FINAL TRANSCRIPT

Thomson StreetEvents℠

MFC - Q4 2009 Manulife Financial Corporation Earnings Conference Call

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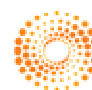

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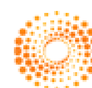

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Please be advised that this conference call is being recorded.

Good afternoon and welcome to the Manulife Financial Q4 2009 financial results conference call for Thursday, February 11, 2010. Your host for today will be Amir Gorgi.

Mr. Gorgi, please go ahead.

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

Thank you and good afternoon. I would like to welcome everyone to Manulife Financial's earnings conference call to discuss our fourth-quarter 2009 financial and operating results.

If anyone has not yet received our earnings announcement, statistical package, and slides for this conference call and webcast, these are available on the investor relations section of our website at Manulife.com.

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

The speakers who follow may make forward-looking statements within the meaning of the 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 apply, 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 securities filings referred to in the slide entitled 'Caution regarding forward-looking statements.'

When we have reached the question-and-answer portion of the conference call we would ask each participant to adhere to a limit of one or two questions. If you have additional questions, please re-queue 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 ...

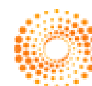
Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you, Amir, and good afternoon, ladies and gentlemen. Thank you for joining us on this call. I will open up with a few remarks before turning it over to our CFO Mike Bell to address our financial results and our Chief Operating officer John DesPrez to cover sales and operational results.

We are also very pleased to have Bob Cook with us here today, Head of our Asian division, to talk about opportunities in Asia. Bob is going to take a few moments to update you on our Asian businesses and the incredible opportunities for growth in that marketplace.

As reported this morning, Manulife's net income for the fourth quarter improved over the prior year to CAD868 million, representing a return on shareholders equity of 13.1%. Our full-year income increased from CAD517 million in 2008 to CAD1.4 billion in 2009, producing a return on shareholders' equity of 5.2%. And while this is a significant improvement over last year's result, neither I nor our management team are satisfied with this, and we are dedicated to improving those results over time.

2009 was another exceptional year of economic volatility and headwinds for our industry, but we addressed those challenges head-on. First, let me underscore a few accomplishments in 2009.



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The Company ended 2009 with a very strong capital position. I achieved my fortress level of capital. Our MCCSR for Manufacturers Life Insurance was 240% as at December 31. We also strengthen reserves in keeping with prescribed Canadian accounting policy, reflecting lower current interest rates and emerging patterns of policyholder behavior.

As a result of these moves, we now have a stronger base for both organic and strategic growth and our earnings are moving in the right direction.

We also made important progress in 2009 and early 2010 through hedging, product changes, and with the benefit of improved equity markets on reducing our exposure to equity guarantees. The steps we have taken to strengthen our capital base enabled us to hedge at a time most beneficial to our shareholders. With the higher equity markets and swap rates experienced in late 2009 and in fact continuing on into early 2010, we were able to hedge a large amount of our in-force business before markets slipped back to their current levels.

At year-end our equity exposures were 35% hedged or reinsured, up from 20% at the end of 2008. Subsequent to year-end we hedged another $7.6 billion of guarantee value bringing the percentage hedged or reinsured up to approximately 42%.

With the aid of market improvements during the year the net amount at risk, that is, "the amount in the money", decreased by 54% from CAD25.3 billion to CAD11.6 billion at year-end. I think it would be obvious to people on the call that enables us to hedge in the future at much lower cost than at any other time in 2009.

As a result of these and other steps, Manulife is trying to put equity market exposure behind us at prices which rewards our shareholders for their confidence in us. These steps will help stabilize our earnings and our capital base, and enable us to invest in growing our business through both organic and strategic means.

There were several other accomplishments in 2009. Mike Bell will speak to our investment performance which remains solid against challenging market conditions. And he will touch on our US subsidiary's reorganization which further reduced our equity market sensitivity, improved capital efficiency, further diversified our risk profile, and will in fact produce operating efficiencies going forward.

John DesPrez will speak for our sales results including our focus on building margins over market share, the progress we have made in adjusting our business mix, product design, and risk profile. He will also update you on three acquisitions announced in 2009 before Bob Cook provides us with an update on Asia.

With that I would like to ask Mike to take us through the financial results. Mike ...

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

Thanks, Donald. Hello, everybody. Today we reported fourth-quarter shareholder net income of CAD868 million which equates to CAD0.51 a share on a fully diluted basis. Full-year shareholder net income in 2009 was CAD1.4 billion or CAD0.82 a share as compared to CAD517 million in 2008.

Our results in the fourth quarter benefited from positive equity market performance and improved interest rates which were partially offset by market value changes in investments, model refinements for our actuarial liabilities, and the impact of some tax adjustments.

On slide seven we provide a summary breakdown of the notable items that impacted this quarter's after-tax earnings. As noted on the slide, the positive equity market performance in the quarter resulted in a net gain of approximately CAD435 million. In addition, increases in corporate bond yields partially offset by declining credit spreads resulted in a net gain of CAD110 million.

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Several items partially offset these gains. First, market value declines, relative to our growth assumptions, arising from updated appraisals of our real estate, timber, and agricultural properties totaled CAD171 million.

Second, a charge of CAD147 million resulted from model refinements to previously implemented changes in actuarial assumptions. The annual review of actuarial methods and assumptions was completed in the third quarter and no further significant changes were made to these assumptions in the fourth quarter. Additional model refinements to the previous changes increased the actuarial liabilities.

Third, changes to the Ontario income and sales tax laws had a negative impact of CAD101 million in the quarter.

Fourth, CAD46 million was the negative impact in the fourth quarter due to the strengthening of the Canadian dollar relative to the June 30, 2009, levels which is the basis of our estimate of adjusted earnings from operations.

And we have a net positive impact of CAD7 million for the quarter related to other items. These were primarily comprised of net credit experience, other than temporary impairment charges, the impact of actual investment activities, and policyholder experience losses.

So adjusting for these items are adjusted earnings from operations for the fourth quarter totaled CAD781 million after tax which was in line with our prior communications.

On slide eight we detail the impact of equity markets on our results in the fourth quarter. As noted on the slide, the S&P TSX and S&P 500 increased by approximately 3% and 5.5%, respectively, in the quarter which was higher than the market appreciation in our reserve assumptions and more than offset the underperformance of the TOPIX.

So overall, positive equity markets resulted in a net gain of CAD435 million for the quarter.

On slide nine, we have provided summary metrics for our segregated fund guarantees. Nearly CAD25 billion of guaranteed value was being hedged at year-end 2009, up from CAD5.7 billion at year-end 2008. At year-end 2009 35% of the guaranteed value was reinsured or hedged, up from 20% at the prior year-end.

As North American equity markets continued to experience positive performance during the fourth quarter, the reported amount at risk, which represents the year-end amount of the guarantee that is in the money, decreased from CAD25.3 billion at year-end 2008 to CAD11.6 billion at year-end 2009. And this represents a 54% year-over-year decline.

The expected net gain from guarantees as measured by projected revenue from guarantee fees less projected claims was a pretax profit of CAD2.4 billion measured at year-end 2009. Now this calculated amount assumed no future hedging, and as a John DesPrez will discuss in a few minutes, we hedged an additional CAD7.6 billion in early February 2010. So we would expect this number to decline in the future if we are able to hedge more business.

So overall, we view this as a much improved risk position relative to year-end 2008.

Turning to slide 10, under Canadian GAAP changes in interest rates impact the actuarial valuation of in-force policies by changing the future recurrence assumed on the investment of net future cash flows. As summarized in the table, during the quarter long maturity corporate bond rates increased by 26 basis points but spreads tightened. And the impact of the increase in long bond rates was mostly offset by the impact of the compression in spreads resulting in a net CAD110 million non-cash after-tax gain for the quarter.

The full-year impact of changes in interest rates was a net after-tax charge of approximately CAD2 billion. Now it's important to note that this CAD2 billion net charge is only on a Canadian GAAP basis and would not be reflected in our US GAAP results.

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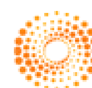

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I will now move to slide 11. As I mentioned earlier, we recorded a charge of CAD171 million for the quarter resulting from updated mark-to-market values based on appraisals of our real estate, timber, and ag properties. Despite these valuation adjustments, the overall quality of our real estate, timber, and ag portfolios remain high.

Once again, this is a mark-to-market phenomenon based on Canadian GAAP rules and are not present in our US GAAP results. We also continue to view our overall investment results as favorable in light of the challenging economic and market conditions.

Now turning to slide 12, after-tax charges related to credit were CAD27 million in the quarter which we believe to be a strong result in the current challenging conditions. Our fixed income portfolio continued to perform well relative to the overall market.

Turning to our source of earnings on slide 13, you can see that expected profit on in-force was CAD896 million in the fourth quarter, up 11% over the prior year. This was driven by higher expected earnings on in-force variable annuity business as well as general business growth.

The impact of new business of CAD119 million was more pronounced than the prior year, primarily a result of lower interest rates and less coverage of fixed costs as a result of reduced wealth sales. The net experience gain of CAD381 million reflects the pretax impact of equity market and interest-related gains partially offset by charges for the market value declines in real estate as well as the non-recurring tax items that I mentioned earlier.

Management actions and changes in assumptions of CAD232 million pretax resulted from the model refinements to our actuarial liabilities. Earnings on surplus funds resulted in income of CAD15 million. While higher than prior year, it reflected lower realized gains than in the prior quarter.

So because a portion of the equity-related earnings as well as some interest-related gains were incurred in jurisdictions with lower tax rates than those where the losses were incurred, we reported a low marginal tax rate for the quarter.

I now move to slide 14 which summarizes our level of Provisions for Adverse Deviation, or PfADs, over the last three years. The Company continued to have significant Provisions for Adverse Deviations in our policy liabilities. At year-end we estimate that general account PfADs and non-capitalized margins on our seg funds were approximately 13% of our total policy-related liabilities including seg funds.

Now I would note that this is a preliminary estimate which we may change as we finalize it for the annual report.

The decrease in the PfADs in 2009 was largely driven by the improvement in the equity markets which reduced seg fund reserves. Currency movements also contributed. However, it's worth noting that the estimate of year-end 2009 PfAD levels is higher than the 2007 actuals. Again, mainly reflecting the higher seg fund reserves.

Now we are also in the process of updating our in-force embedded value analysis. Our preliminary analysis suggests that in-force embedded value will be lower than the comparable amount at year-end 2008. While we expect the embedded value to increase for new business and net experience gains in 2009, this will likely be more than offset by the negative impact of the appreciation of the Canadian dollar and higher discount rates used in our calculations resulting in a net year-over-year reduction in embedded value.

Now I am going to flip to slide 15 which summarizes our regulatory capital position at year-end where MLI's consolidated MCCSR was 240%, up from 229% in the prior quarter. The increase was driven by our capital and financing activities as well as improving equity markets, which more than offset the impact of our US subsidiary reorganization.

Over the course of the year we focused our efforts on attaining strong levels of capital. In an aggregate over CAD8 billion of net capital over the last five quarters was raised, including our November 2009 common equity issue of CAD2.5 billion.

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Now as we have previously discussed, we completed the reorg of our US subsidiaries on December 31, 2009, and now all of our US operating life insurance companies are now subsidiaries of MLI. There are a variety of benefits associated with the reorganization and most notably we now have a more efficient capital structure, a more diversified risk portfolio, more stable capital ratios, and reduced legal entity administrative expenses.

While MLI's MCCSR was reduced as a result of the reorganization, the reorganization also reduced our equity sensitivity. In addition, I would note that we expect that our JHUSA RBC ratio will close above 300% at year-end 2009.

On slide 16 we provide 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 CAD1.2 billion after-tax.

The observed decrease in sensitivity relative to the prior year is largely due to the lower in-the-moneyness of these exposures as well as increased hedging activity. Alternatively, a one-time immediate equity market increase of 10% followed by normal market growth at assumed levels would increase reported earnings by approximately CAD1 billion after-tax.

We have also included our earning sensitivity to interest rates on this slide. As noted, a parallel one-time decrease of 100 basis points would result in a one-time non-cash charge of CAD2.2 billion at year-end 2009.

From a regulatory capital perspective, as noted on the slide, a one-time immediate 10% equity market decline from year-end levels is estimated to result in a decline of approximately 11 points in MLI's MCCSR. As we have discussed before, our capital sensitivity to equity markets has improved significantly in comparison to the prior year.

Now summarized on slide 17, our investment portfolio continues to be high quality and well diversified. Our portfolio is performing relatively well with 95% of our bonds being investment grade and highly diversified by geography and sector.

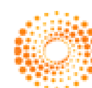
We have also provided on slide 18 a detailed update on gross unrealized losses on our fixed income securities and we also show the progression over the last four quarters which illustrates continued significant improvement.

Due to general spread narrowing, gross unrealized losses declined by 4% sequentially since the prior quarter to CAD2.4 billion and by nearly 75% since the first quarter of 2009. At year-end, gross unrealized losses represented a relatively modest 2.2% 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 24% since the third quarter to CAD1.1 billion, primarily due to market improvement as well as the appreciation in the Canadian dollar.

Now given general market conditions and several other companies' issues with commercial real estate exposures, I would like to take a minute to discuss our current holdings. A summary of our CMBS holdings is provided on slide 19. In aggregate our CMBS holdings represent 2.7% of our total invested assets.

With over 90% of our portfolio rated as AAA and more than 90% originated prior to 2005 we view our CMBS portfolio as reasonably high quality and seasoned. Furthermore, we believe that we followed a conservative underwriting approach where the portfolio was underwritten on a mortgage-by-mortgage basis.

Turning to slide 20, our direct mortgage holdings which represent approximately 16% of our total invested assets, are high quality and diversify both in terms of geography and property type. Our commercial mortgages, which totaled CAD21 billion, were conservatively underwritten with low loan-to-value ratios and high debt service coverage ratios and currently have minimal balances in arrears.



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Then, finally, on slide 21 we provide an overview of our commercial real estate holdings which represent approximately 3% of our total invested assets. Our portfolio mostly consists of unlevered high-quality urban office buildings concentrated in cities with highly diverse economies and our real estate portfolio continues to benefit from high occupancy rates.

You will recall that the lower real estate valuations driven by the rise in capitalization rates resulted in the mark-to-market charge in the quarter. Importantly, the cash flows on our real estate portfolio remain relatively strong and it is our intent to hold these properties for the long-term.

So by way of summary, we experienced growth in shareholder earnings versus the prior year. And this was accomplished during a particularly challenging year in which we took decisive actions to materially strengthen our capital base.

Our adjusted earnings from operations remained within our range of expectations, although I would note that currency and credit conditions continue to represent headwinds to our net income outlook. In addition, our investment portfolio continues to perform well relative to the current challenging markets. And accordingly we view our investment management strength as a competitive advantage.

With that I would like to pass it over to John DesPrez. John ...

John DesPrez - *Manulife Financial Corporation - Chief Operating Officer*

Thanks, Mike, and good afternoon. The main topics that I will cover today include our strong operational results, our continued progress on reducing equity risk exposure, and an update on our recently announced acquisitions.

On slide 23 full-year insurance sales were down 4% versus 2008, while fourth-quarter sales were in line with prior year both expressed on a constant currency basis. Declines primarily attributable to the slower economic recovery in the United States were largely offset by robust growth in Asia over the course of the year.

Overall US sales for the full year declined by 19% in comparison to 2008, primarily attributable to the slower pace of economic recovery and in line with general industry trends. While sales for the fourth quarter of 2009 improved, they declined relative to prior-year levels by 7% partially due to repricing initiatives taken on certain product offerings.

Finally, with respect to the United States during the fourth quarter, we expanded our existing distribution relationship with Edward Jones to now include life insurance products.

In Canada full-year insurance sales increased by 4% over the prior year led by strong full-year group benefit sales which grew by 12%, partially offset by a modest decline in individual insurance sales as large case sales were most impacted by the market turmoil.

Individual insurance sales rebounded in the fourth quarter and travel sales were at record highs. However, a decline in group insurance dampened the overall sales results and total insurance sales ended the fourth quarter below 2008 levels by 3%.

In Asia, full-year insurance sales were up 15% and fourth-quarter insurance sales were up 14% versus the same periods in 2008, both expressed on a constant currency basis. Strong sales momentum in the quarter was led by growth in Hong Kong, Taiwan, Indonesia, and China arising from successful sales and marketing campaigns and new product launches.

Japan sales finished the year up 21% over the prior year on a yen basis attributable to strong sales growth through the MGA channel and the success of the increasing term insurance and the corporate-owned medical and life insurance products introduced in 2008. Fourth-quarter sales in Japan were down 9% versus 2008 on a yen basis as the sales from the MGA channel slowed down relative to the 2008 launch momentum of the corporate-owned medical and life products.

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During the quarter new products were launched in Taiwan, Malaysia, and Singapore. In addition, Manulife continued to expand its presence in China receiving a license to operate in Shantou. At year-end Manulife-Sinochem was licensed in 39 cities which are home to more than 280 million people across 11 provinces.

Turning to slide 24, full-year wealth sales excluding variable annuity products were in line with prior year while sales for the fourth quarter were up 7% over prior year levels, both on a constant currency basis. The increase in the fourth quarter was driven by growth in both Asia and the US as most business units experienced healthy increases reflecting the market recovery.

In the US full-year wealth sales excluding variable annuities were down 11% compared to 2008 as higher fixed product sales attributable to demand for guaranteed returns from highly-rated firms were more than offset by the decline in mutual fund sales due to the economy. In the fourth quarter sales increased by 10% over the prior year driven by sales in mutual funds and retirement plan services which grew by 38% and 17%, respectively. These increases were partially offset by lower sales in John Hancock fixed products reversing the earlier trend.

In Canada full-year wealth sales, excluding variable annuity products, increased by 12% over 2008 driven by strong fixed product sales and success in the large case defined contribution market in group savings and retirement solutions. Sales in the fourth quarter of 2009 declined by 15% versus the prior year as strong growth in retail mutual funds and fixed products was more than offset by the lingering impact of the economic downturn on Manulife Bank loan volumes and lower sales in group savings and retirement solutions where sales levels are by nature less uniform.

Following the acquisition of AIC retail funds the Company continues to streamline its overall mutual fund platform and launched a number of new funds in the fourth quarter. In Asia full-year wealth sales, excluding variable annuities, grew by 41% versus fiscal 2008 on a constant currency basis. Primarily attributable to mutual fund sales in Taiwan arising from an acquisition made in October 2008. Wealth sales in the fourth quarter of 2009, excluding variable annuities, increased by over 80% compared to the prior year on a constant currency basis led by mutual fund sales growth in Indonesia, Hong Kong, and Taiwan.

Turning to the slide 25, consistent with ongoing risk management initiatives full-year sales of variable annuities were down 45% and fourth-quarter sales were down 60% versus prior-year levels on a constant currency basis.

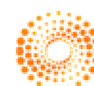
Turning to slide 26, premiums and deposits, excluding variable annuity products, were CAD14.7 billion for the quarter, an increase of 11% versus the prior year and ended the full-year just over CAD60 billion, an increase of 1% versus 2008 - both on a constant currency basis.

Insurance premiums and deposits amounted to CAD22.9 billion for the full year and CAD6.5 billion for the fourth quarter of 2009, representing increases of 11% and 28% over the prior year respectively. Again, on a constant currency basis.

Included in the fourth-quarter amount was $910 million deposit received from our former joint venture partner when John Hancock Long-Term Care became the sole carrier of the US federal long-term care insurance program effective October 1, 2009. The remaining increase in the quarter was attributable to growth in in-force insurance business.

Wealth premiums and deposits, excluding variable annuities, amounted to CAD37.1 billion for the full year and CAD8.1 billion for the fourth quarter of 2009.

On a constant currency basis full-year levels were down 5% and fourth-quarter levels were up 1%. During the fourth quarter strong sales growth of mutual funds across all geographies was partially offset by lower fixed product sales in the US and lower new mandates in the institutional advisory business. Variable annuity and segregated fund deposits amounted to CAD11 billion for the full year, down 44%, and were CAD2 billion for the fourth quarter, down 59% versus the prior year on a constant currency basis. This decline is a result of our ongoing risk management initiatives with respect to this product line across all geographies.



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On slide 27, overall new business embedded value, excluding variable annuities, was CAD571 million during the quarter and CAD2.2 billion for the full year, down 5% in both instances over the prior year. Insurance new business embedded value for the fourth quarter of 2009 was 3% higher than the prior year and is comparable to the change in sales levels.

Wealth new business embedded value, excluding variable annuities, for the fourth quarter of 2009 decreased by 19% compared to the prior year due to lower Manulife Bank loan volumes and sales mix changes in John Hancock Retirement Plan Services. New business embedded value for the variable annuity business was CAD39 million in the fourth quarter of 2009, reflecting the lower sales volumes and the costs associated with hedging the new business.

As shown on slide 28, total funds under management as at December 31, 2009, were CAD440 billion. This increase was attribute to policyholder cash in-flows in excess of out-flows of CAD21 billion and investment income of CAD63 billion, which more than offset unfavorable currency movements of CAD55 billion over the last 12 months.

Slide 29 outlines our continued efforts to further reduce our equity risk exposure. Specifically in 2009 we added a limited amount of new equity risk exposure. Substantially all new variable annuity business was hedged as written in North America. We also expanded our hedging program to Japan in the fourth quarter and retroactively hedged the majority of new business written in Japan in 2009.

More importantly, we continued to increase the amount of in-force business hedged, hedging an additional CAD3.7 billion of guarantee value of in-force business in the fourth quarter. All told we hedged a total of CAD12.6 billion of in-force business in 2009 as equity markets have recovered. And more importantly, I am pleased to report that subsequent to year-end we further hedged an additional CAD7.6 billion of guarantee value of in-force business in early February.

As noted on slide 30, we have made significant progress on reducing our risk exposure on equity guarantees which is attributable -- attributed to increased hedging and the recovery in global equity markets. At year-end our amount of risk, or in the money amounts, net of reinsurance and hedging was CAD11.6 billion, down by 54% from year-end 2008.

At December 31, 2009, we were hedging a total of CAD24.9 billion of guaranteed value, up from CAD5.7 billion at year-end 2008 reflecting the hedging of both in-force and new business as written. All told we are hedging or reinsuring 35% of the gross guaranteed value as at December 31, 2009, up from 20% at December 31, 2008. Factoring in the additional CAD7.6 billion of hedging in early February, we are now hedging or reinsuring approximately 42% of the gross guaranteed value.

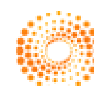
Turning to slide 31 we recently announced several strategic acquisitions. I will start with a brief update on acquisitions we have previously announced in Canada. The acquisition of AIC's retail mutual funds closed in late September 2009 adding almost CAD4 billion or 40% to our Canadian mutual funds platform and improving our market position from 18th to 13th based on industry data as at the end of the third quarter.

The acquisition also contributed to fee income and increased sales in the fourth quarter. Results to date have been in line with our expectations and integration is proceeding according to plan.

The acquisition of Pottruff & Smith Travel Insurance Brokers closed in early November 2009 and solidifies our affinity market segment as one of Canada's largest providers of travel insurance services. The integration is proceeding well and on schedule.

Finally, during the quarter we announced the acquisition of a 49% joint venture interest in TEDA Fund Management in China. This acquisition, subject to regulatory approvals, will provide Manulife with an immediate sizable entry point in to China's rapidly growing wealth management industry and is inspected to close in the first quarter of this year.

This is a very exciting opportunity and I would like to turn it over to Bob Cook, Head of our Asian businesses, who will discuss this acquisition in some detail as well as provide some overall remarks on our Asian operations. Bob ...



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Bob Cook - *Manulife Financial Corporation - SEVP & General Manager, Asia*

Thank you, John. I appreciate the opportunity to be able to share with you some of the successes that Manulife has been achieving in Asia in 2009.

On slide 33, I would like to start with a 2,000-year history of global gross domestic product. As you can see looking back to the year one, Asia contributed about half of the world total. Fast-forward 1,800 years, not much had changed.

And then there was an anomaly known as the Industrial Revolution. But now projections are that Asia will return to contributing 50% of the world's gross domestic product over the next 25 to 50 years.

Well, on a more serious note, there are several points that I would like to make in terms of discussing the opportunity that we see in Asia.

Firstly, the economic growth opportunity that is depicted rather dramatically in this slide is real and corroborated by anyone making projections going forward for this part of the world.

Secondly, the demographic opportunity is just as dramatic. Our so-called addressable population, the number of people in this region who can afford to buy life insurance, will increase by a billion people in the next few years. Thirdly, there have been major disruptions to many of the key competitors that we have in Asia that I think has created a unique window of opportunity for Manulife.

And, finally, I would submit to you that the recession is over in Asia. I know that statistically it's over in most of the developed parts of the world but I would say to you that it's also over emotionally in Asia. People are not in fear of their jobs and consumers are back shopping again.

With that background let me turn to slide 34 and give you a snapshot of our operations for those of you who may be less familiar with them. We operate in 10 countries in Asia and distribute our products through over 35,000 agents and a variety of independent channels including banks and general agencies. Asia has contributed on average about 30% of Manulife's earnings over the last five years.

To review some of our achievements in Asia in 2009 I would like to start on slide 35 with Japan. The real story in Japan over the last couple of years has been the success of our new strategy in the insurance space. Our insurance sales were up 21% in 2009 and this is driven largely by the continuing success of our new channel that we called the MGA channel. This now accounts for more than half of our insurance sales in Japan and we believe will fuel continued growth in the future as we move from the corporate market that we have focused on the last two years to the retail market which serves individual consumers in Japan.

The next highlight for 2009 on slide 36 is in Hong Kong where we have significantly increased our distribution capacity. Our primary channel in Hong Kong remains our career agency force. And despite the fact that the Hong Kong market is relatively mature, we were able through significant focus on recruitment, particularly the recruitment of experienced agents from other companies, to build that agency force by 18% in 2009. This led to a big boost in sales in the fourth quarter of 2009 and we expect it will continue throughout 2010.

Turning to the next slide, this is just a reminder that we are in multiple businesses in Hong Kong. One of the successes we are most proud of is the Mandatory Provident Fund or the defined contribution business in Hong Kong where we are the second-largest provider in the MPF space and we have a market share of new cash flows in this business of over 20%.

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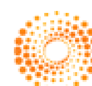

On the next slide, I think our China story remains a very strong one and is a key part of Manulife's long-term future. In terms of actual sales results for China last year, they are a bit muted from the historical pattern as a result of a government moratorium on expansion for most of the year.

Nonetheless, our results when compared to the other foreign invested companies have been very strong when measured either by regular premium insurance sales or simply by the number of agents. And we continue to be very proud of the quality of our business as measured by persistency rates.

Turning to slide 39, another highlight of our China story was our announcement in November of the acquisition of a fund management company which we expect to close sometime in the first quarter of 2010. This acquisition gives us a fast-track entry into China's very large and fast-growing wealth management space.

The Company we are acquiring has an award-winning management team with extensive experience so that we have a running start that we expect to be able to leverage through synergy with our China insurance operations and our other AMCOs in the region. Their assets under management are something in excess of $4 billion and have increase significantly from the time that that acquisition was announced.

Turning to the ASEAN countries on slide 40, I won't go through all the countries in this space, but I wanted to highlight a few success stories.

Notably Indonesia, where our insurance sales were up 32% year-over-year, and perhaps long-term even more importantly we were able to significantly diversify our distribution into the bank channel through the establishment now of 18 banking relationships in Indonesia.

Vietnam is another great long-term story. We celebrated our 10th anniversary in Vietnam in 2009. Our sales were up 28% last year and 25% on a compound basis over the last five years. We also launched a number of distribution experiments into microinsurance and general agency that should pay off for us in the future.

In Malaysia our sales were up 16% year-over-year, but I think more importantly is that after several flat years since we acquired this company as part of the John Hancock transaction, we were able to increase the capacity of our agency system by 17% last year, and we are already seeing the payoff from that success in an upturn in insurance sales.

Offsetting these countries was a rather poor result in Singapore, which frankly was the regional economy that was hurt the most by the global financial crisis. The entire industry suffered and we experienced both a decline in sales and the size of our agency force.

Our wealth strategy in Asia, turning to the next slide, is to have a balance between our traditional success in life insurance with a complementary strategy to penetrate wealth management businesses.

Our goal is to have asset-management companies everywhere we operate in Asia, and to give you an indication of the progress we're making, in the last three years we have increased the number of AMCOs that we have from 3 to 9, with the only missing territory being the Philippines.

Finally on slide 42, what do I see in terms of the opportunities for the future? My focus for 2010 is going to be on five things.

First of all, continued expansion of agency systems. We've seen great success in '09, and we expect that to continue.

Secondly, we do want to diversify our distribution and we will do so through the ongoing development of new banking relationships.

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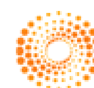

Thirdly, we really want to continue the success we've shown in insurance sales in Japan by penetrating into the retail MGA space.

Fourthly, we want to improve our sales growth in our various mutual fund businesses across the region. And finally, we want to invest more in the Manulife brand, which is quite familiar in Canada and leveraged under the John Hancock name in the United States, but is not as well-developed in Asia and we want to invest in that.

So in conclusion, I just want to say to you that I think there is an investment thesis whereby MFC is one of only a handful of companies around the world that has a significant material Pan-Asian strategy, and I believe that our growth strategies combined with financial discipline are going to lead to sustained success.

With that, I'll turn it back to Donald for his conclusion.

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

Thank you, Bob. If you will, let me wrap up with a few comments before we open it up for questions. In 2009, we achieved a strong capital base our equity exposure was reduced through additional hedging, product mix adjustments, benefit of equity market increases. We intend to continue reducing our equity exposure over time.

We improved margins, announced three attractive acquisitions, continued to demonstrate good investment results in the face of very challenging market conditions.

We also continue to enjoy some of the strongest financial strength ratings in our industry, which is very beneficial to our policyholders and attractive to new customers.

We are very mindful of the fragile pace of economic recovery, but we have prepared for that. Following on our accomplishments in 2009, we intend to capitalize on acquisition opportunities and grow our business, with priority on the highest return products and geographies and diversifying risk.

Operator, that concludes our prepared remarks. We would be happy to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Steve Theriault, Merrill Lynch.

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

Thanks very much. Question for Don or for Michael. How much contingent capital now is left at the holding company? I noticed you mentioned that Manulife -- Manufacturers MCCSR benefited from the equity issue. So can you tell us how much of the equity raise you did push down to the operating company?

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

Steve, it's Mike. All of the outside money raised was pushed downstream.

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

All of it?

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

That is correct. So there is nothing material at the holding company at this point.

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

Okay. Second, if I might, of the CAD3.7 billion and CAD7.6 billion of guarantee hedging that you undertook in Q4 and then subsequent to year-end, can you give me the geographic breakdown of that? How much of that was Canada, US, possibly Japan?

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

Bev Margolian?

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

I think it is in the press release

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

Most of it was in Canada and I would say that CAD5 billion in total was in the US of the total.

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

But you are doing that by recollection, those are not necessarily precise numbers, right?

Lynda Sullivan - *Manulife Financial Corporation - EVP & Controller*

Of the CAD7.6 billion that was hedged subsequent to year-end it was CAD2.7 billion in Canada, CAD4.9 billion in US.

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

Okay, that is great. Thanks guys.

Operator

John Reucassel, BMO Capital Markets.

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John Reucassel - *BMO Capital Markets - Analyst*

Thank you. A question for Donald. Donald, just when you did the equity offering in the press release talked about achieving fortress levels of capital. But nowhere in these press releases today -- you talked a lot about strong capital but you didn't use the word fortress. Used it earlier today, but are we at fortress levels of capital today?

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

We are at fortress levels of capital, John. I thank you for asking the question. I mean we are taking it out of the press release because everybody had a definition of what fortress is and different people and different institutions are using it. I guess that is -- I want to be careful that it doesn't become something meaningless or convey different than what we have intended.

We have enough capital to withstand very, very significant market declines and anything else that might come before us. Although it's not enough to cover all deficiencies, it's very, very substantial amount that we feel very, very comfortable with.

John Reucassel - *BMO Capital Markets - Analyst*

Okay. I know the regulatory environment is a little uncertain, but we do have the quantitative impact study going on out there. Would you still feel as comfortable saying you have fortress levels of capital even if we included some of the most punitive measures within that QIS?

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

There is a whole range of things. Stuff coming from Europe to ideas that are emerging from OSFI. They always caution us when they ask for submissions to a QIS that these aren't necessarily what they are thinking they just want to understand the sensitivity.

I think it's quite - I think it's fair to say that there are probably scenarios that would not have anybody with excess capital. We feel pretty comfortable with what we have got. Anything that we have looked at that I think would be seriously contemplated we have got more than enough capital to deal with it.

John Reucassel - *BMO Capital Markets - Analyst*

So just dealing with the OSFI issue, you feel comfortable with where you are?

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

We don't know where they are going, John, in absolute plain truth but I guess any reasonable scenario we are well-capitalized.

John Reucassel - *BMO Capital Markets - Analyst*

Okay. And then last question. On the interest rate sensitivity to earnings I noticed from Michael I guess we went from CAD2 billion in Q3 to CAD2.2 billion in Q4. Why is Manulife more sensitive to a decline in interest rates today than it was at the end of Q3 '09?

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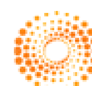

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Michael Bell - *Manulife Financial Corporation - SEVP & Chief Financial Officer*

John, it's Mike. A couple of different things there. First, just our overall growth in the book of business particularly the long-duration liability book, just normal business growth is going to tend to expand that number. As well as just swings in the interest rates and the spreads themselves can have an impact.

I think, John, more importantly though than the particular number that you are highlighting in the slides, I would just remind you this is really a mark-to-market phenomenon. This is not in the same category of risk in our view as the equity risk.

This is really, again, a CGAAP phenomenon. Obviously if we were primarily a US GAAP reporter it would be essentially a non-issue. So, again, I would suggest that you not overweight it and not think of it in the same category.

John Reucassel - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Michael Goldberg, Desjardins Securities.

Michael Goldberg - *Desjardins Securities - Analyst*

Thank you. What is the difference between an assumption change and a model refinement?

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

Michael, it's Mike. In particular in fourth quarter, let me just give you the factual point first and then come back to try to answer your conceptual question.

In the fourth quarter the vast majority of the charge that we took were refinements in our actuarial models relating back to the prior basis changes. It was not a new view of the world on those products, but instead was a refinement to the model. Approximately CAD25 million after-tax in the quarter were true assumption changes. But, again, a small percentage of the overall hit.

And, again, in terms of these refinements remember, Michael, please that these are very, very complicated models. We are trying to model literally decades of cash flows for hundreds of different products with different varieties. We have got over CAD100 billion of the actuarial liabilities for God sakes so we are always trying to strive to optimize the quality of those models.

The model refinements would be simply trying to improve the quality as opposed to an assumption change would be stepping back and saying we thought x once upon a time, say is it related to policyholder behavior. We now see why. That was not the majority of the impact in fourth quarter.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. And also can you talk about the sensitivity to the level of interest rates versus sensitivity to spreads?

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

Michael, it's Mike. There is no specific number that I can give you. The issue here is it is a multifaceted model so it is certainly very accurate to say that directionally we are helped materially by increases in the corporate bond rates, particularly the long corporate bond rates.

We are also hurt by corporate spreads contracting and both of those happened in the quarter. The net impact in the quarter was a modest benefit, a little over CAD100 million after-tax, but this is not one where we can give you a simple formula. So again it's just multifaceted based on our product portfolio but those are the important directions.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay. And finally, how frequently are the mark-to-markets revised that affected the results in the latest quarter?

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

I am sorry, Michael, I am not following your question.

Michael Goldberg - *Desjardins Securities - Analyst*

I am talking about the real estate, ag, timber, etc.?

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

Well, we relook at it -- I will start and I will ask Warren if he wants to add. We look at that, literally, every quarter. Now we don't look at every single property, every single appraisal every single quarter, but we do a good job of systematically reviewing the market values for the portfolio over the course of the year.

So at any point at every quarter we are giving our best bet of the overall portfolio. But, again, it's based on a subset that got the detailed evaluation.

Michael Goldberg - *Desjardins Securities - Analyst*

So is there anything that you could say that is common to the reductions that you recognize this quarter, such as -- or is it just simply the fact that liquidity has weakened and so as a result lower valuations?

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

Michael, it really is the cap rates. Again, the cap rates are under pressure relative to where they are and I think that just reflects the overall market sentiment and mood if you will. We feel good about the underlying cash flow fundamentals and occupancy rates, etc.

Warren, do you want to add?

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Warren Thomson - *Manulife Financial Corporation - SEVP & Chief Investment Officer*

Michael, I think the key point to note here is we do subject our portfolio on an ongoing basis and with the move to reviews every quarter -- so a quarter of our real estate portfolios are viewed every quarter -- but we look across the whole portfolio for any indications of weakness that might be more systematic. Like if in a given market we saw -- properties out of each market are appraised.

And if we saw an issue in a given market that looked more problematic, we would actually address that. We did that back in Q1 of '09. You will recall we had a larger mark on our real estate portfolio in Q1 as a result of that in Q1 '09.

Since then things have been more moderated. In Q4 we did have a more comprehensive review again. What you see right now is our reflection of market values as at December 31, '09.

Michael Goldberg - *Desjardins Securities - Analyst*

Okay, thank you very much.

Operator

Rob Sedran, National Bank Financial.

Rob Sedran - *National Bank Financial - Analyst*

Good afternoon. My question is on the equity market and interest rate sensitivities. I hate to keep going back to them but what I am trying to get is to separate what might be a one quarter experience gain, essentially a non-recurring mark-to-market, from what might be expected to bleed in to earnings in future periods.

I mean just as an example, if I am looking on your slide eight, if equity markets were basically flat to your expectations in Q1 would the only benefit from those four lines be the CAD17 million in fee income that we could expect to recur?

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

Essentially, yes. The -- essentially, yes, Rob. Again, that is sort of beyond the level of precision of the numbers but I think it's fair to say --

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Rob Sedran - *National Bank Financial - Analyst*

Just directionally I guess is what I am looking for. And can you give me a similar directional on the interest rate sensitivities?

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

Rob, essentially we assume interest rates don't change so that -- and that is not absolutely, precisely correct because we do end up lending to the ultimate reinvestment rate. But in a short period of time, certainly in a given quarter, we would assume no material change in rates and no material change in spreads.

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Rob Sedran - *National Bank Financial - Analyst*

Okay. Thanks. I guess it's a quick question, Donald. I am not sure if it's an easy answer but assuming that you are or accepting that you are at fortress capital now how should we think about any potential deployment opportunities that come your way? Are they likely to be funded with common equity rather than cash?

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

Well, it depends how large they are. I promised you that -- when we got the capital I promised the equity markets that we would be fortifying and also looking for opportunities. We deployed some or plan to deploy some when we get the ability to take over the TEDA deal.

I will tell you, quite frankly, we lost another deal that we were pursuing. I am disappointed in that but we remain very disciplined. We are never going to take the attitude that we have got to win every deal; that is a very dangerous strategy.

So we continue to be active. I mean, for small- to medium-sized deals that diversify our base of business we feel that we have the right firepower. For very large deals we have to think of other things.

But as I have said in many other forums, I expect that this environment for opportunistic acquisition will exist for a very long period of time. This is not going to be a three-month or six-month or nine-month deal. There is going to be opportunities for the next two years.

Rob Sedran - *National Bank Financial - Analyst*

Thanks.

Operator

Eric Berg, Barclays Capital.

Eric Berg - *Barclays Capital - Analyst*

Thanks very much. Good afternoon, Don, and to the rest of your team.

Mike, first question, with respect to the largest adjustment reconciling net income and adjusted earnings from operations, namely this mark on your real estate, timber, and agricultural, if these are general account assets backing actuarial liabilities why would there be a net earnings impact if typically speaking actuarial liabilities are mark-to-market by like amounts as the assets are mark-to-market?

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

Eric, it's Mike. This is a CGAAP phenomenon. You are absolutely right in under US GAAP we would not have that kind of mark-to-market, but for CGAAP in fact swings in the market value of non-fixed income investments flow right through.

Eric Berg - *Barclays Capital - Analyst*

No, but I am asking why isn't there an offset on the liability side?

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

It's Simon, Eric. Simon Curtis. Where we have non-fixed income assets like real estate backing liabilities that aren't adjustable, effectively there is a fair value change in the asset. There is no offsetting mark on the liability.

That is different than if it's a bond where really the cash flows aren't impacted by the fair value mark. There you get a more direct offset. But when it's non-fixed interest you generally don't get the offset unless the liability itself is adjustable.

Eric Berg - *Barclays Capital - Analyst*

My next question relates to, again, the whole issue of equity exposure. It's just not obvious to me -- I am really looking for sort of an intuitive, to help my intuition about why sort of the whole thing with John Hancock and sort of an accounting change, which is essentially what we are doing here, collapsing businesses, sort of bookkeeping type stuff, why that affects your equity sensitivity.

And why, for that matter -- here is another related question and then I will queue up for another one. But that is sort of one question, why when we do this restructuring in the United States does that affect your equity sensitivity, which seems to be accounting only?

And then when the stock market goes up I want to ask the same question. Why does Manulife become less sensitive to the equity markets? If I own a share of Manulife, say, and it goes up in value, I am no more or less sensitive to the equity market than would have been the case if the stock market had not gone up.

So those are my two questions about equity market sensitivity. Thank you.

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

Eric, it's Mike. In relation to your first question, remember that the legal entity merger in the US took a US life insurance sub and now essentially, moved it under the MLI umbrella and combined it with the remaining US subs that had already been under the MLI umbrella. So as a result we are broadening out the base of the portfolio of the US businesses. We are broadening out that base in the MLI.

You can see if you look at slide 35 in the SIP, you can see the jump in required capital for the MLI on a consolidated basis. And that in effect is the addition of this US sub that had been outside of the umbrella. It is now within the umbrella; it raises the required capital.

The business that we are bringing in had very, very little equity market sensitivity. So all of a sudden we have added -- we have essentially diversified what is the MLI consolidated company, which the MCCSR is calculated off of, we have diversified it now with something that has minimal equity. So as a result of that diversification the same 10 point drop in the equity market that we have previously modeled now only has approximately an 11 point impact on the MCCSR because of this higher base.

Eric Berg - *Barclays Capital - Analyst*

And then once again when this -- just in general when the stock market goes up reducing a company, any company's net amount at risk, why is the company then less sensitive to a fresh decline in the stock market?

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

Eric, Donald will deal with that one. They sometimes say the dumbest guy in the room can make a better teacher, so that is why I am going to try that one.

The accounting model that is applied to this basically says look at the level of the market today and what does it imply about the probability of having to pay out something in excess of the current reserves based on a whole bunch of stochastic simulations. When markets are down it leaves the conclusion that it's more likely to pay out a bigger amount when markets are up.

I think I would agree with you that is kind of a funny way of looking at it. And I would have to agree that these liabilities are not due for 15 or 20 years. What the market is today I think tells you very little about the likelihood of paying out in the future, but that is the way the accounting model works.

Eric Berg - *Barclays Capital - Analyst*

Don, I would say if this CEO thing doesn't work out you could always be an actuary, right?

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

I am hoping.

Eric Berg - *Barclays Capital - Analyst*

Thank you. That was very clear and very helpful. Thank you very much.

Operator

Doug Young, TD Newcrest.

Doug Young - *TD Newcrest - Analyst*

Good afternoon. I guess I am going to confuse everyone here but I am going to actually go ask the question that was just asked a little differently. We saw equity markets go up in Q4. We saw you hedge more of your business yet your equity market sensitivity actually didn't go down, which I figured it would have because you are holding less reserves to back that business. I am curious as to why the equity sensitivity wouldn't have gone down.

The second part of that question I have got to follow-up is am I to take it that you have hedged more of the import business, Donald? Are you comfortable that you have gotten over a 50 basis point margin locked in? Because I think that is what you indicated your target was before.

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

Yes, the -- well, I can deal with the second part. We are targeting that. I am not promising you that every cohort of business achieves that, but that is certainly what we are targeting from issue. We also want a degree of freedom to read the markets as we do.

There is other lines of business that were priced either above or below that so we can use different thresholds, but that is generally the pattern. Our equity sensitivity did go down. I mean, Doug, if you can direct us to what you are talking to.

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Doug Young - *TD Newcrest - Analyst*

Just the 10% decline in equity markets. Now the decline decreases earnings I think CAD1.2 billion. I think it was CAD1.3 billion at the end of Q3 so it was a marginal decline. I would have expected maybe a little bit more.

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

Doug, it's Mike. Remember what you are looking at there is a 12/31/09 number so it only reflects the impact of what we actually hedged in fourth quarter. It does not pick up yet the benefit that John DesPrez described of hedging an additional CAD7.6 billion. That would show up obviously on March 31.

So it's really not that far out of whack in terms of kind of proportionally relative to the amount of business that is still unhedged as of 12/31 versus September 30.

Doug Young - *TD Newcrest - Analyst*

Okay. And I guess a good one for Bob, I look at your strategy in terms of what your goals are and I know you have talked about some areas where you are not present in Asia, being Korea and India, and really no mention of aspirations to go into those markets. And maybe you do.

I wondered if you can update us. Getting into those markets, I know Korea wasn't issuing licenses before. Can you get into these markets organically or is it strictly just through acquisitions?

Bob Cook - *Manulife Financial Corporation - SEVP & General Manager, Asia*

Doug, I think when Donald became CEO he indicated that India and Korea were part of his vision for the future. So we have research projects underway in terms of investigating entry strategies into both markets.

Right now in Korea, the government has not issued new licenses for some period of time so the only avenue of entry, currently, is acquisition. And as a result acquisition prices are very high.

India is a little bit different story where you can get new licenses. Our historical concern about how do we maintain control of an operation in India with the foreign investment restrictions is still something that we are trying to determine a strategy around. But, no, I am hopeful that we will have some news on India and Korea, one or the other, during 2010.

Doug Young - *TD Newcrest - Analyst*

Okay, thanks. Just one last one. Michael, when we look at the MCCSR does that give us a really full picture of the entire company now that you have folded in the US subsidiary or what is left outside there? Is it just the reinsurance?

And I guess I am going at it, just could you talk about the RBC. You expect it to be just about 300%. Does that -- is that for the business that is -- is that really important to watch going forward still or is it we just should be looking at the MCCSR?

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

Okay. Doug, first of all, I think your last point is a very important one which is our view is that the consolidated MCCSR at the MLI level is a lot more important -- much, much, much more important -- than, for example, the US RBC ratio. Having said that

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we are cognizant of the fact that the market and the rating agencies in particular still look at that stand-alone RBC ratio and we intend to keep that above 300%.

But you are absolutely right given that the US life insurance companies now are all subsidiaries of MLI, looking at the consolidated MCCSR is a much better a measure of our capital strength than US RBC.

On the first part of your question we have one small affiliate reinsurer that is still outside of the MCCSR ratio. So our MCCSR ratio, I would argue, is much more complete than any of our benchmark competitors in Canada. And I think, again, this is a very effective measure to look at.

Doug Young - *TD Newcrest - Analyst*

Thank you.

Operator

Mario Mendonca, Genuity Capital Market.

Mario Mendonca - *Genuity Capital Markets - Analyst*

I will try to be really quick. And, Michael, if you have already answered this, forgive me. I just didn't hear you. Could you talk about the decline in expected profit quarter over quarter? That is the first question and then a question for Simon Curtis.

The experience gains and losses of CAD300-and-some-odd million this quarter, could you tell us how much -- what the experience gain or loss was this quarter from noneconomic factors? Things like mortality, morbidity, expenses, lapsation, just the noneconomic stuff.

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

Sure. Mario, it's Mike. In relation to your first question, the main impact, the main sequential impact is actually the change in the foreign currency rates. Again, with the weaker US dollar that continues to drive down the expected profits.

There are some other smaller items. Obviously as we continue to hedge more business that is a modest headwind as well, but currency is really the main factor.

Mario Mendonca - *Genuity Capital Markets - Analyst*

That is a pretty serious drop just currency, because I think the Canadian dollar/US dollar move wasn't that great. I am surprised that that would be currency.

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

Yes, it is. Keep in mind that literally a penny change in the US dollar versus the Canadian dollar is worth approximately CAD20 million to us on an annual basis. And when you are looking at the source of earnings you are looking at pretax so you would be applying a factor to that. So it is in fact a major change.

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Mario Mendonca - *Genuity Capital Markets - Analyst*

So there was nothing depressing that number this quarter?

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

Well, I meant what I said earlier. As we hedged more that continues to be a headwind to expected profit going forward. Again, the currency -- to answer your specific question -- was very important.

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

Mario, in answer to your other question, I don't have the exact number but it would actually be a loss this quarter. We had a gain on our claims but had a loss on some maintenance expenses, lapses and surrenders.

Mario Mendonca - *Genuity Capital Markets - Analyst*

So a small loss this quarter?

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

Yes, I believe so. I don't have the exact number, but those are the -- it would be a loss.

Mario Mendonca - *Genuity Capital Markets - Analyst*

What would you expect in a more normal quarter or is there such a thing?

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

Well, as we have said historically, we have historically had relatively small gains when you add those other items together each quarter. So I guess the best opinion I could give you is I wouldn't expect the number to be big either way. It would center around zero.

Mario Mendonca - *Genuity Capital Markets - Analyst*

Understand. And then, finally, Michael Bell, just going back to something you said. You said that we shouldn't pay too, too much attention to the benefit or sort of the negative effects of lower interest rates. You said it's non-cash; it wouldn't be reflected under Canadian GAAP of the CAD2.2 million.

Is the same true of rising interest rates in the CAD1.6 billion benefit? That it wouldn't happen in the US and that it's not particularly meaningful?

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

First of all, your question is factually accurate that it would not be picked up in US GAAP for a long, long period of time. And so again, particularly as you are comparing us to the US GAAP reporters, I would just ask you to be mindful of that CAD2 billion difference for us in 2009. And, yes, I would feel the same way. I would not change my story next quarter if interest rates increased.

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Now, again, there are all sorts of factors to think about. Rising interest rates over a long period of time would help a company no matter where the accounting regime is. But my point is if you are looking at a short period of time and you are looking at swings, to me it's very, very different to think about the interest rate piece, which is a mark-to-market phenomenon, as opposed to the equity market risk, which is more of a long-term economic issue.

Mario Mendonca - *Genuity Capital Markets - Analyst*

I am just not sure I understand why it is that for a life insurance company where the assets are so much longer dated than the liabilities that a decline in interest rates wouldn't be meaningful.

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

It would be meaningful, Mario, over a long period of time. I am just suggesting that you not overweight a quarter-to-quarter change or even a four-quarter change like we had in 2009. Over a 10-year period I would agree with you wholeheartedly.

Mario Mendonca - *Genuity Capital Markets - Analyst*

And then a final question you said --

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

Mario, if I can jump in there, the economics are unchanged. I think that is what you are getting at. If you have got two life insurance companies, one is US GAAP reporter and one is a Canadian GAAP reporter, and they price over a long-term expectation of what they expect to make on those products over time -- and remember the majority of the assets aren't there at day one. They come in the future. So we all have a view as to what the future -- you have got two companies make the same assumption of the future.

Mario Mendonca - *Genuity Capital Markets - Analyst*

Don, I just --

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

Interest rates drop. The Canadian GAAPer will have a big hit. The US GAAPer won't. That is one of the reasons why if you look at our US GAAP results to the end of the third quarter they were CAD2.7 billion. Under Canadian GAAP they are a much lower number.

Mario Mendonca - *Genuity Capital Markets - Analyst*

I just took issue with the notion that declining long-term interest rates aren't meaningful to a life insurance company.

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

All I was trying to say is in a short period of time I would not get hung up in the volatility.

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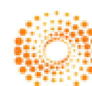


Mario Mendonca - *Genuity Capital Markets - Analyst*

Got it. Thank you.

Operator

Jim Bantis, Credit Suisse.

Jim Bantis - *Credit Suisse - Analyst*

Good afternoon. Just looking at the sales numbers out of the US, John Hancock Life in particular; John, you have been able in the past to give us the market share trends. Can you give us a sense on the full-year decline? Has John Hancock's new business market share significantly declined?

John DesPrez - *Manulife Financial Corporation - Chief Operating Officer*

We don't have the final year-end numbers yet in the industry, but we expect to be number two. We have been first the last three years, I believe. So -- what it affects us is because we emphasize or so focused on the high and large case life insurance, that falls off in an adverse economic scenario more than the mass-market business. And some of our competitors who are more heavily focused on the mass market do relatively better in that type of environment.

Jim Bantis - *Credit Suisse - Analyst*

So you have seen no negative spillover with respect to the retrenchment on the VA sales affecting you on the life side?

John DesPrez - *Manulife Financial Corporation - Chief Operating Officer*

No, the truth is there is very little overlap in the distribution between the two.

Jim Bantis - *Credit Suisse - Analyst*

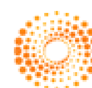
Got it, thank you. A question for Donald. Donald, you made the statement about this next two years could be one of the better opportunities for M&A. What do you think the catalyst is going to be to break the logjam at this point, get the price gap between the buyers and sellers closer?

We are seeing now hints of Met getting close to an AIG acquisition with respect to the US operations, and the AIG Asian operations might be spun off. So what are your thoughts on that?

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

Well, I think it is capital pressure that is going to create it. I guess there is a lot of companies that if you look at things like gross unrealized losses on fixed income portfolios, a lot of that is sort of slowly finding its way through the pipeline and it is going to have an effect.

If you look at rating agencies' views of banks and insurance companies, you think of companies around the world that are reliant on explicit direct government support in order to keep their operations alive, the taxpayer is not going to fund that forever.



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And that will have to be replaced somehow, so that is going to create a whole set of opportunities. Some companies will go into the public markets and try and float parts of their business; others will be forcing transactions.

Jim Bantis - *Credit Suisse - Analyst*

Thanks very much, Donald. Appreciate that.

Operator

Colin Devine, Citi.

Colin Devine - *Citigroup - Analyst*

Good morning. Three, hopefully, fairly straightforward ones. First for Mike, you talked about the interest sensitivity if rates decline. And I just want to be clear, if rates held where we are today -- I'm thinking particularly in the US -- a ten-year under 4% and spreads holding about where they are, what would be the earnings impact of that over the next three years? Or do reserve levels and your assumptions reflect that? That's question one.

Question two, also for Mike but perhaps for Don. With respect to the MCCSR, I guess I'm just curious as to how meaningful a measure you really think this is. We look at Manulife today with the hedging, I think you would say it is a better risk position than it was without it.

Your MCCSR hasn't really changed. Is that really just a flawed ratio that perhaps didn't pick up some of the issues that clearly were at Manulife?

Then the last one for Don, and this is the one nobody has brought up and certainly the one you are not going to like being asked. But as far as I can tell Manulife is not suing the National Post.

And so the article that talks about the Company's above-average risk rating with OSFI -- is what you are calling fortress capital -- why shouldn't we now be really assuming that is the appropriate level of capital for Manulife and certainly factoring that in to what we think might be the Company's potential long-term ROE going forward?

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

Colin, it's Mike. I will start with the first piece of your question and then I will turn it over to Donald. On your question on the interest rates, when we split it into the two pieces -- first on new business, we obviously took some additional new business strain in 2009 as a result of the challenged interest rates. As we repriced new business, though, we would expect that impact to be de minimus.

Perhaps more importantly, as it relates to the in-force book since in fact Canadian GAAP essentially forces us to fair value the liabilities based on where interest rates are currently, I would not expect there to be a material impact if interest rates sat at the current levels for the next three years.

Now again, there are subtleties to the CGAAP model. For example, the grading approach to the ultimate reinvestment rate that is in the long, long, long term future. So my comments are not precisely accurate, but if interest rates sat at current levels for the next three years we would not expect to have a material hit.

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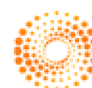

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On your question on the MCCSR and then I will turn it to Donald. I do think it's very important to recognize that the MCCSR as a number is just one measure. And it is important to look at it in terms of the overall context. That is why, as we have talked about having very strong capital standards, we have tried not to boil it down to a single number because in fact there are just a lot of different factors to think about.

One of the things though, Colin, that we feel really good about is that if you look at our 240% MCCSR and you measure the amount of equity market decline we could have and still be above the 150% regulatory minimum, we can now withstand over a 40% decline. Actually well over a 40% decline in equity markets at a point in time and still be above the 150.

So, again, none of those are precise numbers in terms of being the only thing to look at. But the point is we feel good about where our MCCSR and our overall capital strength ended here at year-end 2009.

Don, do you want to add?

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

Colin, I am not going to comment on the National Post article. It's a long article to have to come in and tell you which part I was commenting on. But I think the jist of your question is how strong is the capital level. And it's very strong.

If you think of some number like 200% providing us with a very large margin between, as Mike said, the sustained at 30% market decline and then we have got more on top of that so that we are well ahead of that one even. It's a very comfortable position.

You are quite right, OSFI does not give explicit credit for hedging so the hedging in and of itself doesn't change that capital ratio. Where it goes in the future, what changes occur that is a thing that everybody would love to know.

One thing that is clear is regulators want more and more of company's activities under their regime. With this merger of companies which we instigate to create capital efficiency in the United States, its byproduct is virtually all of our operations with the exception that Mike talked about is right under that OSFI number. So that is -- if there was a direction to put all of the activities of companies under their lead regulator's regime, we are already most of the way there.

I think we know that it's common for all kinds of techniques to be used by companies to ship business offshore, to have captive reinsurance, those types of things. I think more and more regulators everywhere around the world are looking at those types of transactions and saying do they make sense if it means that the local regulator loses sense of the extent of the activities being funded.

In our case, we have most of it there under the OSFI regime measured by that MCCSR ratio. I happen to believe that provides a high degree of transparency to investors as well as regulators in understanding our affairs and is a very positive thing in addition to the other benefits. Which it improves capital mobility between the two US companies, produces operational efficiencies, and also leaves us less sensitive to movements in the equity market. So we have a very robust capital position.

Colin Devine - *Citigroup - Analyst*

Don, but is it fair to say though, it seems to me that what has driven the increase to fortress capital has not been the assets or the investments that you are responsible in your prior role, but the liabilities. Because really the regulatory system didn't capture that and that certainly fortress capital is not a transition event for Manulife but it's a level that is here to stay for a while. Is that fair to say?

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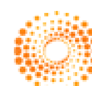

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, Colin, we have equity sensitivity. Our investors know that. Our choices are to hedge it out at the bottom; we could have done that back in March, right? Hedged out and say we put it behind us. Or we can build up capital levels and get to fortress capital levels that allow us the luxury of time to hedge that out.

The fact of the matter is we have a lot of equity sensitivity. We are trying to reduce that. In order to be the most shareholder friendly way of doing that, in our opinion, was to raise capital, conserve capital, to hedge it out over time at levels that are most advantageous to the shareholders. And that is exactly what we are doing.

I think you would realize and everyone on the call would realize that as you are doing that you are going to end up with excess capital at the end of the day if you have any luck. And that will be a very positive event. As it is now we have more than enough capital to deal with equity market declines as well as strategic opportunities that present themselves so we are in a very comfortable position.

When people said why are you raising the equity, we said two reasons, offensive reasons and defensive reasons. And that was true then and it's true now. It allows us to look at deals that we could fund instantly using our own resources and allows us to hedge at the most appropriate time for our shareholders.

Colin Devine - *Citigroup - Analyst*

Thanks, Don.

Operator

Eric Berg, Barclays Capital.

Eric Berg - *Barclays Capital - Analyst*

Don, I think you have just touched on this but let me ask the question just to be sure. In your prepared remarks you mentioned something along the lines of, and I just missed it, that the specific actions that you have taken will reduce your cost of hedging prospectively. And, again, it wasn't clear to me why.

You don't determine the cost of hedging, the market does. So why does your actions -- help me understand why the actions you have taken will reduce your cost of hedging prospectively.

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

I am glad you ask, Eric. The exact quote -- the number I was referring to is a thing that -- I guess the state-of-the-art, the term-of-the-art that is used is net amount at risk, right?

Eric Berg - *Barclays Capital - Analyst*

Right.

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

Which is the amount -- I, frankly, don't like that term. It's the in-the-money amount.

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Eric Berg - *Barclays Capital - Analyst*

Yes.

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

So you have got guarantees of x, you have got exposure at y, that gap, right? That has decreased from CAD25 billion, CAD25.3 billion to CAD11.6 billion. Now apropos of some of the other questions on the call is does that mean that we have less risk. And I am trying to be very straightforward with people and say, no, because if the markets drop that 20 could go back to 25, right?

Eric Berg - *Barclays Capital - Analyst*

Yes.

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

But what it does say is as the in-the-money-ness goes down we can hedge that out because it's cheaper to hedge at the money then out of the money. And that is exactly what we are doing.

So at one stage we had CAD25.3 billion out of the money. Some people said hedge it out now. Well, we could have but we would have had to hedge out CAD25.3 million. Now we only have to hedge out the CAD11.6 million. We are hoping for the day when it gets to zero and then the cost of hedging will be relative to what it would have otherwise been, a lot less.

So this is a very successful strategy. It's working for us. That is why we end up with now 42% hedged at a very modest relative to the alternative cost to the shareholders. That is an enormous victory.

Eric Berg - *Barclays Capital - Analyst*

Thank you.

Operator

Michael Goldberg, Desjardins Securities.

Michael Goldberg - *Desjardins Securities - Analyst*

Thank you. Don, having done the shares you did in the fourth quarter as you have said you are now at fortress capital. And at the rate that you are generating retained earnings you could have built that capital internally over three to four quarters. So now every dollar of retained earnings is excess capital above what you have defined as fortress capital.

So having said that, can you circle back and talk about dividend policy going forward and the decision to cut the dividend looking back?

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

Well, I believe the decision to cut the dividend was exactly the right decision.

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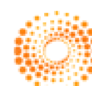

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Michael, we have had the benefit of rising equity markets. That was anything but a certainty in the summer. You certainly can't raise equity and then drop dividends; that is not a good order for things. We elected to drop the dividend. We elected to raise equity. We are now in a fortress position. It is wonderfully beneficial that markets have gone up, but there is no guarantee of that. No guarantee whatsoever.

Does it become excess capital some day? I certainly hope so. And will we revisit the dividend? I certainly hope so. But after the pain that we have suffered and our shareholders have suffered by dropping the dividend, I certainly wouldn't mislead by suggesting that there would be any near-term action to increase or restore the dividend.

That would only come through time as we get more comfortable about our risk position and the amount of excess capital and where equity markets are going and interest rate exposure. And then last but certainly not least is our level of expected, reasonably expected normalized earnings going forward. So all those things would govern our decision making there.

Does that answer your question, Michael?

Michael Goldberg - *Desjardins Securities - Analyst*

Yes, it does.

Operator

I would now like to turn the meeting back over to Mr. Gorgi. Please go ahead.

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

Thank you, Operator. We thank everyone for joining us on this call and we are available for follow-up questions after the call. With that I would say good afternoon.

Operator

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

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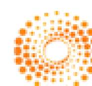

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