strategy, our asset liability strategies are consistent around the world. We look at the liability segments that we sell -- some are short-term insurance products, some are long-term insurance products -- and we build unique portfolios of assets.

We don't commingle our group liabilities with our long tail life insurance liabilities. We segment them. We create separate asset portfolios, separate asset strategies, separate asset management philosophies with bonds, mortgages, equities, private equities, infrastructure investments, etcetera. And China and Asia are no different. We segment our liabilities and our assets depending on the characteristics, the unique characteristics of those product lines and then manage them accordingly. We do that in Canada and the U.S. and in Asia. So what you'll see for the long tail products is a lot of fixed income but also augmented with non-fixed income assets for the long tail exposures and for the shorter duration products it will be primarily fixed income assets backing those liabilities.

In terms of competing against state-owned firms, I really don't feel well-versed enough to answer it directly. But our goal in China, for example, is to be the number one foreign insurer. We believe that to be a very tangible goal. And I was recently in Asia and in China and it was remarkable what an entrepreneurial and capitalist culture they have so that I think if you build great products and services, have a great distribution organization, and bring value proposition to the table you will find your place in that marketplace.

My experience there is they are a very capitalist country, very capitalist society, and yes, firms might be state-owned but good products and services I believe will always win out when that culture exists. And that's why we're so bullish on China and its transformation.

Any other questions? Yes, sir?

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**Unidentified Speaker #2-**

Just a quick question. With the U.S. long tail business that I guess you had some problems with, how well reserved are you for that? Is that -- are we past that now or what's...?

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**Paul Rooney -**

Are you talking about the long-term care business?

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**Unidentified Speaker #2 -**

That's right.

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**Paul Rooney -**

In the long-term care business we took a very significant reserve increase in the second quarter -- I'm sorry, the third quarter of last year -- and we project all our assets and liabilities and come up with what we believe to be an appropriate reserve level. That reserving depends on our

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ability to increase prices, not only on new business but on in-force business and in order to get those price -- now we haven't accounted in our reserves for the full value of those price increases. Some will be delayed as you have to go state by state to get the approvals.

We're very cautiously optimistic about our ability to get those price increases. They're about 40 percent in total. But it's not just asking the consumer to pay more. We're taking to the consumer the option of saying you can either pay more for these benefits or you can reduce your ultimate benefits and pay the same premium or something in between. I think choice is very important.

It's being well received by the regulators in all of the states and we've already had five state approvals on our full price increases, one very influential state. That's not a trend yet but we're cautiously optimistic about our ability to deliver those price increases and we believe our morbidity assumptions for that business are reasonable and so at this time see no need to increase reserves in that business. But depending on interest rates long-term and all sorts of other factors, when it comes to reserving you can never say never. It's projection of 40, 50 year liabilities, not just in the U.S. but around the world.

Any other questions?

Well, thank you very much and have a great day.

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