

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call**

**Event Date/Time: May. 06. 2010 / 6:00PM GMT**



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

## CORPORATE PARTICIPANTS

**Amir Gorgi**

*Manulife Financial Corporation - VP IR*

**Donald Guloien**

*Manulife Financial Corporation - President & Chief Executive Officer*

**Michael Bell**

*Manulife Financial Corporation - SEVP & Chief Financial Officer*

**Simon Curtis**

*Manulife Financial Corporation - EVP & Chief Actuary*

**Beverly Margolian**

*Manulife Financial Corporation - EVP & Chief Risk Officer*

**Jim Boyle**

*Manulife Financial Corporation - SEVP & President, John Hancock Financial Services*

**Scott Hartz**

*Manulife Financial Corporation - EVP, General Account Investments*

## CONFERENCE CALL PARTICIPANTS

**Steve Theriault**

*Bank of America-Merrill Lynch - Analyst*

**Colin Devine**

*Citigroup - Analyst*

**Andre-Philippe Hardy**

*RBC Capital Markets - Analyst*

**Tom MacKinnon**

*BMO Capital Markets - Analyst*

**Mario Mendonca**

*Genuity Capital Markets - Analyst*

**Darko Mihelic**

*Cormark Securities - Analyst*

**Doug Young**

*TD Newcrest - Analyst*

**Michael Goldberg**

*Desjardins Securities - Analyst*

**Eric Berg**

*Barclays Capital - Analyst*

## PRESENTATION

**Operator**

Please be advised this conference call is being recorded. Good afternoon and welcome to the Manulife Financial Q1 2010 financial results conference call for May 6, 2010. Your host for today will be Mr. Amir Gorgi. Mr. Gorgi, please go ahead.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Amir Gorgi** - *Manulife Financial Corporation - VP IR*

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our first-quarter 2010 financial and operating results. Today's call will reference our earnings announcement statistical package and webcast slides, which are available on the Investor Relations section of our website at [www.manulife.com](http://www.manulife.com).

As in prior quarters, our executives will be making some introductory comments. We will then follow with a question-and-answer session.

Today's speakers may make forward-looking statements within the meaning of securities legislation. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied. For additional information about the material factors or assumptions applied and about the material factors that may cause actual results to differ, please consult the slide presentation for this conference call and webcast available on our website, as well as the securities filings referred to in these slides titled Caution Regarding Forward-Looking Statements.

When we reach the question-and-answer portion of our conference call, we would ask each participant to adhere to a limit of one or two questions. If you have additional questions, please requeue and we will do our best to respond to all questions. With that, I would like to turn the call over to Donald Guloien, our President and Chief Executive Officer.

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you and good afternoon, ladies and gentlemen. At our annual meeting this morning, Michael Bell and I talked about our efforts to strengthen ROE and generate long-term value for our shareholders by balancing the business, reallocating capital, earning solid margins, innovating, extending our product reach and making disciplined acquisitions.

We also spoke from the perspective of a strong successful Canadian company concerning global financial reform and the leadership that Canada has been showing on these ongoing developments.

I also want to mention a few of the personnel changes we announced in our press release this morning. You will have noticed that we have decided to eliminate the Chief Operating Officer role. We felt the time is right to have the leaders of our divisions report directly to me as CEO and I will provide direct support to these divisions as we grow the businesses.

Most of you know John DesPrez very well. He accomplished a great deal in his Chief Operating Officer role and was incredibly helpful to me in my first year as CEO, and indeed through his entire career at Manulife. John is a talented leader and will now move on to new career challenges with our thanks and appreciation.

We also note that Simon Curtis who is with us here today on the call has decided he wants to return to corporate development, which is an important area for Manulife's next stages of growth.

Our CFO for Asia, Cindy Forbes, will succeed Simon in the role of Chief Actuary. I think this reflects the great talent and bench strength that we have at Manulife. Cindy will work very closely with Simon over the transition period and Simon will be deployed in some very exciting activities in the future.

This afternoon, we are pleased to take you through our first-quarter results in more detail. I will make a few opening remarks before turning it over to Michael Bell to discuss our financials.

This morning, we reported a highly satisfactory first quarter. We delivered sales growth in our targeted business lines, managed expenses effectively, maintained strong capital, reduced risk and achieved strong earnings and ROE for our shareholders.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

Net income for the first quarter rose significantly from a year before to CAD1.14 billion or CAD0.64 per share and we have generated a solid return on shareholders' equity of 16.8%. Our capital remains strong with an MCCR ratio at Manulife Insurance of 250%. And our investments' credit experience was positive relative to market conditions.

We also made significant progress hedging our variable annuity position at opportune times during the quarter. While we are keeping an eye on the long game, and I don't like to focus too much on any single quarter, it was pleasing to report our sales and new business embedded value results for the first quarter. We demonstrated solid growth in our targeted business lines where strong brands and distribution networks enabled us to expand our sales of quality products at good margins.

This quarter, our insurance sales were up 35% in Asia with China and Taiwan leading the way with a strong collective increase of 45% from those countries. Our US retirement plan services grew by 66% and our mutual fund sales increased 105% in the United States and over 260% in Canada. That is close to CAD3 billion in mutual fund sales in the first quarter of this year.

New business embedded value increased 22%. Notably, we reduced our reliance on variable annuity products where sales were, in fact, down 39%, but the corresponding new business embedded value increased 37%. So overall, a good quarter. We remain focused on executing against our plans and we are cautiously optimistic about future economic trends. With that, let me turn it over to our CFO, Michael Bell, to provide you with more details.

---

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Thank you, Donald. Hello, everybody. Today, we reported first-quarter shareholders' net income of CAD1.14 billion, which equates to CAD0.64 a share on a fully diluted basis. Our results from the first quarter included strong top-line and net income results. Net income included solid underlying earnings and the benefits of the positive equity market performance and the favorable impacts that this quarter's investing activities had on the valuation of policy liabilities. These benefits were partially offset by additional tax-related provisions on leveraged lease investments, changes in currency rates and unfavorable policyholder experience.

Slide 8 provides a summary breakdown of the notable items included in this quarter's after-tax earnings. As noted on the slide, the quarter's equity market performance resulted in a net gain of approximately CAD350 million. We also experienced CAD195 million in net gains related to investing activities and other investment-related items. The majority of these net gains related to our fixed income investing activities, which had a favorable impact on the valuation of our policy liabilities.

Specifically, while our valuation model makes certain assumptions about our expected investment of positive cash flow, recent actual investment activity was favorable relative to those assumptions. The remaining investment amounts related to a net mark-to-market gain of CAD83 million on our oil and gas and private equity investments mostly offset by a mark-to-market loss on our real estate, timber and ag properties of CAD67 million. Net credit charges of CAD17 million and downgrades of CAD15 million were only slightly higher than the long-term expected assumptions built into our valuation of our policy liabilities.

In addition, as noted in our 2009 annual report, we increased our tax-related provisions on leveraged lease investments by CAD99 million and this was partially offset by a release of CAD24 million of other tax provisions.

Net policyholder experience resulted in a charge of CAD31 million after-tax. This largely was due to the unfavorable US long-term care morbidity experience and the unfavorable lapse experience in US Life. The strengthening of the Canadian dollar relative to June 30, 2009 levels reduced earnings by CAD42 million. As you will recall, the June 30, 2009 rates are used in our definition of adjusted earnings from operations. So adjusting for these items, our adjusted earnings from operations for the first quarter totaled CAD742 million after tax, which was within the range of our expectations.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

Slide 9 details the impact of equity markets on our results in the first quarter. As noted, the S&P TSX, the S&P 500 and the TOPIX increased during the quarter by 2.5%, 4.8% and 7.8% respectively. We estimate that the positive equity market performance resulted in a net gain of approximately CAD350 million.

On slide 10, we have provided summary metrics relative to our efforts to reduce equity exposure. Our actions to reduce equity exposures combined with the impact of the improvement in global equity markets have resulted in a significant reduction in our amount at risk or in-the-money amounts net of reinsurance and hedging.

At the end of first quarter, the amount in-the-money net of reinsurance and hedging was CAD8.1 billion and down by over CAD20 billion from a year ago. We continued to increase the amount of inforce business hedged as we hedged an additional CAD15.2 billion of guaranteed value of inforce business in the first quarter and increased the total percentage of gross guaranteed value hedged or reinsured to 51%, up from 23% a year ago.

Since June 30 of 2009, we have hedged over CAD22 billion of the amount of inforce at that time. We estimate that this will reduce the expected average run rate of quarterly earnings in the future associated with this block by approximately CAD30 million after-tax per quarter if markets perform consistently with our long-term expected assumptions.

Now while this is our current estimate, we will likely continue to refine and periodically update this estimate in the future as we consider the potential expansion and enhancements to our hedge program and as additional data emerges. These results are in line with our concerted efforts to reduce our overall equity sensitivity and we are very pleased with the progress we have made during this quarter in this regard.

Turning to slide 11, under Canadian GAAP, changes in interest rates impact the actuarial valuation of inforce policies by changing the future returns assumed on the investment of net future cash flows. During the quarter, the corporate bond rates and credit spreads used in our valuation of our liabilities increased slightly and had a minimal impact on reported earnings.

Now the interest rates we use differ modestly from the overall Bloomberg indices, primarily since our valuation rates consider our projected investment purchases in the future taking into account our expected investable universe. Specifically, our methodology for projecting our investable universe has not changed and excludes the outlier spreads -- both the wides and the narrows.

Turning to slide 12, our fixed income portfolio continued to perform very well relative to overall market conditions with net credit impairments of CAD17 million while actuarial charges related to credit downgrades were CAD15 million. This experience was mostly offset by our long-term expected assumptions built into the valuation of our policy liabilities.

Turning to our source of earnings on slide 13. The expected profit on inforce was CAD810 million in the first quarter, down by 9% compared to the prior year. Importantly, excluding the impact of currency, expected profit on the inforce was up approximately 3% with growth in our Asia and Canadian divisions offsetting the reduction in our US division. The expected costs associated with the variable annuity hedging program are included in this line and these costs have increased as we have expanded hedging over the time period.

The impact of new business of CAD142 million was more pronounced than the prior year, primarily as a result of lower interest rates. The net experience gain of CAD555 million reflects the pretax impacts of equity market gains, gains from fixed income activities on policy liability valuation, partially offset by the leveraged lease provisions and net unfavorable policyholder experience.

With respect to overall investment and market-related experience, equity performance and fixed income investing activities were favorable in the first quarter of 2010, while credit and non-fixed income experience was approximately in line with our long-term assumptions.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

Earnings on surplus funds were CAD151 million pretax versus a significant loss a year ago. And the large swing is primarily due to the improvement in the equity portfolio results. In the first quarter of 2009, we incurred impairment charges and in the first quarter of 2010, we realized after-tax gains of approximately CAD44 million. Our effective tax rate in the quarter benefited from gains in jurisdictions with lower tax rates.

I will now flip to slide 14. Slide 14 summarizes our regulatory capital position. At March 31, MLI's consolidated MCCSR was 250%, up 10 points from year-end 2009. The 10-point increase was driven by our strong retained earnings in the quarter, as well as the improvements in the equity market, which reduced the required capital for variable annuities. During the quarter, we filed our year-end JHUSA statutory statements and the RBC ratio ended the year well above our 300% target.

Slide 15 provides an updated estimate of earnings and capital sensitivities going forward. From a consolidated earnings perspective, we estimate that a one-time immediate equity market decline of 10%, followed by normal market growth at assumed levels, would now reduce reported earnings by approximately CAD1.1 billion after tax.

Similarly, a one-time immediate equity market decline of 30%, followed by normal market growth at assumed levels, would now reduce reported earnings by approximately CAD3.9 billion after tax versus the CAD4.6 billion after tax at December 31, 2009. The observed decrease in sensitivity versus the prior year-end is largely due to the lower in-the-moneyness of these exposures and increased hedging activity.

Our earning sensitivity to interest rates has not changed materially since last quarter. In addition, as noted on the slide, from a regulatory capital perspective, a one-time immediate 10% equity market decline from year-end levels is estimated to result in a decline of approximately 10 points in MLI's MCCSR.

Turning now to our top-line results beginning on slide 16. Total insurance sales in the first quarter grew by 20% over the prior year on a constant currency basis. Improving economic conditions fueled sales growth across all of our divisions led by Asia, which grew by 35% on a constant currency basis.

The next several slides detail our insurance sales by division.

Slide 17 shows the US insurance sales were up 17% over the prior year on a US dollar basis. John Hancock Life experienced a 6% increase over the prior year reflecting a gradual economic recovery tempered by management actions to increase profit margins. Long-term care sales grew by 50%, driven primarily by increased long-term care sales for the federal employee program where John Hancock is now the sole carrier.

On slide 18, insurance sales in Canada increased by 9% from 2009 levels. Improved customer confidence contributed to a 9% rise in individual insurance sales reflecting strong growth in permanent life products and a return to a larger case size. Group benefits had a good start to the year with strong results in the large case segment, up 13% from a year ago.

So let's turn to Asia now on slide 19. First-quarter insurance sales grew by 35% over the prior year in Asia on a constant currency basis, bolstered by increases in Hong Kong and Japan, which were up 64% and 37% respectively.

In Hong Kong, the growth in sales resulted from a combination of a new product launch, an increase in agent count and an improvement in agent productivity. In Japan, increasing term sales doubled relative to prior year levels. Corporate-owned life insurance and medical sales also continued their strong momentum and a new whole life product was launched in the quarter. In the Other Asia segment, sales grew 16% on a constant currency basis, led by China and Taiwan, which were up 45% collectively on the same basis. Taiwan sales were double prior year levels, driven by strong whole life sales, while growth in China was fueled by an increase in the number of agents, as well as a new product launched in March. During the quarter, new products were also launched in Singapore, the Philippines and Indonesia.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

In the first quarter, Manulife-Sinochem received two new licenses and is now licensed in 42 cities, which are home to more than 300 million individuals.

Turning to slide 20, total company wealth sales, excluding variable annuities, increased by 21% over the prior year on a constant currency basis. Sales of retail variable products and group retirement savings grew by 51% on that basis as a result of stronger equity markets and effective marketing and distribution efforts. Results were partially offset by a decline in demand for fixed products.

The next several slides detail wealth management sales by division.

So turning to the US on slide 21, first-quarter wealth sales, excluding variable annuities, increased by 53% on a US dollar basis. The overall increase was due to growth in John Hancock mutual funds and retirement plan services, which were up over the prior year by 105% and 66% respectively.

Significant advances in these productlines were attributable to the equity market recovery, competitive fund performance on a broad offering of mutual funds and the strong distribution relationships built over the last few years.

The strong results in mutual funds and retirement plan services also drove increased net sales up by CAD1.2 billion compared to the prior year. Strong results in these businesses more than offset a 45% decline in fixed products, which decreased in light of reduced demand and management's focus on higher margin products.

On slide 22, in Canada, first-quarter wealth sales, excluding variable annuities, were 1% higher than in the prior year. Manulife mutual funds enjoyed one of its best quarters in our history as good execution in combination with favorable markets lead to an almost fourfold increase in gross sales.

Our group savings and retirement solutions businesses increased their sales by 10%, in part due to successfully leveraging our group benefits customer relationships. Fixed rate product sales were down 38% from the record levels in 2009. Manulife bank loan volumes were down 10% reflecting real estate market declines, as well as competitive pressures.

During the quarter, Manulife continued to expand its distribution relationship with Edward Jones allowing their advisers to integrate our innovative debt management and banking solutions into their clients' financial plans.

On slide 23 in Asia, overall first-quarter wealth sales, excluding variable annuities, experienced a 51% decline over the prior year on a constant currency basis. Wealth sales in Hong Kong were down relative to a strong prior year quarter and in the first quarter of 2009, it is important to note that sales included a one-time top-up of pension funds by the Hong Kong government, which was not repeated this quarter.

In Taiwan, wealth sales were impacted by a significant decline in money market mutual fund sales from prior year levels. And during the quarter, new wealth products were launched in Japan, Malaysia, Indonesia and Taiwan.

Turning to slide 24, first-quarter variable annuity sales decreased by 39% versus the prior year on a constant currency basis and this is largely as a result of management's ongoing initiative to better balance our risk profile across all geographies. Sales declines in Canada and the US were partially offset by an increase in variable annuity sales in Japan where sales increased in advance of April 1, 2010 tax changes.

Turning to slide 25, total company premiums and deposits increased 1% versus the prior year on a constant currency basis. Insurance premiums and deposits were \$5.2 billion for the first quarter, representing a 7% increase on a constant currency basis reflecting growth of inforce business.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

Premiums and deposits for the wealth businesses, excluding variable annuities, amounted to CAD9.7 billion for the quarter, representing an increase of 13% on a constant currency basis. The stronger equity markets contributed deposit growth in mutual funds and retirement savings, which was partially offset by the lower fixed product sales in both the US and Canada that I had mentioned earlier.

Variable annuity premiums and deposits were CAD2.2 billion in the first quarter, a decrease of 40% from the prior year on a constant currency basis. And this is consistent with the decline in sales as a result of ongoing risk management initiatives.

On slide 26, overall new business embedded value was up 22% from the prior year. As a reminder, our new business embedded value calculation is based primarily upon anticipated profit margins during the annual new business planning review and then used throughout the year. New business embedded value for the insurance businesses increased by 21% in the first quarter of 2010 relative to the prior year. And the increase was driven by higher sales, as well as actions taken to improve product margins.

New business embedded value for the wealth management businesses, excluding variable annuities, increased by 17% over the same quarter last year, consistent with the overall increase in sales. And importantly, new business embedded value for the variable annuity business increased by 37% in the first quarter over the prior year and the increase is attributable to product and business mix changes, as well as more favorable variable annuity hedging costs from higher swap interest rates.

Now as shown on slide 27, total funds under management at the end of the first quarter were CAD446 billion, representing an increase of 4% over year-end 2009 on a constant currency basis. This increase was attributable to policyholder cash inflows in excess of outflows of CAD5 billion and investment income of CAD11 billion, which more than offset unfavorable currency movements of CAD10 billion over the period.

Let's now turn to our investment portfolio as summarized on slide 28. Our holdings continue to be of high quality and well-diversified. 95% of our bonds are investment-grade and our invested assets are highly diversified by geography and sector. Most notably, we have no exposure to Greek sovereign debt and only CAD70 million of exposure to sovereign debt issued by the combination of Italy, Spain, Portugal and Ireland.

We have also provided on slide 29 a detailed update on gross unrealized losses on our fixed income securities. We also show the progression over the last four quarters, which illustrates continued significant improvement.

Due to general spread narrowing, gross unrealized losses declined by 26% sequentially since the prior quarter to CAD1.8 billion and by approximately 80% since the first quarter of 2009. At quarter-end, gross unrealized losses represented a relatively modest 1.6% of our total fixed income portfolio.

In addition, unrealized losses for our fixed income portfolio trading at less than 80% of cost for over six months declined by 26% since the fourth quarter of 2009 to approximately CAD800 million.

So by way of summary, we are pleased with our results this quarter, which improved significantly from one year ago. Both our top-line and bottom-line results were strong. And we have made considerable progress in further reducing our equity market exposure and we are well-positioned to execute on our top priorities. With that, I will turn it back to Donald.

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you, Michael. So let me sum up then. We are quite satisfied with our results and the returns for shareholders for the quarter. Capital remains strong, as does our investments' credit performance. Q1, we've made significant progress in reducing risk. Overall, the very hard work of our team in 2009 is benefiting us as we move into 2010.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

I am particularly pleased to point to some of the underlying results. Sales strong in all our targeted business lines and very positive growth in new business embedded value trends show that we are achieving solid margins, building value for the future. Our team is focused on the long term to execute on a range of initiatives, which will grow both our top and bottom line. Our attitude is if we focus on the right long-term strategies to build earnings and ROE, the quarters will fall into place. With that, operator, we would be pleased to open it up for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Steve Theriault, Bank of America-Merrill Lynch.

---

### Steve Theriault - Bank of America-Merrill Lynch - Analyst

Thanks very much. First question, probably for Simon. Simon, you did some lapse assumption tightening last year. I noticed in the recent quarters some of your US peers have reported a continuing worsening in lapse rates, particularly in the VA business. Should we be worried at all that we could get additional strengthening of lapse reserves later this year? Or do you still feel pretty comfortable with the steps you took in 2009?

---

### Simon Curtis - Manulife Financial Corporation - EVP & Chief Actuary

Thanks, it's Simon speaking. No, we are certainly comfortable with the steps we took in 2009. We have seen some poor lapse experience in our insurance lines, but it is primarily early duration lapses, which may be an impact from the economic meltdown that we had last year in the economy. And that would not be something that you would anticipate taking material reserve actions for. And our variable annuity lapses at the moment are quite in line with our valuation assumptions.

---

### Steve Theriault - Bank of America-Merrill Lynch - Analyst

Okay, thanks for that. And another question surrounding long-term care. Is there any thoughts -- I'm not sure who would address this -- any thoughts surrounding the impact of the new US healthcare legislation on your long-term care business? Is there any potential for reserve strengthening or noise of some sort on the back of the new healthcare reality in the US?

---

### Michael Bell - Manulife Financial Corporation - SEVP & Chief Financial Officer

Steve, it's Mike. I think it is really early to tell what the long-term impact is going to be of the healthcare reform in the US. And in particular, the possibility of the federal government in effect introducing their own kind of long-term care program. I think it's way too early before we see what the underlying regs are going to look like to draw any conclusions there. But that is certainly something we are paying close attention to and I would expect we will give additional updates in the future.

---

### Steve Theriault - Bank of America-Merrill Lynch - Analyst

Great. And just finally, any update -- any hedging undertaken in April you could or would highlight for us?



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

No, none in April. Remember, it is a function of -- what we do is a function of equity market levels, as well as swap rates and swap rates have been down and equity markets haven't been that favorable. So no, we haven't executed any swap, any hedging in April.

**Steve Theriault** - *Bank of America-Merrill Lynch - Analyst*

Thank you very much.

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Any inforce hedging. We, of course, do the new business as we write it.

**Steve Theriault** - *Bank of America-Merrill Lynch - Analyst*

Got you.

**Operator**

Colin Devine, Citi.

**Colin Devine** - *Citigroup - Analyst*

Good morning, everybody or afternoon, I guess it is. A couple questions. First, with respect to what is hedged or not hedged at this point, it would seem to me that the real problem part of the portfolio is the US variable annuities for '05, '06 and '07 are the most troublesome vintages. Perhaps you could give us some idea of where you stand with hedging those specifically because, clearly, your '08 or '09 vintages or wherever you wrote them, really aren't the issue.

Then secondly, with respect to the capitalization of Manulife in the US, I know that Sun had made a capital injection into its US business at the end of last year. Has there been any capital injection from Manulife down into its US operations?

And then finally for Michael, Rich Carbone on the PRU call today started talking about international accounting standards and some of the changes that may be coming. Obviously they are coming to Canada faster than they are coming here. Perhaps you might give us an update as to what that may or may not mean for Manulife.

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Sure, Colin. It is Mike, I will start and Bev will then add some detail on the hedging. First, on the capitalization of the US business, we did not have any net capital investments into the US subsidiaries here in first quarter. We are comfortable with our RBC ratio. It was actually well above the 300% long-term target that we pay close attention to in the US. So again, at this point, I would not expect to make net capital investments into the US subs over the course of 2010 as long as, again, markets cooperate the way we expect them to.

**Colin Devine** - *Citigroup - Analyst*

How much did you put in in 2009?

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Let's see. There were several ins and outs, Colin. I don't have a specific number and again, it was muddy because of the US legal entity merger as well. So there is not -- I can't give you a clean net number. But again, we will work with Amir to see what we can follow up with you on.

On Rich's comments on the coming attractions here with IASB and IFRS, I think it is really definitely too early to tell definitively what the timing of those changes will look like, what the impact will be, how they might possibly be implemented in Canada and/or the US. Obviously, it is something that we are paying close attention to because, as you know, we have a significant block of long-duration business and therefore, the discount rate is a particularly important issue to us. And again, we expect to see an exposure draft come out in June that we will certainly pay close attention to on.

And then there is also the issue of whether acquisition expenses get expensed or capitalized and what the rules are there. So again, I think it is early to tell how that is going to shake out as well. So again, I didn't actually listen to Rich's comments, but to me, it is way too early to draw any conclusions. Bev, do you want to add anything on hedging?

**Beverly Margolian** - Manulife Financial Corporation - EVP & Chief Risk Officer

Sure. We have -- certainly we look at trying to hedge the businesses, as we have said, when it is appropriate and when we think we will have gotten some value for our shareholders. So we are watching the markets and we are watching the interest rates. And as various blocks become -- as it becomes economical to hedge those, we do.

We have hedged a fair chunk of our Canadian business as the markets in Canada rose a little bit earlier than US. And we have hedged also US, some of the more recent blocks, but also some of our older blocks and we look at each one of them in a very detailed cohort level so that we can optimize what we are doing.

**Colin Devine** - Citigroup - Analyst

The problem is the '05 to '07s. I mean the inference I am clearly taking from your comments, okay, is because the Canadian business you charge off about 100 points more, the features are a fraction of what they are here in the States. That is not the issue. On the '05s to '07s, the inference I'm taking from you, unless you want to correct it on this call, is that, in fact, that is, for the '05 to '07 blocks are hedged less than the overall average of, I think Mike said, 51%. Is that fair?

**Donald Guloien** - Manulife Financial Corporation - President & Chief Executive Officer

Colin, let's back up a bit. Our philosophy is to hedge the cohorts when we feel it is most advantageous to the shareholder. We don't want to rush into hedging too quickly. We deliberately didn't do that. We raised equity, cut the dividend in order to fortify our balance sheet so that we could withstand a downtrend in the markets with the hope that that would not be necessary and that we would hedge as the market recovers. And that is in fact what we are doing.

I think you would be correct to infer that business that was written earlier in more buoyant equity markets would be the most out of the money and issues that were written more recently would be closer to the money. I guess the other point I would point out is that the early business, the very early business was effectively reinsured.

**Colin Devine** - Citigroup - Analyst

It is the '05 to '07, Don and to be fair, if we sat waiting to let you build CAD100 billion unhedged position -- I'm sorry. You may feel that's a cheap shot, Don, but I am hearing the same story we have had for the last few years. Thanks.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, Colin, I think we have acknowledged pretty openly that we had an unhedged position. We also promised our shareholders that we would be judicious about hedging the position. Some shareholders would have liked us to hedge it back in March. Others would prefer us not to take it at all and have the benefit accrue 100% to the shareholders. We are taking a moderate view that as we have built up fortress capital to withstand down market, but are gradually hedging it away as the market provides us the opportunity to do so. Jim Boyle has got a few remarks he would like to add.

**Jim Boyle** - *Manulife Financial Corporation - SEVP & President, John Hancock Financial Services*

Colin, Jim Boyle. I can give you a little more color on the US block. I don't have it by the exact cohorts you mentioned, but to give you some sense, 61% of the US variable annuity business is hedged or reinsured. So in total, greater percent in the US than the overall block and the net amount of risk in the entire US variable annuity book at the end of the first quarter was CAD4.2 billion. So we have made headway in all cohorts and all segments and the US is represented at least as much if not more than the rest of the Company.

**Colin Devine** - *Citigroup - Analyst*

Thank you. That is very helpful.

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

And the only thing I would point out is that the net amount of risk has decreased by approximately 70% as a result of market appreciation and the hedging activity and I can't give you the breakdown cohort by cohort on that, Colin.

**Operator**

Andre-Philippe Hardy, RBC Capital Markets.

**Andre-Philippe Hardy** - *RBC Capital Markets - Analyst*

Thank you. I want to go back to long-term care in the commentary and the annual report and again this quarter that there is likely to be reserve strengthening if current experience is maintained. You were helpful enough in your annual report to provide sensitivities on different morbidity changes. Just how much has experience been worse than projected? And can we infer the type of reserve change that we might see from that based on the sensitivities that you have given?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Sure, Andre, it's Mike. I will start. Specifically in the quarter, if you just look at first quarter, morbidity was worse than our reserve assumptions, our long-term reserve assumptions, by approximately \$30 million after tax. Now there are several reasons that I would suggest that you exercise caution here in trying to extrapolate off of that.

First of all, first quarter, from a seasonal perspective, tends to be seasonally higher than the other quarters during the calendar year. So if it was 30 at first quarter and nothing else changed, we would expect it to improve in second quarter. Whether it does or not, we will see, but that would be the normal seasonal pattern.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

We also think that a good chunk of the recent adverse experience has been a function of the weak macroeconomic environment because, again, the more recent experience has been worse and we believe that a component of that has been the poor economy and not necessarily therefore a predictor of the future run rate.

And then maybe most importantly, two other facts, Andre. A lot of the poor experience appears to be isolated in specific sub-blocks of the book of business as opposed to being pervasive across the entire block. So for example when we look at the business that was written premerger with the Hancock, that block is running substantially worse than the business that has been underwritten and sold in more recent years.

We also note that the richer benefit plans, which were predominant before the merger with the Hancock, are also the ones with a bad experience. So it is not not reasonable to assume that that same level of bad morbidity is going to exist in the business that we are writing today or the business that we have written more recently obviously a number years here post-merger.

And then the final component, which is extraordinarily important to factor in here, is our ability to get additional inforce rate increases to offset the higher morbidity. Again, we have had some reasonable success in prior rate filings. We have got some more rate filings that are being considered as we speak.

We do expect that the States will be open to good arguments on additional inforce rate increases. So as a result, we are looking at all of those things. We have a morbidity study underway as we speak. We will be looking at opportunities for inforce rate increases and I'd expect that we would give another update at second quarter and that perhaps the all-in impact would be looked at as part of the third-quarter basis change.

---

**Andre-Philippe Hardy** - RBC Capital Markets - Analyst

Now is it too early -- your annual report suggests very, very large sensitivity, 4% or 5% change in morbidity.

---

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Yes.

---

**Andre-Philippe Hardy** - RBC Capital Markets - Analyst

Is there any way the change could be that large based on what you have seen so far?

---

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Yes, Andre, I wouldn't try to size it for all the reasons that I have just described in terms of all the moving parts. I really wouldn't try to give a range on it. I just don't think that would be prudent. But I think it is fair to say that the negative morbidity, if we thought this was the new run rate, that reserve impact if we capitalized it all in a single reserve hit, that could be material.

On the other hand, the projected value of additional inforce rate increases would also be a material offset. So what you are asking me to do is to try to comment or put some kind of arbitrary range on two numbers that are moving around and could potentially be materially offsetting. So I would rather not try to give you something where we're not really on solid ground yet.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Andre-Philippe Hardy** - RBC Capital Markets - Analyst

That's fair. And just a really quick one on currency. You have tried to give us in the last two quarters the impact of currency versus your normalized earnings estimate and I was surprised that the impact was down in Q1 versus Q4 when the Canadian dollar went up against just about every currency. Can you explain that one, please?

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Sure. It's a couple different moving parts here going on. First of all, what I think you want to look at is the income statement changes as opposed to the balance sheet change because we are talked about the income earned over the quarter. And most importantly, it is really the earnings mix that is important here. So it is not just how the currency changed, but where we had the earnings and how those currency changed. It is not just the US dollar, it is also, for example, the Japanese yen. So again, there are a number of moving parts here. It is not material. We are only talking about a few million dollars, but it is not quite as easy as just looking at the Canadian dollar versus the US dollar and then drawing those conclusions. Again, the earnings mix is the pivotal piece.

**Andre-Philippe Hardy** - RBC Capital Markets - Analyst

That would make sense because, even on an average basis, the Canadian dollar was up against everything. Thank you for that.

**Operator**

Tom MacKinnon, BMO Capital Markets.

**Tom MacKinnon** - BMO Capital Markets - Analyst

Thanks very much. Good afternoon, everyone. A question on the interest rates on slide 11. I guess the change in your actuarial valuation rates is sort of different than the observable market indices, the change in the observable market indices rates. And I assume that is just because you might be heavier weighted in one group financials perhaps than what would be in the underlying index. Is that a correct statement?

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Tom, it's related to that, but not precisely that. The issue here is that -- what we try to do in the reserve model, what we try to do in the call model is project future investments and re-investments. And so what we are trying to do is look at the investable universe that we will be investing that future cash flow in.

So for example when we look at the corporate 'A' universe, we throw out the ultra-wide spreads and the ultra-narrow spreads. And the reason is that our history would suggest we don't invest in the ultra-wides because generally there is a story there and we don't tend to like the risk profile. And we don't tend to invest in the ultra-narrows because, again, we are not getting paid for the overall risk.

So what it is attempting to do is model our investable universe that is projected in for those cash flows. It throws out the two extremes. It normally doesn't really change a lot differently than the Bloomberg indices for example. But in this particular quarter, the wides that are in the Bloomberg index came in rather dramatically and therefore, the Bloomberg spreads declined, but our calm investable universe was relatively unchanged, widened just a shade.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Tom MacKinnon** - BMO Capital Markets - Analyst

Do you have any idea as to what this would look like since March 31? I mean we have certainly those indices down 20, 25 points and spreads down probably 6 or 7. So would that be a proxy to use as what would be the change in your actuarial valuation rate? I am just trying to figure out if we should just take those observable market indices since the quarter.

**Simon Curtis** - Manulife Financial Corporation - EVP & Chief Actuary

Simon here, Tom. I don't have it in front of us. I think we directionally are the same as what you are seeing in the market, but whether it is exactly the same magnitude, I don't know.

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Tom, it's Mike. I think the -- the key here is it is hard to use a single -- it is hard to use a single index and then try to extrapolate what that earnings are going to be for the full quarter. Remember, at the end of the day, it will be whatever the rates are at that magic date, June 30 in the case of second quarter, that is really going to drive the second-quarter item as opposed to where we are here in May.

**Tom MacKinnon** - BMO Capital Markets - Analyst

And a follow-up just I guess. If we're looking at slide 15, I mean markets are down considerably here both today and more importantly, I guess, since March 31. So if we are off 7% say from March 31 and we want to use this EPS sensitivity that you show for equity markets, if the markets went up 2%, you wouldn't get up in a quarter, you wouldn't get any of this gain. So if we are going to fall down 7%, do we take 9/10 of this loss?

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Yes, again, there are a lot of moving parts, Tom, but that is not a bad rule of thumb in terms of modeling. Again, there is so many different factors that go into it. But you are absolutely right. It would be the seven points relative to the two points expected if markets -- if the quarter ended. Again, all other things being equal, which is a broad caveat.

**Tom MacKinnon** - BMO Capital Markets - Analyst

And then finally, the tax rate at 15% seemed a little low in the quarter. What should we be modeling to here?

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Tom, because of our geographic scope, we have earnings and losses in various quarters in various jurisdictions, some with high tax rates, some with low tax rates. So our effective tax rate is one of those that is very difficult to model without the supporting detail. I think it is fair to say, if you were going to ask me over a 10-year period what would I expect our effective tax rate to be for the enterprise, if our earnings were in line with what we would expect over a 10-year kind of period, our effective tax rate would likely be in the 20s given our mix of business and given the various tax structures that we have.

**Tom MacKinnon** - BMO Capital Markets - Analyst

What is in the adjusted earnings from operations? What is the assumption on taxes for that?

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Well again, it would essentially be what I just said, something in the mid-20s. But again, I cannot emphasize enough that that number is going to bounce around a lot quarter to quarter, so I wouldn't get overly --.

**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Mid-20, meaning closer to 25?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Yes, 24, 25.

**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Okay. All right, thanks very much.

**Operator**

Mario Mendonca, Genuity Capital Markets.

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

Good afternoon. There was a reference on the call -- I think it was you, Michael -- made reference to the CAD30 million after-tax effect of hedging. And if you could just clarify that for me. Are you referring to, on a go-forward basis, the expected profit of say of CAD810 million this quarter. Going forward would be the pretax amount of that CAD30 million? It would be lower by the CAD30 million pretax?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Mario, the short answer is no, that is not what I was trying to communicate. So let me back up and I will try to get on, hit the reset button here. What I was attempting to do was respond to a question that many of you have asked me and many of you have asked Donald and that is help us understand the risk/return trade-offs in terms of hedging. And we have said, look, we believe in the hedging program, we believe that it has reduced risk. It is not a panacea. All you have to do is look at the risk factors in our disclosures to note that we don't think it is a panacea.

But the point is we do believe that, over the long haul, it does reduce risk. It does, however, though have an impact on ongoing earnings. And so what we went back and looked at, Mario, is to look at the roughly CAD22.5 billion of guaranteed value of inforce that we have hedged since June 30 of 2009. June 30 being the date where we were looking at our expectations for 2009 and 2010 for adjusted earnings from operations. And we have said basically that hedging of the CAD22.5 billion of inforce in that nine-month period we estimate has roughly created an earnings headwind of approximately CAD30 million a quarter as we look forward from April 1 and beyond.

So round numbers, and again it is going to vary for different blocks of business, but for round numbers, that would equate to approximately 50 basis points after tax for the amount of that inforce that we have hedged.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

Now again, that number is going to bounce all over the place in the future as we hedge additional business because the hedging cost depends upon a number of factors. It depends upon where swap rates are when we entered the hedges. It depends upon what volatility is going to be. It depends upon how in-the-money the products are. It depends upon the product structure. So the 50 basis points is a factoid to help you think about the headwind for second quarter 2010 for example from that inforce business already hedged. And we will look to give you additional updates in the future.

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

Sort of a related question, the hedging now -- we're up to 51%. I heard you loud and clear when you said hedging was not a panacea and I suppose what you might be getting at is that the sensitivity of the equity markets for a 10% decline has stayed stubbornly high at CAD1.1 billion in the quarter, down only CAD100 million from last quarter. Is there a level in the S&P where the amounts at risk start to decline more precipitously and the sensitivity starts to decline more abruptly? Can you help us think through that because the sensitivity is not declining at the pace I might have expected?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Sure. I mean a couple things to think about there. Number one, to state the very obvious point, it does not have a linear impact. I know you have figured that out, but just for others, it is not a linear impact. Second, you are absolutely right that one of the most powerful drivers to that sensitivity is how much in-the-money are those policyholders.

So as an example, if we look at certain blocks in the US and Asia in particular where they are pretty significantly in-the-money, that is going to be a relatively stubborn, to use your word, block to try to move materially the sensitivity.

I would also point out, as you'll see in our disclosures here at first quarter, we were very transparent in laying out how we model hedging imperfections. Now those are modeling assumptions that are not necessarily perfectly accurate, but as a result of assuming that we are going to have some hedging ineffectiveness, it also means that our modeling assumes, even for blocks that are completely hedged, that there is still some negative impact. Now again, how that proves out to be, we will see as we get more experience.

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

Just sort of related then, at what level on the S&P does the shape of the curve start to change such that the sensitivity to equity markets declines more abruptly with each increase in equity markets? Anybody can make the guess, but am I right in saying that it is in the 1300, 1400 on the S&P when that sensitivity collapses?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

I wouldn't say collapses, Mario, but I think it is fair to say that by the time you get up to the 1400, 1500 level, if you get back to the high watermarks on some of the reset products, that would help. Simon, anything you want to add?

**Simon Curtis** - *Manulife Financial Corporation - EVP & Chief Actuary*

No, I think that is a fair comment. We don't have an exact answer, but I think, Mike and I, we are both thinking that the 1300 to 1400 range is probably the right range to use. I would also add that it is not just the S&P we need. It is also Japan and Canada. We need all three markets to get back to those levels before you'd probably see the sensitivity get that dramatic drop that you are thinking of.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

Okay, and I'll try to go a little quicker here now. The interest rate sensitivity obviously hasn't changed. I am a little surprised given that it seemed like you did certain things to improve the matching of the investments with the policy reserves. You took that -- again, presumably you extended the duration of the assets and matched them a little better with the liabilities. Why then would the interest rate sensitivity not have changed?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Mario, two things and then others can add. One is that we did not materially change the duration of the asset portfolio. It modestly lengthened, but it was not material. It was mainly locking in additional credit duration by taking advantage of some long bonds with attractive spreads and locking those in.

So what that meant, Mario, is that we have, in effect, reduced our reinvestment risk and locked in that higher spread relative to what the calm model would have otherwise rejected. Second, let's also remember this book of business is continuing to grow, so if nothing else changed, we would expect to see growth in the sensitivity with the growth in the book.

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

So to be perfectly clear, did you extend duration or did you take greater credit risk? I struggled with your explanation there.

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

So two things. Yes, we modestly lengthened the portfolio, but for the most part -- it is not that we took additional credit risk. These are high-quality programs. For example, the Build America bonds program in the US. We took advantage of also some very attractive spreads from the Quebec pension plan. So again, we feel very good about the risk profile. But the point is we have locked in long-term spreads that were higher than the reserve assumptions.

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes, longer credit duration, Mario, as opposed to duration in the absolute sense.

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

Okay. And then finally, Don, and this is a discussion you and I had late in 2006, is there anything you can see on the horizon, IFRS or otherwise, maybe even OSFI, that would cause you to question the extent to which Manulife uses non-fixed income assets to support reserves?

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, I can't answer in the absolute, but remember, you have 3855, you are asking that question and we found a way to keep doing it despite 3855. I can't promise for every situation, but we love our asset mix, principally because it kept us out of the riskier end of the fixed income spectrum. It is actually a risk mitigation strategy as opposed to a yield enhancement strategy. And I think that is lost on a lot of people. It is a very important success factor for Manulife.



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

IFRS is going in all kinds of different directions and depending on where it lands, could that create some challenges? I can't promise you that it wouldn't, but I don't see any issue there right no. In terms of OSFI and in terms of capital standards, I don't see any issue there either.

---

**Mario Mendonca** - *Genuity Capital Markets - Analyst*

That's helpful, thank you.

---

**Operator**

Darko Mihelic, Cormark Securities.

---

**Darko Mihelic** - *Cormark Securities - Analyst*

Hi, this is a question for Don. I just actually want to understand where your mind is at with respect to the hedging. So if I take Michael's cost of hedging of being about CAD30 million after tax per quarter and if you could get that for the rest of the book, would you hedge?

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

As a general approximation, what we try and do, and see if Bev wants to jump in here, who is our master of hedging, we basically try and lock in a profit margin close to 50 basis points from the point of issue that is looked after the entire contract. At something like 50 basis points, we'd feel good. Now that's not every cohort. Sometimes it is more, sometimes it is less.

We also look at the go-forward spread that we would earn and like it to be a positive number and as close as possible to that number on a go-forward basis as well. We reflect a little bit of our view of markets. It is not just -- I have to stress this. It is not just equity market levels. The technique that we use and a lot of companies use in this business is basically shorting futures. And the benefit of that is they are exchange traded and we don't enter into counterparty risk there.

But associated with that, you execute a swap transaction. So the yield on swaps is very fundamental to the economics of when to hedge, as well as equity market levels. What we are trying to do is a balanced approach. I don't know if you guys know on the call, but a few moments ago, the S&P was down 8% and the Dow was down 9%. We took a lot of criticism for our equity raise last year. It is days like this when you feel very comfortable that that kind of movement in equity markets doesn't cause us to have any great amount of fear.

We are fortified for that and we have the benefit of being able to hedge this out over time. If we were to have hedged it earlier, we would crystallize the loss, that would have an impact on our capital accounts, we would have to restore that capital somehow. So what we have elected is a very moderate view, fortified the Company so that we can withstand, to our mind, any reasonable scenario. Not all scenarios, but any reasonable scenario. On the other hand, we have the luxury of time being able to hedge out the inforce risk at a time most conducive to our shareholders.

---

**Darko Mihelic** - *Cormark Securities - Analyst*

I appreciate that. In my mind, I think to myself you need another CAD50 billion to go in terms of hedging and that would be another CAD60 million per quarter in lost earnings, all else equal. Would you entertain doing that?

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

No, I think you're making the assumption that -- this goes back to almost Colin's question. We try and hedge when the cohorts of business get close to being at-the-money, not necessarily exactly at-the-money, but approximately at-the-money, right, Bev? So that gives us that cost. If we were to hedge some business that is 30% out of the money, the cost would be much more significant than that.

**Beverly Margolian** - *Manulife Financial Corporation - EVP & Chief Risk Officer*

I think that -- it's Bev -- when Don talked about the profit margins that we were trying to sort of achieve, your estimate of what we have gotten in the past, the cost of hedging of around 50 basis points would be consistent with what we'd expect to have on the future blocks that we did decide to hedge and get those margins.

**Darko Mihelic** - *Cormark Securities - Analyst*

I am basically asking if you could get that same cost locked in for the next CAD50 billion, would you do it?

**Beverly Margolian** - *Manulife Financial Corporation - EVP & Chief Risk Officer*

Well, we would probably do a fair chunk of it, but not -- but maybe not all of it because we will have a tolerance to have some equity sensitivity, but certainly much lower than we have today.

**Darko Mihelic** - *Cormark Securities - Analyst*

So you don't have an explicit target in mind with how much you want hedged?

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, we have a target, but we want to reserve the right to change that target as we see how the experience develops. We will never get to 100%. There are certain parts of it that, because of the fund selection or whatever, we don't want to create basis risk here by hedging using an S&P 500, let's say, and having a fund that operates differently than that. So we would never effectively get to 100%. But we would like to close up more in the position that we have to date, but we are going to not talk about our target.

**Darko Mihelic** - *Cormark Securities - Analyst*

Okay, fair enough. Thank you very much. And one last question if I may. When I look at your balance sheet, it strikes me as similar to that of Sun Life in the sense that you are carrying a lot of extra cash. If I look historically back at your balance sheet, you'd carry somewhere around 6%. You are carrying just over 8% today. Do you have, in your mind, the idea that you would, as things quote, unquote normalize, reduce the excess liquidity position on your balance sheet and would that also help your earnings to the same extent that it would more or less help Sun Life?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Darko, it's Mike. The short answer is yes. Second though, I wouldn't get overly hung up with the raw calculation that you just did. Again, it is very important to understand what the liquidity needs are for the various operating companies. And so in some sense, all cash is not created equally on the consolidated balance sheet. But you're absolutely right with your conclusion that

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

we have additional -- or I should say we have higher levels of cash supporting the surplus segment in particular today than what our long-term target would be.

We are looking to deploy that. Again, we are not ready to put a number on it, but certainly something that we are working with Warren to come up with some very concrete plans on.

---

**Darko Mihelic** - *Cormark Securities - Analyst*

Okay, thanks very much.

---

**Operator**

Doug Young, TD Newcrest.

---

**Doug Young** - *TD Newcrest - Analyst*

Hi, just two quick questions. On slide 12 the net credit experience, I guess this is more of a clarification. The \$32 million post-tax, is that net of the \$28 million of reserve for your assumption within your valuation -- or within your reserves for credit, or is that a gross number?

---

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Doug, that is a gross number.

---

**Doug Young** - *TD Newcrest - Analyst*

That is gross. Okay, so net it is \$4 million credit impact in quarter; is that the way to look at it?

---

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

Yes, that is correct.

---

**Doug Young** - *TD Newcrest - Analyst*

And the second with regards to your exposure to European banks, \$571 million is the cost, and then for the PIGS, \$70 million cost. Can you tell us what the carrying value would be and what types of provisions you would have on those?

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Sorry, Doug, Donald here. What was the first question about the banks?

---

**Doug Young** - *TD Newcrest - Analyst*

Just the European hybrid banks, the 571 I think is the cost -- million. Just wondering what the carrying value is. And the same question for the PIGS exposure of \$70 million, what the carrying value was for both of those.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

And then I guess the second part of the question is in terms of provisions that you have or impairment provisions that you already hold to back those exposures.

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, we are going to have to reflect that -- Scott Hartz.

---

**Scott Hartz** - *Manulife Financial Corporation - EVP, General Account Investments*

Yes, the European hybrids, we did take some provisions as we discussed in the fourth quarter when we had some ceasing of dividends at RBS and a few others. Currently, the market value is about \$50 million or so on the European hybrids below our amortized cost. And on the sovereign debt which is at Italy and Spain, that \$70 million is at Italy and Spain, it's not significantly different, the market value from the amortized cost.

---

**Doug Young** - *TD Newcrest - Analyst*

Sorry, can you just repeat the first part? You said that it's the market value is below cost?

---

**Scott Hartz** - *Manulife Financial Corporation - EVP, General Account Investments*

Market value would be below cost of the European hybrids by about \$50 million.

---

**Doug Young** - *TD Newcrest - Analyst*

About \$50 million. And sorry, you didn't mention the amount of provisions that you have?

---

**Scott Hartz** - *Manulife Financial Corporation - EVP, General Account Investments*

I don't have the amount of provisions at my fingertips, but we did provision some of the RBS and others in the fourth quarter.

Donald Guloien So, Scott, market value would be pretty close to carrying value, you know, give or take --?

---

**Scott Hartz** - *Manulife Financial Corporation - EVP, General Account Investments*

Yes, I mean there is \$550-odd million of the European hybrids, and the market values may be \$50 million below that on the European hybrids.

---

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

And our carrying value is somewhere in between?

---

**Scott Hartz** - *Manulife Financial Corporation - EVP, General Account Investments*

Well, our carrying value is actually the market value.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

This is what we're taking the hit for in CALM.

**Scott Hartz** - *Manulife Financial Corporation - EVP, General Account Investments*

There is roughly 50 million of gross unrealized loss on that book, which we expect those positions to recover or we would have provisioned for them.

**Doug Young** - *TD Newcrest - Analyst*

Okay, thank you.

**Operator**

Michael Goldberg, Desjardins Securities.

**Michael Goldberg** - *Desjardins Securities - Analyst*

I'm going to go back to that hedge question and just to clarify, is the \$30 million cost of hedging build into the \$700 million to \$800 million per quarter of normalized profit that you have indicated?

**Michael Bell** - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

So Michael, it's Mike. That was the point of picking the June 30 number, is that that hedging has done since June 30 of 2009. So, again, one of the reasons that we have a wide range there is to reflect things like the hedging. But it is \$30 million of headwind relative to what we were thinking when we developed the additional range.

Now in fairness, there is also things going the other way. Our equity position of our surplus equities are now well above water and therefore, represent opportunities for gains that we were not in that position at June 30 of 2009. So the CAD30 million wasn't explicitly in the original range, so it is a new headwind. But also we are sticking with the range. We didn't update the range this quarter and so therefore, it is again with an eye towards things like surplus equities.

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

We are also writing more new business and some of that business creates strain. Even things like the mutual fund business creates strain because the write-off of the acquisition costs in the first year. So a lot of things would influence that number.

**Michael Goldberg** - *Desjardins Securities - Analyst*

Okay, and you have previously provided this expectation for your adjusted earnings from operations that exclude experienced gains, among other items. Yet you had over CAD500 million of experienced gains this quarter and in total over CAD1 billion over the past two quarters. So your advice, should investors ignore experience gains, treat them as if they are an extraordinary item or should they view them as an integral, but unpredictable component of earnings? Or to put it another way, if you were looking to buy an insurance company that regularly had experienced gains, would you pay something for those gains?



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Michael, you ask great questions. But it is a tough one to answer. I think some portion of those is our business, but I can't tell you how much and it is not because I won't tell you, I honestly don't know. When we had the wind at our back on investment gains in years gone by, I think most of you remember I said, hey, you did well here, we are very proud of it. It wasn't exactly luck, but a lot of things went our way. This is not necessarily going to continue forever.

We had a lot of positive results in this quarter. I would not want people to take the CAD1.1 billion that we earned this quarter and sort of straight-line it and say that is the expectation. We tried to provide that adjusted earnings to give people a sense that, as a result of hedging new VA business, writing less of some businesses and so on, that the run rates that we had experienced in the past are not likely repeatable in the short term. And we tried to give a sense there that the expectation should be adjusted downward and that is why we gave that guidance back in July.

We are going to stop giving that guidance at the end of the year. We feel obligated to continue it until the end of the year. But I think as a lot of these questions have indicated, it becomes less and less relevant as time goes on. We were trying to be straight with investors and say, hey, the days when you could close your eyes and expect that we could pump out say \$1 billion of earnings a quarter, that is not likely going to happen because of the current economic environment because of changes we've made in the way we do business and so on. It is a lower expectation going forward and we did our best to come up with a way of looking at that that was the very best we could put together. As each quarter goes by, we write more new business, we hedge some more. Things change. That guidance becomes less and less relevant as time goes on.

Michael, your point about the experienced gains, we try and be conservative. Now every time we have to do a basis change of a negative type, that suggests we weren't as conservative as we need to be. But we try to be conservative here and you hope that we would generate, on average, positive results from experience. But I can't give you a level to expect and so on. Warren's guys do a pretty good job at generating gains, but it is not predictable. We can't predict which segments it will appear in. We can't predict when it will appear. But on average, we think that they should do better than the expectations built into the valuation.

---

**Michael Goldberg** - *Desjardins Securities - Analyst*

This is why I asked the question. Doesn't the mix between your experienced gains and your expected earnings from inforce ultimately depend on where you set the dial in terms of assumptions?

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

100% correct.

---

**Michael Goldberg** - *Desjardins Securities - Analyst*

Thank you.

---

**Operator**

Eric Berg, Barclays Capital.

---

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Eric Berg** - Barclays Capital - Analyst

Thanks very much and good afternoon. Mike, I want to return to the discussion that you had earlier regarding the sensitivity of the earnings to a decline in the stock market. I listened very attentively to every word, but I also know that there was approximately a 25% reduction in the amount of guarantee value that was hedged out in the quarter versus at the end of December. I don't have the particular slide in front of me, but earlier in this call, I did a calculation and it looks like there has been a 25% reduction in the March quarter from the December quarter in the amount of guarantee value that was hedged.

So my question is, again, why isn't this relationship between the amount of guarantee amount that is hedged, why doesn't the sensitivity come down linearly. Why isn't this relationship linear and why isn't that earning sensitivity moving far more than we saw in the quarter? And I have a couple of follow-ups. Thank you.

---

**Michael Bell** - Manulife Financial Corporation - SEVP & Chief Financial Officer

Eric, it's Mike. I will start and see if Simon wants to add. First of all, we would estimate that the decline in our equity market sensitivity from year-end 2009 to the end of first quarter 2010 was in that 10% to 20% range. Yes, it rounds if you just look at the 10% scenario on the slide. It looks like it rounds to about 10% or 9% or something like that, but it is -- unrounded, it would be in the teens. And if you go back to my prepared remarks and look at the impact of a 30% decline, again, it would be more in the kind of mid-teens would be the drop in sensitivity.

Now to your question on why is it not linear. It is really the two points that I mentioned earlier. And that is what is really important here is how in-the-money are these policies? And the deeper they get in-the-money, the more sensitivity there is. And because the business that we have more recently hedged has tended to be closer to the money and not deep in-the-money, we don't get that same bang for the buck in terms of a big drop in equity market sensitivity. So that is one factor.

The other factor is, remember, we are hedging essentially all the new business and even when we hedge the inforce business, we are building in some projected hedge inefficiency. Now, again, that is a guess, if you will. We don't really know what the hedge inefficiency will be the next time we have a big market correction, so it is an educated guess. I think we disclosed it in a very transparent way how we modeled that. But the point is we are not trying to say the equity market sensitivity goes to zero when we hedge this business or that the new business equity market sensitivity is zero. It is a reduced level, but not down to zero. Let me see if Simon wants to add.

---

**Simon Curtis** - Manulife Financial Corporation - EVP & Chief Actuary

No, I mean I think your comments, Mike, about the rounding is important. The number at the end -- we try and give round numbers because these are only estimates and we don't want to give a false sense of accuracy. But at the end of the year, the number rounded down and now the number is rounding up. So it makes the actual decrease look considerably lower than the actual number if we did it exactly to four decimal places.

---

**Eric Berg** - Barclays Capital - Analyst

Donald, you have been incredibly consistent in sort of your articulation of why you have taken the path that you did, that you have fortifying the balance sheet and hedging on your terms as opposed to sort of doing it all at once. But you have also acknowledged in this call that you yourself have said that this strategy has been well controversial with some of your shareholders applauding it and others being critical of it.

My question is why not take the whole issue off the table by buying deeply out-of-the-money put options on the S&P 500 that would make this a part of Manulife's history? It would not deny anybody any upside since when you buy a put, you get all of the upside on a stock. Why not take that tack and put this whole ugly matter behind us?

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, Eric, I asked the very same question and I became convinced -- because it sounds like a good strategy. I became convinced that the tracking error of that, it would not be as effective as it sounds. I mean I think it is a great idea and it occurred to me and I have asked the question a number of times. And I'm quite convinced that the answer is right that the best thing to do is to wait for them to get closer to the money and follow -- there is a whole variety of reasons that explain it that goes beyond the scope of this call, but I would be -- grant you, it is certainly not a bad idea. We would love to put it behind us, but we are going to do what is in the interest of shareholders.

Now when I say it is controversial, those who wanted us to hedge back in March, April, May, they are seeing that we have a little bit of wisdom. Some of them say, hey, you have been lucky. But they kind of see some of the wisdom of what we have done. This paste approach -- if the market were to drop 50% tomorrow, you can be darn sure all the people that want us to hedge it out are going to say, hey, you should've listened to me.

On the other hand, if the market goes up 250%, those who have said, why did you go so fast, are going to have that view. We are not trying to run a popularity contest. We are trying to do the right thing for the shareholders based on how we see things. And I guess the most important thing is we have fortified ourselves for the downside risk so that if we don't get the chance to hedge this out for another couple of years, it is not the end of the world.

**Eric Berg** - *Barclays Capital - Analyst*

Last question is of a similar nature, but of a narrower nature and that has to do with long-term care. For as long as I can remember, and maybe you'll disagree, long-term care has had its ups and downs at Hancock. For as long as I can remember, there have been issues. Maybe not every quarter, maybe not for many quarters, but it has never been consistently a winner for you guys. Why are you sticking with it if it just doesn't seem like, over the course of time, Manulife or Hancock has been able to get it consistently right?

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, Eric, sometimes when markets are like that and people lose a lot of money, and I am not talking about us, I am talking about the industry, inactivity is just about when it starts to get good. And those of you who are followers of the hog pricing cycle knows it works that way and a lot of things do in markets. And we think there is some different approaches that could be taken to the long-term care business. It is a real consumer need and if everything -- if ever even a growing need. And we would like to find a way to address it that has a better balance between the consumer and the shareholders.

In the meantime, we are raising our prices both on inforce business and on new business. We don't have a crystal ball and no one does in the business. You can't predict what morbidity rates are going to be long term, but where they are higher, we will appeal for rate increases just like regulated utilities do and just like people in the health insurance business in the United States do and we have had some success. We have had considerable success in doing that.

It is not without its controversy. It is not the first thing that insurance commissioners want to do is approve rate increases, especially in this economic environment, but we are having success doing that. But I think ultimately we will look to some different product formulations how to address this need and mitigate our shareholders' risk, but still meet the consumer need and we have some ideas how to do that.

We have a significant position in the market and we raise our prices. Obviously other companies are free to do whatever they think is in the best interest of their shareholders. But given the experience in the industry, and I don't know if you have seen an A.M. Best report that talks about the experience of long-term care, it is a wonderful read. I think regulators and companies



May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

everywhere have to think are we in this business to do public service or are we in this business to make a profit. And we are in the business to make a profit.

---

**Eric Berg** - *Barclays Capital - Analyst*

Thanks, Don. I will work with Amir. I would like to get a copy of that A.M. Best report, so I will work through him. Thank you so much.

---

**Operator**

Colin Devine, Citi.

---

**Colin Devine** - *Citigroup - Analyst*

Yes, one quick question. On the US variable annuities, the older ones, was there an annual step-up on those or not? I am just curious then is the in-the-moneyness going to continue to rise if markets even are flat?

---

**Jim Boyle** - *Manulife Financial Corporation - SEVP & President, John Hancock Financial Services*

Colin, Jim Boyle again. Like most companies, we have multiple product designs. But in the main, most of those products did in fact have annual step-ups with them. So I think the question you are driving at directionally is yes, they do.

---

**Colin Devine** - *Citigroup - Analyst*

So they would be stepping up from if they were reset in 2007 at a rate of 5% or 6% compounding from that?

---

**Jim Boyle** - *Manulife Financial Corporation - SEVP & President, John Hancock Financial Services*

Yes.

---

**Colin Devine** - *Citigroup - Analyst*

Thank you.

---

**Donald Guloien** - *Manulife Financial Corporation - President & Chief Executive Officer*

It's linear I think Bev is pointing out, but Colin, that is reflected in all our exposure data, right?

---

**Beverly Margolian** - *Manulife Financial Corporation - EVP & Chief Risk Officer*

Yes.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**Colin Devine** - Citigroup - Analyst

I appreciate that, Don. But the point of this has been the problem blocks, right, that are the deep in-the-money are actually getting deeper in-the-money because they are compounding at 5% or 6% or whatever the step-up rate is on blocks that were essentially high watermarked to the S&P in '07.

**Donald Guloien** - Manulife Financial Corporation - President & Chief Executive Officer

Colin, I know you will notice that our sales of these products are dramatically reduced and --.

**Colin Devine** - Citigroup - Analyst

Don, you were selling them in '08. It is not a problem, Don. It is the '07 ones -- it is the '05, '06 and '07s.

**Donald Guloien** - Manulife Financial Corporation - President & Chief Executive Officer

You have got to look forward, Colin and we are addressing the issues.

**Colin Devine** - Citigroup - Analyst

No, I appreciate that. I'm just trying to understand what has been hedged in terms of the actual risk here and what is not. Thanks.

**Operator**

There are no further questions registered at this time.

**Amir Gorgi** - Manulife Financial Corporation - VP IR

Great, thank you. So with that, we are available for any follow-up calls and have a good afternoon, everyone.

**Donald Guloien** - Manulife Financial Corporation - President & Chief Executive Officer

Thank you.

**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

May. 06. 2010 / 6:00PM, MFC - Q1 2010 Manulife Financial Corporation Earnings Conference Call

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.