

Manulife Financial Corporations

Investor Day 2010

November 19, 2010 - 9:00 am - 2:00 pm EST

Transcription Services Provided By: eTranscription Solutions, LLC

Anthony Ostler, SVP, Investor Relations :

Good morning, everyone. Welcome to Manulife Financial's Investor Day 2010. I would like to also extend my welcome to those of you joining us via webcast.

My name is Anthony Ostler. I am the Head of Investor Relations at Manulife Financial, and I'll be your MC for today.

Joining me at the front table is Donald Guloien, President and Chief Executive Officer, Michael Bell, Senior Executive Vice President and Chief Financial Officer, Bob Cook, Senior Executive Vice President and General Manager, Asia, Paul Rooney, Senior Executive Vice President and General Manager, Canada, Jim Boyle, Senior Executive Vice President of our US division and President of John Hancock Financial Services, Warren Thomson, Senior Executive Vice President and Chief Investment Officer, and finally, J-F Courville, President and Chief Executive Officer of MFC Global Investment Management.

Before we get started, I would like to make a few administrative announcements. Each of you should have a package at your place setting, which includes copies of today's presentations, as well as biographies of today's speakers.

For those joining us via webcast, this information is also available in the Investor Relations section of our website at www.manulife.com.

In the interest of time, I encourage you to refer to the biographies of the speakers for more details. In the case of an emergency, fire exits are located at the back of the room and to your right leading to the rotunda. Washrooms are located through the back doors, then to the left, just past the elevators. Finally, please turn your cell phones to silent or vibrate if they're not there already.

Turning to today's agenda, you will note that we have a full and comprehensive day with a target finish time of 2:00 pm. We have morning and afternoon sessions, each concluding with a question-and-answer period. We ask that participants withhold their questions until the Q&A session and to limit themselves to one or two questions in an effort to answer everyone else's questions.

If you do have a question, please raise your hand and wait for a microphone before proceeding with your question. And also, please state your name and company.

We will pause for an hour lunch at approximately 12:15 pm, and we ask that everyone be punctual in returning to this room after lunch, so that we can resume in a timely fashion at 1:15 pm.

For those of you that regularly listen to our earnings calls, you'll be familiar with this next slide. On behalf of the speakers that follow, I wish to note that they will 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 day and webcast available on our website, as well as the securities filings referred to in the slide entitled Caution Regarding Forward-Looking Statements. We've also included a Note to User slide that sets out the performance in non-GAAP measures used in today's presentations. It is there for your reference. Furthermore, I would like to note that, for those of you in attendance today, we put out a press release this morning regarding the material objectives and financial information that are to be presented today.

Donald Guloien, our President and Chief Executive Officer, would like to make some opening remarks.

Donald?

Donald Guloien, President and Chief Executive Officer:

Ladies and gentlemen, I've been looking forward to this day for a very long time. The focus of the day and my talk is going to be about the way forward. Some of you have observed that the last couple of years have been fairly tumultuous in capital markets around the world, and in particular how they've impacted Manulife. And we've encountered a few speed bumps along the way. And I think we've been very open with our investors that we encounter those speed bumps and talk to you about what the challenges are and how we're dealing with them.

I think a lot of investors, especially our long-term investors, have observed that they think we're making a lot of the right strategic decisions in how we're dealing with those challenges. But, what they want to know, and they've asked repeatedly, is, "How long is going to take? How long will it take you? You know, understanding that you're pulling back the jets on some very significant businesses and turning on the jets in others, how long is it going to take for the earnings of the new businesses that you're trying to grow-- are going to replace some of the lost earnings potential of some of the things that the Company historically did?" And I've had to avoid answering that question. I mean, the first reason for avoiding the answer to that question, especially in a one-on-one, is FD concerns. I can't answer it with one group of investors and not others. And the second reason, and perhaps more profound, is that you can't answer a question when you really don't know the answer.

The fact of the matter is, I could throw off an objective at a high level, I could paint for you a hockey stick of how we're going to fix this problem in four or five years, but that wouldn't have any meaning for our investors unless it was backed up by reliable granular plans developed by the management team that supports me that we could talk about in a way with a lot of confidence for investors. We also wanted to go

through a process of discussing with our Board the plans, how ambitious they are, and hear their feedback about are they too aggressive, are they too conservative, are we doing the right things in the Board's view.

So, what we have is a top-down strategy that I think you're all familiar with, the themes of it, in any case. But, we'll go into it in quite a bit more detail. But, a strategy that's also been worked through a bottom-up process with each of the divisions and the subunits within our major geographic divisions and right down to the departmental level, working up the plans that will achieve the overall objectives. So, now I can talk about it with a great deal of confidence.

We've also taken it through our Board, had a number of discussions with the Board over a number of months, and they feel very confident in the trajectory that we have, the strategic trajectory, as well as some of the objectives that we're going to outline for you today. And then, last, but not least, compensation is a big driver for management teams everywhere in the world. My management team is prepared to stand behind these objectives and put their compensation on the line in order to deliver those. So, I think I can answer the question that you've been asking for some time with a great degree of confidence and reliability.

So, the theme is the way forward, with the focus of the day will be on reviewing our plans to achieve strong and sustainable growth in earnings and ROE over the next five years.

Now, I want to caution you. We're not allowed to get into the guidance game. If you're looking for a forecast for what we're going to do next year, you're going to be disappointed. We're going to talk about a five-year trajectory. But, I do want to make clear to you that the five-year trajectory is not the classic hockey stick, where it's going to trundle along at flat earnings or decrease in earnings for four years, and then all of a sudden magically increase in 2015.

We have a very good glide path that we intend to follow, but we don't intend to go into that in a lot of detail with investors because we simply do not want to get into the game of providing forward guidance. So, these are objectives. This is not guidance in the legal or practical sense.

The presentation--Mike Bell is going to talk in a little bit more granularity. I'll give you some of the very high-level outcomes. Mike's going to talk to a little bit more granularity and talk about some of the divisions and their contributions.

We're going to have Bob Cook talk about Asia because Asia is a very important part of Manulife, and I think a very under appreciated part. I've run into people, fairly sophisticated people--now, no one in this audience, but on the street. And, you know, we need everybody to be excited about our stock, not just people who know the Company well. And people say, "Gee, I didn't realize Manulife operated in Asia," or, "I didn't realize you had the skill and scope and," there are some people who believe that we got into the United States with the John Hancock acquisition and don't realize that we've operated in the United States for 100 years prior to the John Hancock acquisition. So, I think there is a lot of misconceptions of the Company, not amongst the investors who follow us well, but amongst the greater public that we're trying to emphasize. And perhaps the greatest unknown story or underappreciated story is Asia. And if you look at the AIA business in Hong Kong with a market cap of \$35 billion--and believe me, nobody knows the company better than we do for a whole variety reasons--you realize how heavily underappreciated Manulife's Asian franchise is. And so, Bob Cook is going to lead the business unit presentation, talking about accelerated growth throughout Asia.

Canada is a very fine story. You know, it's a diversified balance of products that balance each other out very nicely and produce very consistent growth in earnings and very high-quality earnings quite consistently. We're very proud of it.

We'll have a little break, a little bit of a bio break, and then we'll talk about the U.S. division, where the greatest amount of change is going on. But, I'm very, very proud of the change. And Jim Boyle, I think,

has had one of the toughest jobs in the Company, tougher than mine in some of the challenges that he's had to deal with, but I'm very proud of the U.S. management team and what they're doing. I think a lot of people actually noticed, what's happening there--when you look at the growth in adjusted earnings from operations and saw that in the third quarter it was up 70 percent from the prior quarter. And we hope that that theme will continue, reflecting the repricing that's taking place to acknowledge higher morbidity in long-term care and lower interest rates that we feel will be with us for at least a meaningful period of time. The results of that are coming through in the earnings from operations, and that's been some very hard work on behalf of our US operations to do that. We're very proud of them.

We're also proud of some of the success that they had, and I'm particularly very proud of the--what they're doing in the Mutual Fund business. I've mentioned it on the call, but the number, again, \$8 billion in sales year-to-date from U.S. mutual funds. Let me remind you there's a lot of Canadian mutual fund companies that are smaller than \$8 billion in total assets under administration. These guys are doing it on a run rate, over a 10-month period, so I'm very, very proud of that.

Investments, it's been a strength of the Company, diverse and high quality. Warren Thomson will talk about that.

And then, our Global Investment Management business, J-F will talk about that we manage something on the order of 125 billion that is Manulife, not T. Rowe Price or other people that we have on our open architecture line up, that we're very proud of. I mean, these are good people. But, Manulife itself, through MFC Global is now managing approximately 125 billion in assets for third parties in all the institutional retail mutual funds, through the seg funds and other, and that's in addition to the 180 billion we manage for the general accounts.

And that is going to be a continuing growth story and a source of competitive strength for the Company's Wealth Management businesses around the world.

We will then have a Q&A session, followed by lunch. And then, a very brief discussion in the afternoon, where Mike Bell's going to talk to you again, more specifically about objectives for the future, and I'm going to talk about accountability for those objectives.

And then, we'll have a final Q&A session and send you on your way for a lovely weekend.

Our vision--important to start at the top, the vision has been revised as to be the most professional financial services organization in the world, providing strong, reliable, trustworthy, forward-thinking solutions for our clients' most significant financial decisions. You can see there, there's a very strong commitment of the Company to insurance, but insurance isn't all we do, and wealth management is an increasingly important part of our franchise. We also are not trying to be in the transactional services. We're not trying to be all finance. We want to handle the clients' most significant financial decisions, so you should not be expecting that Manulife will be getting into the automobile insurance business. But, when it comes to things like retirement planning, planning for death, disability or saving, Manulife will be there.

Priorities, the priorities are very simple, and perhaps obvious, but we put a lot of emphasis on them. They've been constant since I became Chief Executive Officer. Number one, growth, maintain strong capital and financial strength, improve our ROE, manage our risk, and continue to offer a very high quality value proposition for our clients. You've heard that before. I guess what you want to know is where the rubber hits road and what that means when it turns into objectives. And the performance objectives are there. We want to increase our net income to \$4 billion by 2015. And I believe that will be in very high-quality earnings.

We took some risks in the past in terms of unhedged variable annuity business, and some of you commented that the earnings that reflected that risk, you know, while they were real, they were consistent with the way things ought to have been measured and the way the accounting systems work around the

world because they were volatile and subject to how equity markets perform weren't perhaps the highest quality earnings in retrospect. These should be very high-quality earnings.

We'll maintain strong capital and financial strength. We want to maintain capital levels that are adequate to meet policyholder obligations to support our strongest financial services rating.

A lot of what Manulife offers when you focus on the big financial decisions in people's lives, the most important ones, we're making the big strategic presumption that people will be quality conscious and will be willing to pay a higher premium for a company that is very focused on financial strength for the long term. And we're pricing accordingly. We're having success at doing that. So, it's very important that we deliver on that, and that it's not just a long-term delivery of the financial strength objective, but short-term delivery as well. So, strong ratings are a very important ingredient in measure of Manulife's success.

Improve ROE to 13 percent by 2015. I'd, frankly, like to do it faster than that. But, we have a lot of in-force business. It's turning around an insurance company's earnings profile is a little bit like changing the direction of a very large ocean-going ship. It takes a long time to turn the ship. We have a lot of capital that has been invested in businesses in the past, some that are performing well, some that are not performing well. And they will trundle along delivering the priced-for profits, plus or minus deviations having to do with experience. And it's hard to turn that around, but you should be satisfied to know that we have for some time been pricing all products and strategic investments with a target in excess of 14 percent. And in many, many cases, in fact, most cases, well in excess of that. And we intend to have that new business improvement reflected throughout the product lines and the results over a period of time.

I think there's also greater attention being paid to the fan of outcomes. It's very dangerous in the insurance business to price products assuming your best-case scenario and, this is a pretty obvious statement, but the real devil is in the details of how effectively you manage that throughout the

organization. And things can look good for one set of assumptions and look absolutely horrible in another set of assumptions.

And I think what you can see quite obviously going on in the Company is a movement away from products where the fan of outcomes is much too broad. It is really good to say that you've a product that's priced for 18 percent, but if a small movement in capital markets can turn that into a negative 35 percent, that's not a very good thing to do with investors' capital.

So, the fan of outcomes is a very, very important ingredient of how Manulife looks at its product mix going forward. And those changes are and have been made.

We want to shift the business mix away from products containing excessive risk, particularly interest rate and equity risk. We have lots of that without clearly adequate return and we want to hedge or reinsure exposures through this capital and earnings at risk. I think investors greeted that quite favorably, and I'm glad you did.

I've said before that we're going to be criticized--if markets go up, we'll be criticized for hedging too fast. And if markets go down, we'll be criticized for hedging too slow. We've stuck with a path, and we intend to stick with a path that is a combination of time-based and market-based hedging. I think you know that in the first quarter of the year, we hedged, 5 billion or put 15 billion of product into hedging programs. And that--roughly 51 percent hedged and reinsured.

Interest rates went down, and it's more difficult to hedge using dynamic hedging, which relies on swap rates when interest rates went down, so it comes around in the second quarter, you know, we didn't hedge anything because the markets were down--equity markets were down and interest rates were down. In the third quarter, a similar story. So, we're taking a different approach now, and we're doing what we call macro hedging, which is shorting futures without the interest rate lag. And we've taken advantage of the market going up about 20 percent from its low being very close to the all-time high to hedge another significant slice of the business. So, Mike will talk to you about that. But, what you'll see

is an immutable path towards reducing Manulife's equity and interest rate sensitivity, but done with a very heavy focus on markets-based activation of that plan.

We'll continue to deliver on solutions for our clients' most significant financial decisions. We take that very seriously. Those of you who are policyholders in the room know that Manulife and the entire management team is very committed to the highest degree of financial security throughout the cycle.

Our challenges are well known, and some of the investors in the room criticized me for spending too much time talking about the challenges. That's my style. I've sat in the audience in a lot of presentations being an investor myself for many, many years, and I appreciate the straight approach. So, I would like to talk about the challenges upfront, so that people are totally aware of them.

Capital and earnings volatility--but I promise you, those who think I go on too long about this, there's only one slide. There are not 16 slides here today. Capital and earnings volatility due to equity markets and interest rate exposures--historically a high concentration of products with long-term guarantees, principally guaranteed UL and the VAs and long-term care. Historically low concentration of products with a fee-based income source--that's things like mutual funds. And, of course, we have a pretty good mix a lot of success with the 401(k), Mandatory Provident or Group Pension businesses as they're variously known around the world, but we want to grow that very, very significantly. Long-term care morbidity, you know, which hopefully we've put behind us in the third quarter of this year, and undervaluation relative to U.S. and European comparables of our strongest high-growth franchises, Asia and Wealth Management, due to the impact of Canadian GAAP recognition of lower interest rates.

People get very confused. I mean, Canadian GAAP is greater penalty associated with interest rate than virtually any other accounting system around the world. We've talked to people about our U.S. GAAP and Canadian GAAP comparison. But, the point is if you like the MET or PRU using U.S. GAAP numbers, you should really love Manulife.

Also, if you look at how the European companies are being valued or AIA in terms of the value of their Asian franchises, it's enormous. It's absolutely spellbinding. Manulife gets none of the benefits of those and all the detriment associated with U.S. GAAP.

Now, the good news is, it makes it easier during our earnings trajectory going forward because we're not looking behind us having to worry about if rates stay the same what'll it do to it because most of that has been taken and reflected in our accounts. In a way, we have an advantage going forward. In another way, we have significant disadvantage because our stock is so heavily undervalued relative to its intrinsic value and the value of the incredible franchises that we have, that people look at those CGAAP numbers--rating agencies look at those CGAAP numbers and investors do and put way too much reliance and are not giving enough acknowledgment because of the signals that Canadian GAAP sends, which is an intelligence signal. If interest rates stay, has to pay--it stays low, has to pay, and therefore that ought to be reflected in the accounts. And in Canadian GAAP, it's all reflected upfront. It doesn't wait to unlock four or five years from now when the problem has really become large. So, we think it's actually a pretty good measurement system, although it is certainly heavily penalistic for our Company.

And last, but not least, certainly, is regulatory and IFRS accounting uncertainty. Late breaking news--I guess I'm becoming very confident that on the IFRS issue, that the IASB is listening to preparers of financial statements and investors. I encourage a number of you to express your opinions on some of the notions in the exposure draft where--a risk-free rate plus a liquidity premium. God knows what that is. If any of you know exactly how that's measured, I'd like to know. But, I think you intelligently realize, those of you who have been students of Canadian GAAP, that the basis risk between that artificial reference rate and what we actually invest in can be so huge that the variation could be bigger than what it's purporting to measure. If you believe that simple statement, I would encourage you to send in a letter to the IASB. But, I think the IASB is getting that--and some of the stuff is actually posted on their website. Some analysts have responded already. I think they know they have a challenge with the single discount

rate, that it simply doesn't capture the reality of the business model with which insurance companies manage themselves.

We here at Manulife are not afraid to be measured with market sensitivity for interest rates. We've experienced that for some time. It can be--again, it can be a pain, but it's a reality of the business. We're not afraid to have mark-to-market, we're not afraid to have transparency, comparability and objectivity in the accounting standard. But, what we don't want is an artificial reference rate that bears no relation to our business and gives false positives and false negatives of startlingly-great magnitude, that give the reader of financial statements no information content about how to manage their affairs.

So, the good news is I think that's moving in a very positive direction. Having talked to some of the people at IASB and FASB, I think there is a growing recognition that there's a challenge with the way the exposure draft reads and some very intelligent discussion underway in order to modify that in a way that's more indicative of the business model. So, I'm becoming very, very positive on that front. But, we have to regard it as an uncertainty until it becomes a certainty.

Manulife's competitive strengths are numerous--strong capital position. I think we surprised people with our ability to do things to augment our capital over the last couple of quarters, even under very odious circumstances, and we believe that can continue. We are trying to create natural hedges within the balance sheet, and I think Warren and Mike and others will talk about that.

We have an enviable market position in Asia, retirement segments and other key growth markets with excellent brand reputation and recognition. In the United States, the John Hancock brand is one of the most powerful brands in the United States of America. We'd like to have Manulife be the recognized at the same stature here in Canada and throughout Asia. And that will be a long-term build, starting off slow, but I think it's starting off very effectively.

The worst thing you can do in brand building is go on a binge for a couple of years and, you know, buy every billboard in town and renting spots and, take the World Series and Super Bowl, and then decide it hasn't worked, it really has no impact on your business, so shut it down, you know, a couple days later. We plan a very slow build into this and building slowly and methodically in a way that will reflect the values of the businesses around the world.

We have superior asset quality. It's been a continuous strength and continues to be. We went through a period where our mark-to-market on things like real estate were negative. Not hugely negative, but they were negative drags. And some of you said, "What happened to your earnings gains?" Well, guess what? They're back. And, we expect on average to earn more than what is priced in our reserves, and Warren's people are delivering on that.

We have a very high-quality team. We've made some changes to the team. I think we're upgrading where it's necessary and sensible, but with a very, very high-quality team. Not just the people on the podium with me today, but the entire team.

Strong financial strength ratings and significant scale in all our businesses around the world. So, with that, I'm going to talk about global strategy--sorry, the global strategy, I think you know, rebalance products with unfavorable risk profile and moving them towards higher ROE profiles. You know, Mike Bell talked about that in, I think, his first or second earnings call. People said, "How are you going to improve ROE?" And he said, "Well, I'm going to move capital from low ROE applications to high ROE applications."

And I know somebody like Jamie Keating would say, "I hope that guy doesn't get a Nobel prize for that observation." But, the fact of the matter is, you know, that was not a theoretical construct. It wasn't like Mike read an MBA textbook that morning and decided to throw that out. And even an actuary knows that the weighted average will come up if you reduce the amount of low numbers and just grab that. But, what he meant was he could actually do that. He's already looked at the fan of outcomes of the products

around the world and could talk about some practical ways of actually moving capital from low ROE applications to higher ROE applications. The fortunate thing at Manulife is we have the ability to do that. We have the flexibility to do that across the world and within geographies.

We want to accelerate growth. If you're not growing, you're dying. And we want to grow our businesses, but grow the right businesses with a strong view to creating stable shareholder value, systematically hedged to reduce our earnings and capital volatility, actively manage and promote the brand, diversify our business mix, and manage our capital.

Within the business units, take that, overarching strategy. With Asia, we want to, essentially, accelerate growth in the world's fastest growing market with highest returns. And not just the China story, we're getting growth everywhere in Asia, including, as some of you have observed, in Japan, where we're having enormous success. Manulife is one of only a handful of companies with a significant Pan-Asian strategy. And the interesting thing--I don't know if Bob has a slide on it, but when you look at the Asian markets, you know, there's a lot of people whose names are in Asia, but when you look the number of companies that actually make up, say, the top 50 percent of the market, it's a very small number. In other words, it's a relatively concentrated and disciplined market and each of the sub-markets that we have, and we are a significant player in each one of them.

In Canada, a diversified financial services company with consistently higher returns in very high-quality earnings streams. Canada,, there can be volatility in individual product lines, but the beauty of it is the broad diversification, how well we serve the Canadian consumer. One of the things that Paul wants to do and is doing very successfully is to leverage our in-force customer base through cross-sell, collaboration and retention of customers across the pillars within his units.

In the US, our focused transformation already successfully underway, and our themes are higher prices and rebalancing the portfolio with the shareholders' interest in mind. And they're doing that incredibly effectively.

Investments, diversified and high quality with risks reduced and returns enhanced via the use of alternative assets. And, yes, we continue to use that and expect even if IFRS is passed in the most odious forms, we will continue to have a diversified portfolio. Why? Because it's sensible, it reduces risk and enhances return, and it's the right thing to do.

In MFC Global Investment Management, enhancing margins globally and helping Manulife's wealth businesses grow and create value for our shareholders.

So, with that, I'm going to pass it over to Mike Bell, who's going to talk in a little bit more granularity about some of the big themes.

Michael Bell, SEVP and Chief Financial Officer:

Thank you, Donald. Good morning, everyone. We sure appreciate everybody coming out today. It's great to see you.

This morning, I'm going to provide an overview of why we're confident that we're positioned for growth going forward. And after my prepared comments this morning, you'll hear from Bob Cook, talking about Asia, you'll hear from Paul Rooney, talking about Canada, from Jim Boyle, with the U.S., and Warren and J-F talking about Investments. And so, you'll hear some specifics.

But, I want to start this morning with some common themes that you'll hear throughout the day. In an enterprise level, we're focused on three key strategic objectives. First, we're focused on successfully

managing a shift in our business mix to increase our ROE, to grow our earnings and to reduce our risk profile. Now, this shift is going to take some time. We are somewhat like an aircraft carrier turning because of our large in-force book of business. But, with strong execution, we are confident that we can deliver some very attractive financial targets in the future.

We expect to achieve this shift by leveraging our very strong market positions and brands to drive profitable growth in high-return markets. Over the course of the day, we'll review the strength of several of our businesses that support our achievement of this goal. And third, as we've talked about, we plan to execute an expansion in our equity market and interest rate hedging programs to reduce our earnings volatility. And our goal is to narrow the band of expected earnings results in the future years. Now, as we've talked about, to achieve high growth in several attractive markets. First, we are achieving today attractive growth in Asia, and going forward, we expect to continue to deliver very strong growth in Asia, excluding the VA business in Japan.

In Canada, we have a well diversified business portfolio, and we expect particularly strong growth in the Wealth Management businesses, so specifically, the Canadian Mutual Funds, Manulife Bank and the Group Retirement Services business. And Paul Rooney is going to review these opportunities with you in a few minutes. Jim Boyle is leading a successful focus on our Wealth Management businesses in the U.S., and we're particularly excited about the growth opportunities in 401(k), and also the U.S. Mutual Fund business. And Warren and J-F will describe the successful track that we're on for investment management for our clients. And we expect these high-return businesses to continue to grow and to contribute to an increase in our ROE, as well as an increase in our earnings. And I'd also point out that we are well positioned in the top three economies in the world and four of the top economies out of the top 10. Specifically, we have strong positions in the US, in China, in Japan, and also here in Canada.

Now, as a management team, we're taking additional actions that we expect to improve ROE. We're taking actions to increase prices, to reduce risk and to change our business mix. Now, by design, we expect lower sales in the future in variable annuities, in the universal life product with the no-lapse

guarantee feature, in long-term care, and also the book value fixed deferred annuities. And these actions will support our targeted change in business mix in the future.

Now, this next slide is a slide that we've used on the last couple of conference calls. It looks at earnings by division, excluding the market results and excluding the investment results. And our view is this last column, which shows these numbers on a rolling four-quarter average, is a useful starting point in thinking about the earnings power for each of the divisions going forward.

So, this next slide answers the question, "If that's a useful starting point, what would that imply in terms of divisional ROEs?" Now, several of you have asked us, at least in the 16 months that I've been in the job. Several of you have asked us to break down our common shareholder equity by division. And this is laid out in this particular slide. So, if you look at the far left-hand of the slide, you can see the four quarter rolling-average earnings that I talked about a minute ago, in local currency. The second column, then, converts that to Canadian dollars. And then, what we've done is we've taken our \$26 billion of average common shareholder equity over the last four quarters and allocated that back to our major divisions. Now, we've allocated that back based on our own internal estimates of MCCSR required capital, and then shocked for changes in equity markets and interest rates because we believe that that's a good indicator of why we have to hold the capital that we do. And so, based on that allocation of the \$26 billion of average common shareholder equity over the last four quarters, we're able to drive a starting point ROE, on the far right-hand side of the slide, for each of the businesses. So, you can see on that basis, based on the level of average capital that we've held as a company over the last four quarters, Asia has our best ROE of our three major businesses at 19 percent. Our Canadian division is delivering 13 percent today, and our US division has the biggest improvement opportunity going forward--and as we'll talk about, we do expect to significantly improve the US ROE over the next several years.

Now, this next slide summarizes our management objectives for 2015. And importantly, this is not earning guidance. This should not be interpreted as our earnings guidance because there are way too

many known areas of uncertainty for us to give this to you as guidance for 2015. But, as a management team, you can see that we are committed to delivering at least \$4 billion of annual earnings when we get out 2015 and an ROE of 13 percent. And we've developed, over a several month period, and a very detailed planning period, bottom-up plans in each of our businesses that support these objectives. So, going division by division, you'll hear throughout the course of Bob Cook's presentation that we expect accelerated growth in our Asian businesses, particularly the Insurance businesses and the Wealth Management businesses, ex Japan VA, to grow significantly, increasing our earnings, and also improving our ROE to above 20 percent. In Canada, we have a very successful diversified financial services company, and you'll hear from Paul our opportunities to further grow all of that diversified portfolio, but in particular, significant growth in the Wealth Management businesses. And in the US, we're managing our way through a very focused transformation, and we're targeting growth in areas like 401(k), like the Mutual Fund business that doesn't have the risk profile that VAs do. And importantly, we also expect to continue to grow our Life Insurance business, but just focused on the life insurance products that have less insurance--excuse me, less interest rate risk than the universal life product with the no-lapse guarantee feature. Now, for completeness on this slide, you also notice that we have a placeholder, and I would underscore the word placeholder on this slide, for the expected cost of additional hedging between now and 2015. So, we have a placeholder out in the year 2015 of \$400 million after tax that year.

I would emphasize that the actual results will vary. I'm going to talk through some of the variables that will cause those results to vary. There are a number of different scenarios. This is the one we chose to use as a placeholder. Bev's got plenty of other scenarios. Her base-case scenario, for example, would in fact translate to a \$250 million drag by the time we get out to 2015. So, this is a placeholder, and in a couple of minutes, I'll talk about some of the variability around that number.

So, if you stepped back, and you said, "Okay. You want to build the ROE to 13 percent. What are the key drivers?" You'll hear it throughout the morning, the specifics, but if you want to take a step back and

hear about the key drivers to get to the 13 percent, what are those. By way of summary, we expect that the growth in our targeted high-return businesses, specifically Asia and our Wealth Management businesses here in North America, to significantly increase earnings and improve ROE over the period. We also expect improved new business strain to also contribute. We've been facing a significant amount of new business strain, particularly here in North America. As we've been increasing prices and reducing the sales of some of the high-strain products, we would expect that to contribute as well.

We expect to benefit from fee growth as our assets under management grow over that period. And, Donald chuckled at me for--and again, as I commented on, on that first analyst call, we do expect that constraining the growth of our low-return businesses to, in fact, improve the ROE.

Now, there are two known headwinds that I'd like to highlight here this morning. The first is a reduction in our financial leverage, and the second is the expected costs of expanding our hedging programs. We do expect our leverage to decline. Our leverage at the end of third quarter was approximately 31 percent. We do expect that to decline over the planning period to closer to our longer-term target of 25 percent. That does represent a headwind in terms of ROE.

So, I'm going to wrap up my morning comments this morning with a review of our hedging plans. First, talk about interest rates. At the third quarter, as you know, we took several important actions to reduce our interest rate sensitivity. For example, we used the sale of AFS bonds in our surplus segment to offset some of the interest rate impact that we've had over the course of the year. We also reduced our sensitivity going forward by increasing the duration of our assets in our surplus segment, and also the duration of our assets in our liability segment. We also put on several billion dollars of forward-starting swaps. That also reduced our interest rate sensitivity. So, at September 30th, our interest rate sensitivity to 100 basis point decline in all interest rates was \$2.2 billion after-tax. Now, importantly, we view our economic sensitivity as being somewhat less than that because we still have bonds, obviously, in the AFS category in the surplus segment that we can use in the future. If interest rates drop further in the future,

that will create more capital gains for those bonds, and that will serve as a partial offset. So, our economic sensitivity we view as lower.

Now, our management objectives that we're committed to is to reduce that \$2.2 billion by at least 25 percent by the end of 2012 and by 50 percent by the end of 2014. And we expect the actions detailed here to narrow that band of expected earnings as we go to future years. I will next review our equity market hedging. We have two approaches to reducing equity market risk. The first is our traditional dynamic hedging of our Variable Annuity business. Now, what we do in terms of this traditional dynamic hedging approach is to take specific blocks of Variable Annuity business, and we estimate the equity market sensitivity for those particular blocks. We then go out, and we short equity futures to, essentially, try to offset that sensitivity. When we short equity market futures, we're trading the total equity market return for a risk-free rate that floats on a short-term basis. Since we don't want that to float indefinitely, we turn it around, and we swap that for a long-term fixed swap asset. And then, we go through, and we dynamically rebalance that on an ongoing basis based on changes in equity markets, and also changes in interest rates. That's been our traditional approach through the end of third quarter.

Macro hedging, as we've talked about, is a different animal, and, in fact, I'll go through it a little later in the slide some of the actions that we took earlier this week. But, dynamic hedging steps back and says--I mean, excuse me, macro hedging steps back and says, "Look, if we want to reduce the overall equity market sensitivity that the Company has--so, not a specific VA block, not even a specific product, but the overall equity market sensitivity that the Company has, we can put on a short futures position in the surplus segment." And as a result of that, if the equity market declines, we get gains on that hedge position. If the equity market increases, we have losses on that position, which presumably offset equity market gains that we have elsewhere.

So, at September 30th, we estimated a 10 percent decline in equity markets. We processed approximately a billion three. That billion three represents a 25 percent reduction in equity market

sensitivity, meaning that billion three would be something like a billion seven if we didn't have any equity market hedging on in place at all. Our goal is to take that 25 percent reduction in sensitivity up to 60 percent reduction in sensitivity by 2012 and 75 percent by the end of 2014. Now, the important question that you should ask is, "Well, what's going to be the impact on earnings as we get out to the 2014, 2015 period as a result?" And the answer is it depends upon several factors. It depends upon our overall pace and approach, whether we do the dynamic hedging, the traditional approach, or the macro hedging. It also, importantly, depends upon prevailing market conditions at the time we hedge--where equity markets are and where interest rates are at the time we hedge. So, the placeholder that we have in place for 2015 is \$400 million after-tax. And again, very importantly, actual results will vary based upon the factors that I just talked about.

I'm going to wrap up with an update on some actual hedging activity. On Monday of this week, we shorted an additional \$2.5 billion of futures in our surplus segment. And we expect that by shorting those \$2.5 billion of futures, we further reduced our sensitivity to a 10 percent drop in equity markets. So, I'd ask you to think about it. If equity markets drop by 10 percent, and we've got \$2.5 billion of futures shorted, we would expect to have a gain of \$250 million after tax--excuse me, \$250 million pre-tax, which equates, on a rounded basis, to \$150 million after tax. So, basically, we've taken--if you go back and do this pro forma for September 30th, we've taken the billion three down to a billion one five as of September 30th.

Now, another important question to ask, "Well, what impact will this have on your earnings going forward? What impact would this have on 2011 earnings?" If we kept that full \$2.5 billion of additional futures position in place throughout 2011, and equity markets perform as what's built into our plan, as it's built into our reserves, and that is a 10 percent total return, so 8 percent price change plus 2 percent dividends, a total return of 10 percent in 2011 with a \$2.5 billion short position would cost us approximately \$250 million pre-tax or approximately \$150 million after-tax. So, this action, while very good in terms of reducing volatility, is the first installment, if you will, of the headwind that I referenced earlier, and it's embedded in that \$400 million placeholder that I discussed earlier.

So, by way of summary, before I turn it to Bob Cook, what you'll hear over the course of today is our strategic plan for driving a favorable shift in our mix of business from 2010 to 2015. Because there are known areas of uncertainty out there, we do not want you to construe this as guidance. This is a management objective. In addition, we want, over the course of today, for you to have a good understanding of our hedging progress and our plans for the future. And this afternoon, I'll come back and review the 2015 management objectives in some additional detail. Thank you very much.

Anthony Ostler:

Thanks, Mike. Our next speaker is Bob Cook, Senior Executive Vice President and General Manager of our Asia division. Bob?

Robert Cook, SEVP & General Manager, Asia:

Thank you very much, and good morning, everyone. I guess I would like to begin by giving you the four conclusions that I hope you'll take away from my presentation. Number one, if you want to run a growth business in Asia, you need to be growing your big businesses. You can't just have a growth story in developing countries.

Conclusion number two, in Japan, we have and can sustain a growth strategy within what is admittedly a mature industry. And opinions to the contrary that have been expressed by some of the people in the room are missing some key facts that I'm going to share with you today.

Number three, out of approximately 1,500 asset managers working in Asia, we are one of only 12 with on-the-ground operations in all of Greater China, being the mainland, Hong Kong and Taiwan, and that is one of the differentiating factors that we will use to build our Wealth Management business in Asia.

The fourth takeaway I'd like you take this morning is, as Donald said, the Manulife Asia story is not fully understood by investors, and therefore it's my opinion that its value is not yet fully reflected in our stock price.

What I'd like to do this morning is talk to you first of all about the opportunity in Asia, and then talk to you about our strategy in Asia and the way forward. Manulife has been in Asia longer than AIA, longer than Prudential plc, and in fact, longer than any of our major competitors in Asia. You know, one of the most common reactions that I get when I make presentations like this, as Donald said--is I finish the presentation, and the comment I get is, "I didn't realize you were so big." But, unlike Donald, I get those comments from people in this room. He gets them from people outside of this room. But, we are big in Asia. Top line--we're primarily an insurance company in Asia. As you see on the slide, we've been coming--have been becoming an ever-bigger part of the Manulife insurance world. Three years ago, we provided 19 percent of the Company's insurance sales. This year, we're running at about 40 percent. And over the planning time horizon that we're talking to you about today, we expect to be over 50 percent of the Company's insurance sales.

We're not just a top line story. In terms of bottom line, we're contributing about a third of the Company's earnings and that's whether you look at it on the, kind of, adjusted earnings before market impact or whether you look at it as strictly net income on the bottom line. And that net income on the bottom line has been growing at about 25 percent a year for the last decade. So, we are big and we are growing.

In terms of the opportunity in Asia, I've been using this slide for the last few months, and I'll retire it soon, but I quite like the story that it tells. The story basically says if you look at world gross domestic product and you go back 2,000 years, Asia accounted for half of the total. And over the next 1,800 years, not much changed. Then, this little thing called the Industrial Revolution got in the way and led to the rise of economies in North America and Western Europe. But, all projections going forward indicate that Asia is going to return to its natural share of the world's economy and be back at 50 percent of the world's gross

domestic product by 2050. What that implies--if that's going to happen, that implies the continuation of the very rapid economic growth that you've seen over the last few years, and therefore a tremendous increase in the opportunity that we have as a financial institution operating in Asia. This is the more traditional way of depicting the same story of showing how the expected growth rates in Asia exceed everywhere else in the world.

The one other thing I want to draw your attention on this slide is, kind of, in the fine print at the bottom, where it talks about this thing we call addressable population. And these are people who have the economic wherewithal to buy the products that we sell. And that number is going to increase by a billion people over our planning horizon. So, we have a billion more potential customers and by the way, that's calculated in just the countries that we operate in. So, that does not include India, where we don't operate yet. We develop our strategy in Asia looking at--we break up the various countries in Asia into four segments, and we do that because the economic prospects vary from country to country, the degree of current establishment of the insurance industry in various countries is different, and therefore the expectation of future growth in these markets is different.

Our aim is to--our strategy, basically, is to have a balanced portfolio across all of these segments. So, we think that's the best way going forward. So, one--another way to look at this segmentation is that the two segments on the left-hand side of the chart is what I call where the money is right now. And the two on the right-hand side of the chart is where the money will be 15, 20 years down the road.

So, again, going to my summary comments when I started, you know, if you want to run, if you want to tell a good growth story for a portfolio of businesses in Asia right now, you better have some growth businesses that are on the left-hand side of this chart right now because otherwise you're just telling a long-term story, and earnings are not going to emerge for a long time. And that's what we have, and I'm going to talk to you in a few minutes about the--you know, the positive story that we have in Japan, the positive story that we have in Hong Kong.

The next couple of slides just give you another profile of what our business looks like in Asia. This is the relative sizing of our Insurance businesses in Asia, where we've had tremendous growth in our Japan portfolio over the last two or three years that now makes up about half of our operation in Asia, the balance being split between our long-time home base in Hong Kong, the ASEAN countries and in China.

Our Wealth businesses are much smaller in Asia, but the mix is a little bit different here, where as a result of the acquisitions that we have made in the fund management space in China and in Taiwan over the course of the last year, you see that's become a big part of our operation there and a big part of our expectations in terms of future growth of the Wealth business going forward.

So, with that as kind of a background, let me talk to you a bit about our strategy going forward. And I don't have any strategic changes to announce to you this morning. You know, the only thing that we're doing differently in Asia is to increase the rate of investment in Asia. The way we're going to deploy that money is the same strategy that we've been operating on consistently for the last few years. I guess, in saying that, I do want to stress, as I have stressed to many of you on a one-on-one basis, that Asia is not a big homogenous market. You know, we're operating in 10 countries in Asia. They're all different in different stages of economic development, different tax structures, different social structures, and so we have 10 different business models. But, if there are a few things that are, kind of, common across all of our strategies it is that we are trying to expand on the product side, so that we're not just an insurance company, we're an insurance company plus a wealth management company. We're trying to expand on the distribution side, so that--good move beyond our core historical strength in agency distribution to being much more of multi-channeled in as many countries as we can.

Finally, to build out the Manulife brand, so that our distributors in Asia get the same benefits that our distributors in Canada and the US get from our well-established brand in North America. But, with that, I'd make a few comments about our, kind of, core strategies in our bigger markets. You know, in Japan, I

describe our strategy as one of diversify. You know, when we entered Japan about 11 years ago, we bought a one-channel company. It was a traditional Japanese company that distributed through sales ladies. Over the course of the next few years, we turned into a different kind of company, but it--we turned it into a one-product company. We turned it into a VA company.

But now, we're taking a different approach in Japan. In the last three years in Japan, diversified by becoming multi-product, diversified by becoming multi-channel and diversified by becoming multi-customer segment. So, it's a very big market, and we're trying a whole bunch of different ways to exploit that marketplace.

In Hong Kong, a completely different kind of strategy. Hong Kong is a City State--7.5 million people. There's not going to be much more than 7.5 million there going forward. However, one in five of those people is already our customer. But, of those one in five people, half of those people only have one product relationship with us. So, we see our future growth strategy in Hong Kong as one of becoming more of a marketing company to cross sell to that population base and establish multiple product relationships with people who already know us very well.

In the rest of Asia, essentially our strategy is to ride that economic wave that I talked about a few slides earlier. Some of the opportunities that I see going forward--you know, we are going to continue to invest and invest in a heavier way in the continued expansion of our agency systems. That is our core competency in Asia, and so leveraging our strength is a key part of what we're going to do. But, we are going to move more into the bank distribution. This is something we were, frankly, slow to get into, but we're in a--we are in a catch-up mode, but we are making some good progress, which I'll touch on in a couple of slides. I'll talk to you about Japan in a few minutes, where, you know, we have had great success in expanding into the independent agent channel, which has been a big driver of our growth there for the last three years. And we're going to expand our Mutual Fund businesses throughout Asia.

You know, when I moved to Asia about four years ago, we had three asset management companies in our portfolio. We now have nine, so we've basically expanded our infrastructure, you know, across our entire platform in Asia, and we're going to build out the sales aspect of that. Longer term--you know, our drivers of growth over the last decade I would describe as there being four main drivers. One is just basic organic growth, which is the economic miracle of Asia. The second is what I would call business development, which is entering into new product lines or new channels. The third and fourth drivers, though, have been entering some new countries and acquisitions. So, on the acquisition side, we've made about 14 acquisitions over the last decade in Asia. Not transformational acquisitions--kind of, bolt-on kind of acquisitions that have helped expand our strategy.

Over the last decade, we entered three new countries. We entered Japan, we entered Malaysia and we entered Thailand. And I see both of those as being part of our future. You know, the obvious territorial gaps in our portfolio are India and Korea, and we have projects looking at entry strategies for both of those. And most observers believe that there will be continuing consolidation in a number of countries in Asia, which will provide future acquisition opportunities.

The last two points on the longer-term opportunity slide here reflect the fact that in Asia there really is not the--the governments do not, in most countries, provide the kind of social safety net that, you know, we have become familiar with in Western countries. And, frankly, there isn't that much indication that they have any intention of doing so because they have seen the kind of, you know, macroeconomic budget problems that are created by very rich social safety nets. So, I think that people in most countries in Asia recognize that they're going to have to provide for these needs themselves. And for us, as an industry, what that will translate into is a variety of opportunities in the pension and health space going forward.

So, let me turn to a couple of the specific stories that we want to highlight for you this morning. And the first is our, you know, record insurance results in Japan. As you can see, both the history over the last two or three years and the results we're showing this year over last year--basically, by the end of this

year, we will have increased the size of our Insurance business in Japan by four times over the last three years. So, I just want to repeat again that conclusion that I stated at the beginning of my remarks that we believe that we can sustain this growth strategy, despite everyone's impression of Japan as a very mature life insurance industry, and the reality is, a life insurance industry that is not growing. The total industry is not growing. But, here's why. The next two slides, kind of, demonstrate why I believe that. Our strategy--our growth in Japan is distribution driven. You know, in 2006, all of our insurance sales were sold through the traditional so called saleslady captive agency system in Japan--100 percent. Then, in 2007, we lifted out a team of people from a competitor who specialized in the wholesaling of product to the independent agent channel, or what we call the MGA channel, in Japan. And that has been the engine of our growth for the last three years. And in fact, sometime last year, it became more than half of our insurance sales in Japan, as you see in the middle chart.

This year, we entered two more channels of distribution of insurance in Japan. That MGA channel that we entered last year--or sorry, a couple of years ago, was one that specialized in selling to small and medium-sized enterprises. There's a whole other group of independent agents in Japan who just work retail--sell one-on-one to individual customers. So, we entered that channel of distribution this year. And finally, as you see in the light blue part of the pie chart for 2010, we began selling protection products, kind of core life insurance products, through the bank channel. That small--that blue piece of the pie there, which I guess is about 15 to 20 percent of our total sales this year, is achieved after only six months of operation in that channel. So, I guess my assertion to you is that there is a lot more runway in these strategies going forward. If you look on the right-hand side of this chart--I'll continue on my bank story. Right now we are only distributing insurance products through one bank. Now, it is the biggest bank, and it's a bank that we've had a preferred relationship with for the last six years, MUFG. But, our theory going forward is that we have maintained relationships with a wide range of banks who we've built our Variable Annuity business on in Japan. Now, most of them are not selling variable annuity anymore because we've, you know, dramatically downsized that business in Japan. But, we have those relationships, and we believe that just as we have been able to penetrate MUFG to sell protection

products, there's a tremendous opportunity, you know, with another 20 banks to sell protection products through them. And so, that's, you know, why we think that channel has tremendous ability to continue to grow.

On the left-hand side of the chart, going back to the independent channel, the MGA channel--you know, we've shown you the two segments here, the corporate segment and the retail segment, and you see our share of each one of those. We have just started to scratch the surface in those two channels. You know, we deal with, as the slide says, less than 200 out of 100,000 people. Now, obviously, all 100,000 are not equal. But, there are another several hundred possible relationships of the kind of size that we're working with now that we can build going forward. So, we think there's both an opportunity to go broader and deal with a wider range of organizations that are in this MGA channel, as well as go deeper with the people that we've already established relationships with going forward. So, anyway, those two slides is the bottom line why, you know, I believe, that the story that we've been telling you about our sales success in Japan is very credible and sustainable for the foreseeable future.

Let me turn to Hong Kong. In Hong Kong, we made a big focus almost two years ago to start, basically, building up our distribution capacity in Hong Kong, which had, you know, been running flat for quite a few years. So, we saw an opportunity--given the market conditions, as the economic crisis started to take hold, we saw an opportunity to build up the size of our agency force in Hong Kong. And last year, we built it up by about 18 percent, which is higher than anyone else in the marketplace. And this year, we're seeing the payoff. You know, we're seeing the payoff this year--in fact, we built the capacity last year. You see the numbers there in terms of the Q3 results versus last year in terms of the payoff. Going forward, I see two big things that will allow us to continue this growth going forward. The first is the--you know, we see a tremendous opportunity to improve the productivity of our distribution force in Hong Kong. Even in a developed area like Hong Kong, life insurance agents in Asia have been primarily product pushers. And we see a tremendous opportunity to turn them into more of a planning-type individual that is common to us in US and Canada.

So, we're building the, kind of, financial planning systems tools that they need to, you know, turn themselves more into the planning kind of individuals going forward. And I think that will tremendously improve their productivity, as well as what I discussed earlier with the fact that so many of their clients have only got one product relationship with us. And so, again, we see a great opportunity to--through further training and development, to turn them into people who can sell multiple products to the same person and have much more of cross-selling, kind of, a capability.

I also want to remind you this morning that, we, over the course of the last decade, have built a second outstanding business in Hong Kong, which is our MPF business, Mandatory Provident Fund. For those of you not familiar with it, this is a defined contribution business, similar to the 401(k) business in the United States. And when this business was, in effect, created by the government a decade ago, everyone assumed that the banks would dominate this business. And my predecessors, who were running our operations there a decade ago, said, "No, I think, you know, based on the experience that we have in this space in North America, I think we can do something here." And so, they took a crack at it, and they were very successful. And they have built an operation that is second only to HSBC in terms of its size and penetration of the marketplace. Hong Kongers are still not saving enough for their retirements, so we see this as a foundation on which we can continue to build a strong wealth management franchise in Hong Kong.

Moving to China--you know, I think our China story continues to be, you know, one of continuing building success on success. We're now licensed in over 40 cities in China. You know, we are the number two foreign player in China. And our vision remains the same. Our vision remains trying to build out the--to be the first of the foreign companies to built out a national franchise in China. And we're doing that not just through the city expansion, we're also doing that through a channel expansion where we have now entered into the bank distribution channel in China. And we also see opportunities now having acquired

an asset management company in China to do some cross selling of products between the two companies in China going forward.

As I mentioned, you know, we acquired an asset management company, now called Manulife-TEDA. And again, to repeat the conclusion that I stated at the beginning of my talk, this followed on an acquisition six months earlier of an asset management company in Taiwan. And the result of that is that we now have asset management companies on the ground in Hong Kong, Taiwan and Mainland China, which makes us nearly unique, one of only 12 out of 1,500 asset management companies who have on-the-ground operations in all three countries. And, you know, we are a firm believer that the--you know, the performance that we can deliver to investors or to the holders of unit-linked life insurance will be considerably superior by having people who are actually on the ground making investments, as opposed to doing it in front of a terminal in London or in New York.

Turning quickly to ASEAN. Again, we have a variety of success stories. As I mentioned earlier, our strategy, basically, is to have a balanced portfolio throughout our operations in Asia. Some are contributing to our results today, but we're also planting seeds for our results going forward.

So, Indonesia continues to be very successful--outstanding year last year, continuing to grow this year and continuing to pursue the multi-channel approach. So, in addition to building up the size of our agency force in Indonesia, we have, you know, over 15 banking relationships that we've established in Indonesia to build up that channel.

Vietnam continues a very dramatic pace of growth. We'll probably cross the 10,000 agent mark this year, and we continue to achieve growth in the 25 to 35 percent growth rate.

Philippines, an outstanding success this year--again, both channels, so we're, kind of, firing on all cylinders. You know, we almost doubled the size of our core franchise, which is our agency system in the

Philippines. But, we also have a joint venture with China Bank in the Philippines, which is just taking off this year, with results triple of what they did last year.

I highlight Singapore, where we're not doing very well. And I highlight that because, again, this is why we pursue a balanced portfolio across the entire region is that if we were only in four countries, and we had one that was not doing very well, that would be dragging down the ship quite significantly. But, by being in the 10 countries, different kinds of countries with different kinds of situations, you know, we can, you know, deal with this and--actually, I'm reasonably optimistic about Singapore next year. I think we're getting close to the turnaround point there, so hopefully we'll have more positive news to tell you about that going forward.

I just want to talk a little bit more about distribution in Asia. You know, these are the--kind of, the main channels distribution for insurance in Asia. Agency is the primary channel throughout the region for virtually all companies. And it is our core competency. I think we are widely recognized as running the more professional agency systems in virtually every country in which we operate in Asia. On the other side of the chart, the more brokerage side or independent side of the chart, really only exists in two or three countries in Asia. Obviously, it exists in a big way in Japan, and you see we're really building on that. And it's in, kind of, the emerging phase in Hong Kong and in Singapore, but we're going to make sure that we stay on top of that as those kind of channels emerge.

I'd like to say a couple more words about the channel in the middle, which is bancassurance because historically, you know, Manulife has been a little late to the game in terms of selling insurance through banks in Asia. And there are a lot of different kinds of ways of selling through banks in Asia. You know, in the northern part of Asia, as the slide says, the model tends to be very much like what we're used to in North America. It's open architecture--it's a shelf-space game. You have to get on the shelf, and then, you know, you demonstrate that you have the capabilities in terms of products and sales support to do a good job for the bank. In southern and Southeast Asia, the tendency tends to be more exclusive one-to-one kind of relationships with, you know, large upfront fees that are paid to the banks to do business with

them. So, you know, we have to be prepared to work with different kinds of banks in different ways across the region.

But, our goal--you know, our goal is to, you know, slowly--you know, we're in this come-from-behind phase, so it's to build our credibility, so that we're in a position when one of these larger regional deals--if one of the larger regional banks comes up for renewal that we have the credibility to take over one of these relationships. So, I mentioned earlier the great success we're having in the Philippines with our joint venture with China Bank there. I mentioned earlier the results that we're having in Japan with MUFG. We have very good relationships with DBS in their Hong Kong bank and in their Indonesia bank. And we're starting to see the numbers. You know, you see on the slide here, you know, our bank sales are, this year, about three times what they were last year. You know, our total sales of all of our products through banks across Asia is now, you know, 20 to 25 percent of our total, so we are starting to make that impact and starting to turn our business in a positive direction there, so.

We are--as Donald said, we are trying to also take advantage of building our brand in Asia. You know, some of you who have made visits to Asia, if the only place you visit when you come to Asia is Hong Kong, you know, you may have the impression that, you know, Manulife has every bit as well established a brand in Asia as it does in Canada or in the US because we have our names on a bunch of buildings in Hong Kong, and as I mentioned earlier, one out of five people are already our customer. But, it's not the same in the other countries in which we operate in Asia, where our brand recognition is much lower. So, we are attempting to address that issue through, you know, a lot of outdoor media activity--a lot of billboards going up in a lot of these countries to really push the Manulife name. You notice it's the same kind of brand image that we're using corporately here in Canada. It is still Manulife is for your future, and Manulife is still a company that is strong, reliable, trustworthy and forward-thinking.

We're trying to do some things that are a little more creative on the outdoor side rather than just kind of the brute force of newspaper ads and things like that, just to try to capture the imagination of the--of people on the street.

I'll say one or two words about India and Korea. As I mentioned earlier, we are exploring entry strategies into both of these countries. In terms of Korea first because it's a little quicker story, no new licenses are being granted in Korea and have not been granted for quite a few years. So, the only entry strategy is acquisition. And as a result, there is a certain premium attached to acquiring existing properties in Korea. So, it's impossible for me to give you any kind of a prediction or timeline about, you know, when or how we might enter into Korea. I'll just simply say we find the market attractive, and we'd hope, if the opportunity does emerge, to be able to add that to our portfolio of businesses.

India is a little bit different. We've had a research project underway for almost a year now. We've opened a rep office in India. But, there has been challenges emerged in India this year, which is that there have been significant regulatory changes this year that have dramatically impacted, kind of, the core product category, which is the unit-linked life insurance. And, you know, we have talked to--as an organization, we've talked to four of the major players in India, and they've all told us that subsequent to these regulatory changes, they aren't sure how to make money under the new rules. So, I think it's going to take us a little bit longer to develop a business model that, you know, we, as a new entrant, would be comfortable trying to figure out how to make money if the people who are already there and more familiar with it can't figure it out. So, we continue to work on that. But, I wouldn't expect an announcement real soon on that. We just want to see how some of these changes work their way out over the next few weeks or few months.

I guess as I just want to wrap up with a couple more slides. You know, I think the competitive landscape in Asia--and in our operations, we re-examine the competitive landscape on a local basis. But, you know, the reality is that, you know, there are a small number of players, multi-national players, that we meet on

a regular basis. And so, you know, the reason for that--we've, kind of, highlighted the reason for that on this slide, is there are a few things that, you know, lead to people having a success--people who have success in one country can typically find success in another country. You know, and part of that is just basically experience. You know, we--there is a benefit to having been in Asia for, you know, 113 years. You know, we understand the marketplace, we understand the customers, we understand the regulatory environment, and we can leverage that experience in country after country. There is a benefit from the scale that we have built up over the last 100 years. So, that is definitely a benefit versus, you know, a new entrant who just suddenly gets enamored with the idea of operating in Asia.

So, you know, there are a few of us who, you know, share some of these attributes. And so, it is not--you know, it is not uncommon for us to see ourselves compared, you know, to AIA and to Prudential on a common basis. You know, there was an article in the Wall Street Journal earlier this week talking about--a spokesperson from MetLife talking about, you know, what they want to do post the Alico acquisition and, basically, saying that in southern Asia, they seek to compete with PRU and AIA and Manulife. So, I think it is widely recognized that, you know, we are the--you know, we are the, kind of, three players who, kind of, define the game in Asia. And, you know, this slide just highlights for you some--that there are some differences in the business model that the three of us are pursuing in Asia. But, I think the results, you know, in every case are very strong, and that's why--you know, that's why we see, you know, our competitive future will be, you know, linked to continuing to do battle with these organizations going forward.

So, I guess, in conclusion--let me just restate my conclusions. The first is that, you know, I think if you want to be a growth business in Asia, you need to be growing your big businesses. You can't just have growth story built around high-percentage growth rates in small developing countries.

The second point is in Japan, the results that we've been posting for the last two or three years are sustainable, despite the fact that the industry is a mature industry.

Third, in the wealth space, you know, our on-the-ground, almost unique situation, being one of the few countries who can gather investment knowledge and expertise on the ground in all of Greater China, is something we believe we can leverage into products that will help us build our Wealth Management businesses in Asia.

And finally, you know, we are one of only a handful of companies with a significant Pan-Asian strategy. And I believe that story needs to--I need to get out and tell it more because I don't think it's fully understood by our investors, and I don't believe that it is, not yet, fully reflected in our stock price. So, I hope you'll help me tell that story.

Thank you very much, and I'll now turn it over to Paul Rooney, who will talk about the Canadian division.

Paul Rooney, SEVP and General Manager, Canada:

Thank you, Bob. And good morning, everyone, and welcome to Manulife.

Before I begin with the Canadian division story, I wanted to take a moment to share with you a recent experience that I had. I just returned recently from China, specifically Beijing and Shanghai. And while you can intellectually feel and see the numbers and the things that Bob talked about in terms of our prospects in Asia, there's nothing like actually being there to see the vibrancy of the country and these cities that we visited and the opportunities that present themselves in Asia. It was nothing short of remarkable for me. It was incredibly eye opening. If you have chance, I would strongly recommend you visit China. But, most importantly, from an investment thesis, I now feel more bullish than ever and more confident in our decisions to invest heavily in Asia because the prospects there look absolutely outstanding.

So, let me turn to the Canadian division now. The agenda is very simple today. I want to talk about our opportunities, where we are today, but more importantly look at where we're going forward. There's two

key themes that I'd like you to take away from today's presentation. And one is that we are a broad diversified financial services company. If there's no word you remember from my presentation other than this one, the word is balance. Bob talked about it. It's critically important for us.

We are in a broad variety of products, we have a broad variety of distribution capabilities, and we have a broad variety of risks. We're in the business of assessing and accepting risk in our industry, and we have a well diversified portfolio of risk, from long-tail insurance risks, to morbidity risks, to short-term repriceable risks in our Group businesses and in our Affinity businesses, to fee-based businesses to equity risks to interest sensitive risk, etc.

But, our belief is and our strategy is to maintain the balance, so that no one risk dominates our portfolio, and that interest rates can move and equity markets can move and different businesses can behave differently, but none of those changes will fundamentally affect the prospects of our division. Secondly, the theme I'd like you to recognize is the Canadian--the Canada and Canadian division is a growth story. All of our businesses have plans for growth, all at different paces. Some of our larger, more mature businesses where we have significant market share will grow at slower paces, but they will grow.

We also have a number of businesses, like the Bank, Mutual Funds, Affinity markets, our Group Retirements business, our Small Employer Group business--Group Benefits business, where we see disproportionate opportunities for growth. And that's why we're very confident that we can achieve the numbers that Mike showed earlier, the \$1.5 billion in earnings by 2015 and a 14 percent ROE.

Just to remind you of the structure of Canadian division, we operate in strategic business units, and you can see them here. And each of these business units is run by a general manager, and every general manager has the wherewithal to run their business independently of the others. They have their own balance sheet and income statement, and they have all the things they need to run their business, their own financial organization, their own IT organization, their own customer service call center, their own distribution--every facet of a company is segmented into these businesses. And, yes, we give up a little

bit in economies of scale, but we more than make up for that in this organizational structural in the focus we get from having a general management structure. In the boxes, you'll see certain percentages that depict the percentages of earnings that come from each of these businesses on an adjusted earnings basis.

Moving onto diversification--so, we have a diversified business model is the first key point I want to make. Now, if you look further down at the product portfolio, we have a very diversified product mix, from protection products, like term insurance and critical illness, to longer-term protection products, like universal life, whole life, variable annuities, we obviously have a bank that is growing very, very quickly, and I'll talk more about that later, and we sell many savings products from mutual funds to GICs to group retirement products and fixed annuities. And this creates a great opportunity for us because consumer preferences change over time, and it allows us to pivot with consumers. We have such a broad portfolio of products that no matter how the consumers trend--how their needs change, we have the products and services available to serve those needs. And, you know, the recent economic downturn was a great example of that. You know, we saw a significant shift in customers in general in Canada moving away from equity-based products and looking to GICs and fixed annuities, and we took great advantage of that. Last year, we saw our Fixed Annuity business grow dramatically. We took the opportunity to also increase our margins in that business at the same time to not only drive sales, but also higher shareholder value. And it's our ability to pivot as customer preferences change that I think is so important in a diverse product strategy. And these products all had very different characteristics. Some of them have low capital requirements, some high capital requirements, some are fee based, and some are interest sensitive and equity sensitive. But, all in, we're focusing on our higher-return businesses.

We also operate a very broad and diversified distribution strategy in Canada. On the retail side, we operate in the independent advisor channels, so the only channel that we don't operate in is in the career distribution system in Canada, where there are really only two major players left in Canada. And the

independent side, the non-career distribution, continues to grow disproportionately faster than career distribution.

We operate in three main channels, independent advisors, those are advisors who contract directly with us, we operate through the national accounts or the major IDA firms and we operate through managing general agents, who are simply agencies who collect contracts with all the major insurance carriers for their advisors to tap into. And we are number one in all three of those channels.

If you look back a few years ago, you would have seen that we were number one in the independent advisor channel, number one in national accounts, and over the last several years, we've had a strategy to significantly grow our presence in the MGA channel, and that has been driving most of our growth in the Life Insurance business, particularly, and we now find ourselves in the number one position there as well.

On the Group distribution side, we operate in all three of the channels, independent advisors, national accounts and MGAs. But, where the market really is for the Group business is through brokers. This is at the small end of the market where we have significant penetration with brokers who specialize in the Group business, and, of course, the large consulting houses who focus on the large 1,000-plus employee groups. And we have strong penetration in all of these channels. And the other area where you're probably not as familiar with our growth and success is in the direct channels. You know, we have our Affinity Markets business, which I would call a business which has a collection of businesses. They have a lot of niche businesses, travel insurance, health insurance, life insurance, disability, etc., sold directly to consumers either through associations or directly through our CoverMe advertising.

We've seen fantastic growth in direct sales in that business, and the margins in that business are much higher than you would find in some of our other businesses because they're low-risk products, they're

repriceable products, and the acquisition costs of direct-to-consumer channels can sometimes be very, very favorable.

We're also getting some momentum in the bank, as some customers come to us for Manulife One, and occasionally they come to us without a financial advisor. But, still the vast majority of our sales in the Manulife Bank are through independent financial planners. We also enjoy leading market position. In our Group Pensions business, we now have number one share with 42 percent of the market year-to-date. Our Fixed Annuities, Individual Insurance, etc., you can see we have a very, very strong position in all of our businesses.

However, we also have some businesses--our Affinity is not on this slide because there's no credible source for that. It's not something that the market evaluates, but we are very confident based on the size of our in-force block and the number of associations that we deal with--like, the--virtually every major professional association, that we are number one in that channel as well. But, you can see tremendous opportunities as well with Manulife Bank and with our Mutual Fund franchise. But, it's important to have this broad-based leading position in all of these channels.

So, now I'd like to talk about the way forward. You know, at breakfast this morning, someone in the audience--and I don't know where she is, she asked me a very fair question. She said, "You know, the Canadian market is relatively small, relatively saturated," and we have significant share. "You know, how do you plan on growing in Canada?" And I've got to tell you, I've probably never been more bullish about our opportunities in Canada because of this balanced approach, because of our focus on a broad-based financial--diversified financial services company, we're not going to overly rely on any one business for our growth. Some of our businesses will grow very quickly, and some will grow at a more moderate pace.

But, the demographics are also on our side. You know, a lot of people think about life insurance, and they say, "Well, you know, there's not a big market for life insurance anymore." And in certain markets,

they may be right. In the traditional protection markets where you have, you know, a young family looking to protect their home or to protect the ability to send their kids to college if something happens to them, that may be true. But, where we excel in the insurance game is at the high-end large-case market. In the estate planning market, we've invested heavily in tax and estate planning services and in gearing our products and services for the high-end client. And if you look at the demographics, it's not hard to see where the Boomers are going. And one of their greatest needs that they're now coming into is the--is how to transfer their wealth tax effectively to the next generation. And a life insurance product--there is no more efficient product to transfer your estate to your heirs in a more tax-efficient method than life insurance. So, we actually feel pretty bullish about our opportunities there because of our position.

The last area is cross sell. You know, we have a very large customer base in Canada, and we have a lot of opportunities to continue to cross sell to these customer bases. And later on, I'm going to share with you some thoughts on how we're going to do that and some good examples of where we've already been successful.

So, our go-forward strategy is to maintain market share in some of our big, well-diversified businesses, Individual Insurance, Group Benefits and Variable Annuities. And while I don't have a specific slide on variable annuities, the landscape has changed here in Canada. We have de-risked our products. We have almost 80 percent of our in-force products, variable annuities now hedged. We hedge 100 percent of our new business.

And the marketplace is not as overheated or aggressive as it is in the US, so we still believe we have a very strong and viable product portfolio in the variable annuity space. Consumers will need this product. They do need some certainty in the payout phase of their retirement, and we intend on staying in this market, but in a constrained way. You know, we do about \$2.5 to \$3 billion of variable annuity business a year, and I think that's a good place for us to stay. It won't overemphasize our risk there, but it will keep us in a very important part of the market. And where we're going to be investing, where we're going to be spending an additional amount of money and energy and resources, is in the bank, our Group Retirement

Solutions, our Mutual Funds business, our Affinity Markets business, and the Small Business segment of our Group business.

So, let me walk you through some of these opportunities. First, let's start with the bank. You know, here's a nice historical of where the bank has come from. And as you can see, 10 years ago, it earned nothing. It was a very small start-up bank that was focused on providing banking services for independent advisors, to help advisors protect their clients from banks who were trying to come into the wealth space and the insurance space. And really, with the invention of Manulife One, which is our all-in-one home equity line of credit or mortgage product here in Canada, we've seen an explosion in the bank. And we've seen our bank grow at a 52 percent compound annual growth rate in earnings, and a compound annual growth rate in net lending assets of just under 40 percent. And we are investing in this business to ensure that that continues. In spite of this growth, we still have very low market share in the Canadian marketplace, and a very good strategy going forward to capitalize on the current success, but also to grow this business. The way we're going to continue to grow this business is, first of all, we're going to make people more aware of our bank and our Manulife One product. I think you've seen some of our advertising. We're going to continue to ramp up our advertising of Manulife One. We're going to continue to grow and expand our public relations activities and our billboards, television, print, and radio advertising on this product.

We're going to continue to penetrate independent financial planners. You know, one of the most interesting parts of the bank now is that once financial planners start looking at the bank, they start making it the focus of their business. They start introducing themselves to new customers and saying, "Boy, I'm going to start this relationship with the bank because once I know where all the assets and liabilities are, once I know the totality of your financial situation, I can then work with you on insurance products, on mutual funds, on segregated funds, etc."

It also keeps the advisor--it keeps the relationship with the customer away from the big banks and with the financial advisor. And it's not lost on me that this is also our largest cross-sell product. If a client owns a Manulife One product, on average they own 3.1 products with Manulife. So, many advisors are now looking at this as the starting point of a relationship with their clients, and then expanding to other products and services.

We're also--because it's an Internet-based bank, we're heavily investing in our Internet capabilities and our technology capabilities in this area. We'll also look to expand into other lending services that we don't have today, and we'll look at alternate distribution methods for the bank. And we just launched a trust company very recently, in September, and we've already had excellent prospects with that, and it gives us the opportunity to continue to expand our product portfolio in some trust services that we may chose to enter into. We don't--we aren't in any today. But, it also gives us another funding source for our Manulife One. And we launched it in September. We've already brought in over \$300 million of deposits into this trust company in just a few short months. So, I think the prospects for the bank to grow and become a much more meaningful part of the Canadian division are in front of us. And really, what it is now is all about execution.

Moving onto our Group Retirement Solutions business--you know, we have focus in the Group Retirement Solutions business on the defined contribution market or the 401(k) market for those of you from the US. And the one thing you need to know about Canada is it's in a quite different position. If you look at the US, more than half of all the assets or about half of all the assets in pension plans in the US are already in defined contribution businesses because employers did not want the defined benefit liabilities and the long-term promises to their employees. They wanted to share the risk by moving to defined contribution products.

That shift is just in its infancy in Canada. Currently, 90 percent of all assets in pension plans are in defined benefit plans in Canada, only 10 percent in defined contributions. So, there will be, in our opinion, based on the demographics and the shifts from the costing from employers to employees, a

dramatic shift from defined benefits to defined contribution business in Canada. And we have the best product and the best platform to take advantage of that, as evidenced by our current sales share of 42 percent. So, there's a great opportunity to capture a disproportionate share of what we believe will be a growing pie.

We're looking to expand our distribution capabilities at every turn, and we have tremendous cross sell and retention opportunities in this business as well. You know, now that we're becoming more meaningful in this business, we look at the assets that leave us. You know, people leave their employer, they retire, they sometimes take money out for specific personal needs from their defined contribution plan, and we have not been good at capturing those assets as they are in motion. And we've now built a conservation team where we've had great success in piloting where we're now--as people move to a new employer, we're keeping their assets in a personal plan, as opposed to letting them move to a bank or another financial institution. And we're going to--we have about 15 people focused on this now, and we're going to be significantly growing those activities. As this business grows, that will only become a bigger and bigger revenue source for us.

Moving to the mutual fund area, this has been a great success. We shifted our focus in the last 18 months away--a bit away from the Variable Annuity business as we de-risked, and we moved our focus to mutual funds. We've created--we took a lot of our wholesalers who were focused on variable annuities, and we shifted about a third of them to become dedicated mutual fund wholesalers, and that's paid great dividends. We've significantly improved our product portfolio, but we still have a long way to go in our product portfolio. Today, we have about a billion dollars of sales this year, triple the level of sales last year, and--but, still, we have only 20 percent of our funds at Manulife Mutual Funds are four and five-star morning rated--Morningstar rated, while our competitors, the top competitors, tend to have about 35 to 40 percent of their funds as four and five-star rated funds. So, we still have a lot of opportunity to improve our product portfolio and further penetrate this market. But, we've got strong performance in some of the key categories today, specifically fixed income, global equity and global balance funds. And our Yield

Opportunities funds that we just launched this year have already generated over \$200 million of sales year-to-date.

We're going to continue to expand our dedicated mutual fund wholesaling team, and we developed a key account strategy where we're focusing these wholesalers on key accounts. As opposed to giving them broad territories to focus on, we really have started to build and develop a key account strategy. And we're also looking at acquisitions. We recently did our acquisition of AIC. I can tell you, that's performing exactly as we had priced for. The IRR on that deal is exactly--virtually identical to our assumptions going in. The redemptions, the sales we were getting, have performed right on, and the integration is finished. It is fully integrated into the Manulife world now. So, I'm very pleased with that performance, and I believe strongly that we can continue to grow this business.

From a distribution perspective on mutual funds, you can see that where we have almost all of our sales is in the planning channel. You know, we have had very little success. You know, you look at the bank channels, and you say, "Okay, the bank branches, our ability to access those channels are nonexistent." But, we have tremendous opportunity to continue to grow in the planning channel, but more importantly, the full-service brokerage channel. This is where we're really focusing our wholesaling and our activities to grow with these firms. And as you can see historically, we've had about 7 percent of our sales come from full-service brokers.

However, as we focus on this, we're going to significantly grow that pie, and we'd like to target as much as half of our sales down the road coming from this channel. And we're off to a good start. Currently--in the past we had 7 percent of our sales coming from full-service brokers. Year-to-date, we have 19 percent of our sales come from full-service brokers. So, not only are we growing quite dramatically, threefold increase over last year, we're focusing, and we're getting the growth in the areas that we want, which is with full-service brokers. And this is a business, Affinity Markets, that we don't talk a lot about,

and we should talk about it more because it's a very unique business model, it's a very entrepreneurial culture, and it's one that we plan on continuing to grow.

It has very favorable business attributes. It has low capital. It has very high return businesses, up in the 20 to 25 percent IRR ranges. It has a very diversified product portfolio, insurance, disability insurance, travel insurance, wealth products. This is the most diversified mix of products we have in any one business, and they focus on selling to--through associations, like a Canadian Council of Professional Engineers or a CAA. And they also have a real focus on direct marketing. It is--this group is our strongest and best direct marketing group in the organization. And not only do we use them--not only do we leverage them to expand our Affinity Markets business, we're also now leveraging them to expand our direct marketing capabilities in other parts of the organization.

They're also looking to expand their abilities by continuing to become more efficient. One of the big challenges of a small business like this, which, again, like the bank, 10 years ago had virtually no earnings, and now it's become a significant part of our earnings base, we need to invest more in the systems consolidation and the upgrading of these systems, so that we continue to drive the kind of double-digit 20 percent-plus returns that we've achieved out of this business in this past.

Our Group Benefits business, one of the largest in Canada. Essentially, we have about, you know, 20 to 25 percent share of the market along with Sun and Great-West, and this has very favorable attributes. It's annually repriced, it's a fee-for-service business, it's very low capital, over 80 percent of the earnings of this business are remittable, and it really is very--a very non-correlated risk to a lot of the other risks that we have on our balance sheet. So, it gives us that nice balance and diversity in our business mix. You know, it's--the one area that I think we can do a lot better on, though, is small business. So, if we look at the small segment, if you break up the Group business into three main segments, the large business segment, the middle segment, say, you know, employees of 100 to 500, we're very strong in those two segments. We've historically been strong, and we continue to be strong. But, the area where we haven't

been as strong is also the highest profit area, and that's in the small business segment. And the small business and small employers are becoming the growth engine and the fastest growing segment of the Canadian corporate base. And so, we really have a focus on that.

We've shifted our distribution capabilities over to the small end of the market. We've built new products. We built a new small employer website, which not only focuses on group products, but also individual products to try and bring small employers to a place where they can access all of our products and services. And we're having great success. While in 2010 we're behind our sales goals in the large end of the market, we're significantly ahead of our sales plans in the small end of the market where the margins are the highest. So, I'm very pleased with this growth, and we have a long way to go. We have about 15 percent market share at the small end of the market. And we believe over the next few years, we can get it up to 25 percent, which will have a material impact on our earnings. You know, this business is all about doing the little things well. You have to manage claims exceptionally well. You know, if you don't manage your LTD claims, you can see significant bumps in the night in this business. And I was particular gratified to see that through this economic cycle, we didn't see any bump up at all in our Long-Term Disability business. And in fact, it's performing exceptionally well. So, we're managing the claims well, and we're pricing this business for good margins. And we continue to consolidate our systems, which is key. In order to be successful in this business, it's all about expense management. To earn your place with employers, you have to be a very tight expense manager. You know, we have over 3,500 people in this business alone. And managing your expenses well and having robust systems and large-scale systems is critical to our success. And we have all of that scale that we can leverage today.

Individual insurance--you know, I talked about this already, so I won't belabor it. It's a large mature business, but for us, a tremendous growth opportunity as we expand more and more into living benefits products, adjustable products and continue to expand our distribution. But, the most important thing to remember about the Life Insurance business in Canada, and particularly our place, is our belief that the Boomers are going to need high-end estate-planning solutions, and we're perfectly positioned to take

advantage of that. And that's why I feel so good about our prospects there. Now, we did announce level of cost of insurance universal life price increases recently. We're the first company to do that. And that's largely a function of the fact that interest rates are much lower than they were in the past. Our ability to reinvest future premiums at a reasonable rate--at our assumed rate is less, and therefore we need to increase the price to the consumer.

We expect a short-term hit to our market share on the Universal Life business when we do that, but we also know that our competitors face exactly the same phenomena that we do. And we would expect over time that they move as well. And then, our ability to service this market, especially at the high end, will once again come to the floor. And the last thing I want to talk about is cross sell and collaboration. You know, we serve one in five Canadians. And we have this broad-based portfolio of products. And as I told you earlier, we have all of these businesses run by general managers, who really do a fantastic job at running and focusing on their business. But, what we've lost in that focus is the ability to cross sell, the opportunities to cross sell, and we have a lot of heavy emphasis on this, working across boundaries to increase our cross-sell ratio. And I'll just give you a few examples of some of the things that are working quite well for us. You know, in the past, if you looked at our Group Benefits and Group Retirement Solutions business, you would think that if you go to a customer that has a large employee base, they need group benefits for their employees, they need a pension plan for their employees, there would be a lot of common clients.

The common clients, when I took over the job, between our Group Retirement Solutions and Group Benefits business was abysmally low. And so, we've had a real focus and a real distribution focus on merging some of our capabilities across our distribution organization to take advantage of the opportunity to cross sell group benefits and group pension products to our clients. We're also building solutions, so that a client doesn't need to go to two different Manulife websites, one on the benefits side and one on the pension side, but they can visit one site with one PIN number for their employees if they choose to do both. And we're looking and have put in place price reductions, just like the Property and Casualty

business. You know, if you buy your home insurance it's this price, if you buy your car insurance it's this price, if you buy both you get a discount. And we're looking at all of those pieces as well.

We're having some very good success. So, we've now moved into the number one position in our Group Pensions business here in Canada. And year-to-date, 23 percent of all of our pension sales in Canada came from existing group benefits clients. So, going out to our group benefits clients and making them aware of our capabilities in the group pension space has created 23 percent of our sales in the Pensions business year-to-date. And last year, 12 percent of our group benefit sales came from existing group pensions clients. So, putting the right pieces in place over the last few years is now starting to pay dividends on our ability to cross sell in the group space.

We also have this very, very large Group Benefits business, and we need to start taking better advantage of the opportunities that these clients present. You know, those three million clients in our Group Benefits business are Boomers. And they look exactly like the rest of Canada. One-third of them are going to retire in the next 10 to 15 years. And Rick Brunet, who runs that business, is going to lose one-third of his clients. He's going to lose one million clients because they won't need group benefits. So, we need to capture those clients. And the one thing about these clients is that when they leave their employer, their employer is not going to be providing post-retiree benefits. Every employer is getting out of the post-retiree benefits game, and these retirees are going to need individual products for vision care, dental care, health--extended healthcare, and they're going to need to turn somewhere.

So, we have this capability in our Affinity business, and we've built the FollowMe products. So, now when an employee retires from a company, we come in, and we talk to them about the individual solution that replicates their group benefits product, but on an individually paid basis. And the most successful cases, we actually go to the client, and we go to the employer, and say, "You know what? To help the transition--you don't want to be on the long-tail risk of these group benefits, but to help the transition for your retiree, why don't you pay the first two years of premiums on the individual product on their behalf."

It now creates the logical transition for the employee. It creates an easy and seamless way for them to become customers of Manulife on an individual basis. It generates goodwill with the employee, and then once they've been with us for a couple of years, they will like and value the individual and continue to pay those premiums themselves. And we're seeing wonderful success there. And just my last example. Again, in the Affinity Markets business, we have creditor life insurance, and we have a bank. And so, now we're selling creditor life insurance on every Manulife One product and very successfully so. So, I think the prospects for growth here are quite dramatic as well.

So, let me close by reiterating just a few key messages. The Canadian division is and will continue to be a story of a broad-based diversified financial services company. Balance, balance, balance in everything we do. We will have our ups, we will have our downs, but none of them should overwhelm the totality of the business.

We're going to focus on high-return businesses, low capital businesses where we have low market share, like the Bank, Mutual Funds, Group Pensions and Affinity Markets, and we need to continue to adjust our business model for emerging capital rules and emerging interest--low interest rates, as we have done with our Variable Annuity business and as we are in the process of doing with our Universal Life business. And again, we need to leverage our in-force customer base.

I think we have a very strong growth thesis. We've built a bottom-up plan that gets to the \$1.5 billion of earnings that Michael Bell talked about earlier. And I look forward to sharing our successes in the future and tracking our progress against these goals. Thank you very much.

Anthony Ostler:

Thanks, Paul.

This now brings us to our brief morning break. We will be promptly reconvening in 15 minutes at 11:10.

Thank you.

Jim Boyle, SEVP, U.S. Division & President, John Hancock Financial Services:

Good morning, everybody. It's always perilous to take a break, but you're a pretty well behaved audience. So, thanks for coming back.

The United States--I think the order of today's presentations was probably reflective of the recovery we've seen from this recent financial crisis. And Asia has certainly bounced back the most quickly and Canada behind them.

In the United States, we still have certainly our structural challenges, but--as an economy. But, as a company, we feel very good about the strategic decisions we've made, the progress we're making relative to our product transitions. And, you know, with the strength of our brand, the depth of our distribution relationships, you know, we intend to be a market leader as we work through this cycle and are quite confident of our path forward.

So, these points on this slide are pretty obvious to most folks in this room, obviously. We're grappling with historically low interest rates in the United States, high equity market volatility, increase in capital requirements, an uncertain regulatory environment, a US economy that's challenged. But, for us, as a company that's in transition, the ability to help Americans with their retirement savings in the large mutual fund and retirement markets creates a great opportunity for us and one that we're capitalizing on today. And the numbers really do tell the story. This is a transition that, you know, we didn't start working on 12 months ago or even 24 months ago.

When John Hancock and Manulife came together in 2004, for the first time Manulife, in the United States, had a mutual fund company in its portfolio of businesses. And to be fair, our mutual fund company was one that was underinvested in historically. It didn't have a whole lot of four and five-star funds. It was in net redemption mode and always ranked somewhere in the--you know, the mid-20s when you looked at

sales or assets. We had a conscious plan subsequent to the merger of the companies. We invested significantly in our distribution, our product and our marketing. And you see some of the results here. These are nine-month numbers year-over-year through September 10. And our sales were up 55 percent. And I'll get into more detail later in this presentation to give you some sense of the substance behind these numbers and some of the substance that's going to give you some confidence that we have the ability to continue with this kind of growth in this arena.

The 401(k) business, Retirement Plan Services we call it. We've been a market leader in the small case business here. We're up 24 percent year-over-year. That's, from where I sit, a pretty remarkable accomplishment. This is a business in the United States in our current environment that has a lot of headwinds. We play in the small end of the market. We've historically relied on new plan formation. There's not a lot of new plan formation in the United States understanding the current economy and where we're at with unemployment. We're seeing employers not adding to their payrolls. Historically, that was additive for us every year because we have an in-force base of 35,000 plans and a million and a half customers. And we're seeing companies back away from their company sponsored match. And so, with those headwinds, to be up 24 percent in this marketplace is very strong.

Variable Annuities, we've talked to you folks at our earnings call for the last two years about this business. This is a business that we've consciously taken a step back from. So, the decrease in sales shouldn't surprise you folks. And it's a business, if you look across our competitive set in the United States, where the market has really become bifurcated. There's three or four companies that continue to sell, in our estimation, products that are riskier than, you know, we believe is prudent at this juncture. And what we've seen is, you know, those four companies now have more than 60 percent market share. So, in a sense, most folks have done what we've done. We've rationalized the product line. We've de-risked the product line. And most of the competitors have done the same thing. But, until the full market rationalizes, I wouldn't suspect you would see us gaining any share or any traction in this segment of the market. And fixed products, again, these numbers are reflective of our strategy. You know, we do

suspect over time that interest rates will rise. And selling fixed book value products in a rising environment, you're going to have financial penalties with this intermediation.

So, the numbers really do tell the story of a transition that's underway focusing on higher return, fee-based products and services. And as we look forward, the strength of any presentation we give in the United States first starts with the brand. The John Hancock brand is a competitive advantage for us. It signifies strength, stability, innovation. Everybody in the United States, 94 percent, that's probably everyone who has a TV, knows who John Hancock is. And they know us for the right reasons. When we survey them about what they think of when they think of John Hancock, they think that the company is human, it's real, it's empathetic, and it has the best interest of the customers at heart. And as we survey before and after this crisis, the results for us were very gratifying. You know, our brand still remains at the top of the pack, even with the financial turmoil we've seen in the economy and some of the challenges we've had as a company. And so, 83 percent of our customers still, as we've worked our way through this cycle, have a very positive view of us as a company. And, you know, that's the foundation for our success as we move forward. And we have a big installed customer base here. We have eight million customers, and we do business with more than 100,000 financial advisors across all of our channels in the United States. These customers are loyal. We have deep distribution relationships, and the relationships are such that they are going to support us as we pivot our product portfolio. And we're seeing that today.

So, some folks said, "Well, can you back away from a Variable Annuity business that was tracking to sell \$12 billion and this year will sell less than three? Can you reposition your business?" And what these charts show here is the three core Wealth businesses that we sell to advisors, mutual funds, RPFs, 401(k), and variable annuities. And you can obviously see in the pie charts here that our Variable Annuity business has been scaled down. But, year-over-year our sales are actually up as you look at those three segments.

One of the hallmarks of our franchise in the United States has always been distribution. And clearly, our variable annuity distribution, as measured by all the independent surveys of brokers, broker-dealer home offices, broker-dealer gatekeepers was at the top of the pack. And so, as you strategically move away from that business, how do you maintain that core franchise value of that distribution entity? And we did what I think all of you would do in that scenario. You move those resources to your mutual fund and your 401(k) business. And so, it's really no surprise that, you know, our sales have trended this way and that our repositioning has been as successful as it's been because it's relied on the strength of the distribution and our ability to redeploy assets.

Obviously, when you look at the financial underpinnings of our Wealth businesses, these are fee-based businesses that are driven based on our assets. We have had positive equity moves. There's no question about that. But, we've had excellent execution as well. Our net sales in the businesses we want to grow are quite strong. And so, our assets have actually recovered to levels that are higher today than they were pre-crisis.

So, let's dig a little deeper into some of the businesses that we have a desire to grow. Mutual funds--what you see on the left here in the light blue is an ICI, Investment Company Industry, ranking of sales. And as I mentioned at the open, in 2004 we ranked 21st in the United States. We began to invest in product distribution, did some fund adoptions, leveraged not just our distribution talent, as I described with the variable annuity wholesale teams, but our distribution relationships, and so relationships that we had with long-term care with a distributor, relationships we've had with a distributor on variable annuities, we were able to have the mutual fund gain access because of the strength of our distribution. And you can see that our sales through August, which is the most current data we have here, we've moved to number 12 in mutual fund sales in the industry on a retail basis. That's obviously how we sell products here. And if you look at the blue bar, you know, what really matters, if you want to dig into the financials, is net sales. And in net sales through August, we were number five in the industry.

I understand most of you folks, you know, deal in the insurance segment. You know, this is not a market share presentation that shows the insurance companies that compete in the mutual fund world. This is the broad set of mutual fund competitors in the United States. And, you know, our number 12 position, we're very close to pushing up on number 10. When you get to number 10 in the mutual fund industry, you're in pretty rarified air. Many folks didn't believe we could move from the 20s into the top 10. But, again, referring back to that first slide, 55 percent year-over-year growth, we're doing it, and we're quite confident we're going to be able to continue to execute on this. And one of the reasons you can execute on this is the strength of your product platform. Most sales in the United States go to four and five-star mutual funds. In 2004, we had less than three four and five-star mutual funds. And frankly, those funds were not in large asset gathering categories. They may have been in a tax exempt bond fund, for example.

Today, we sit here with more than 20 four and five-star funds, and those funds are in the core asset gathering categories. In addition to that, we see a great diversity of sales. We're not reliant on one hot fund. In the past we had done some fund adoptions, and our fund sales had grown rapidly for a period of time. But, that's not the way to build a sustainable franchise through a hot fund. You want to do the--you want to build this franchise through, you know, a broad suite of core funds that have great performance and funds where the broker--the producer who helped you build your business uses you as a core offering, not as, sort of, a specialty offering.

And our ability to succeed is largely dependent on this. And this 20 funds that we see here is a combination of both MFC managed funds and funds that we use through our variety of partnerships through subadvisory and adoptions.

An extension, really, of the Mutual Fund business is our Retirement business. We've had great success here, as you know. We rank in the insurance world as the number one provider of small case 401(k) plans in the United States and have for many years.

What the first chart shows is our ability to leverage, again, our distribution relationships. And so, this shows Edward Jones, Ameriprise, and Morgan Stanley and the growth we've had in those three firms in the last year. These were three firms that our 401(k) business had not done business with two years ago. We were introduced to those firms, again, through our relationships with either mutual funds or long-term care or variable annuities. Once we get the shelf space, once we get access, you know, our total package of enrollment, distribution, marketing, client support, product design allows us to do very well in those channels--and back to the first slide. Remember, 24 percent growth in this business year-over-year with significant headwinds. And you look at our inventory, which is the dark blue chart, the best leading indicator for this business is your inventory. We expect to sell this year something over five billion in plans, new sales. Our inventory or proposals that are in place today is over \$11 billion in this business.

We expect to double the 401(k) business over our planning horizon. That's a pretty ambitious goal, but look at this chart. What this chart shows you is the industry. And for those of you that aren't completely familiar with the 401(k) industry in the United States, the 401(k) plans are sold on two basic chassis. One is a group annuity insurance-based chassis, and one is a mutual fund-based chassis. We have built our business exclusively on a group annuity insurance chassis. And as depicted here in the market, you can see in the dark blue bars where we have played. We've made the strategic decision that we're going to move into the mutual fund segment of this marketplace, which is represented in the light blue bars here. We're not going to do anything revolutionary. We're not going to move away from our core skill set here. We're going to continue to focus on the small plan market, but clearly there are advisors in the United States that will not sell a group annuity product and will only sell a mutual fund product. And so, we're quite optimistic that over the course of 2011, as we develop this product we will get the shelf space. We do have the skills to execute here, and we're very bullish about our ability to continue to grow as we move into the mutual fund segment of this market.

Another core piece of our franchise--one of the core parts of our foundation here is our asset allocation franchise. And, you know, Baby Boomers in the United States are struggling to get retirement income, right? We know the challenges that exist with the, you know, various government sponsored plans, or

company sponsored plans in the United States. Boomers today understand they need to save, certainly through this crisis. They've understood now the power of diversification, the need for planning, the need to use professional advice. And they need someone to help them make investing understandable, executable and simple. And asset allocation, as delivered in the industry, is through lifestyle and lifecycle funds. Lifestyle are the risk-based funds, lifecycle are the time-based funds. We've been in this segment, particularly the green segment, the lifestyle segment, for over 10 years. Our funds have 10-year track records, which is incredibly important as you sell through the retail channels. Our funds are all four and five-star funds.

It is simplified investing. We can take these product chassis here, these mutual fund product chassis. We do use them in our 401(k) business. We use them in our Mutual Fund business. We use them in our Variable Annuity business. We use them in our Life Insurance business. And so, if you read the latest reports, particularly Goldman Sachs--I think everyone every year looks forward to the Goldman Sachs analysis of the asset management business. Most folks predict that this segment of the market is one of the fastest growing segments in the asset management world. We're well positioned to compete here.

It's really no surprise. If you want to be big in this business, you know, you're going to compete with the likes of Fidelity and Vanguard. And for a company like ourselves to rank number three in this segment of the business is incredibly powerful and, again, gives us a lot of comfort as we move forward with our strategic plans to grow in these segments of the business.

I'll move through the next slide. Let's talk about life insurance. Mike mentioned this on our Q3 call. I want to be sure I reiterate this. It is a challenging environment in the United States to sell life insurance with the current low levels of interest rates. And from a comparability and competitive standpoint, it can be challenging because of the accounting regime with which we operate in Canada relative to our US peers, where we effectively mark-to-market, we assume the current low interest rates are here to stay and will be here for the next 30 years. Having said that, we have the strongest distribution platform in the Life

Insurance business. This is--this chart shows the largest competitors, distribution competitors, in this space and where we rank in their internal rankings of shelf space. We're almost always in the top five. We're typically in the top two. And, you know, the discussions we're having with our key distributors--we had a big key distributor meeting this week. They understand the challenges in the life insurance segment. And they're fully committed to helping us work through a product transition and actually see incredible benefits for their producers and their customers. And I'll get to that in two more slides. And so, when you look at the risk-return profile, you know, variable life products have an excellent risk-return profile. We rank number one in this segment. We do, again, leverage the strength of our lifestyle franchise here. And you should expect us to continue to play in the number one spot here and emphasize this business significantly in the future.

So, let's talk about rebalancing the Life business. In 2009, the light blue chart shows that more than 50 percent of our business was no-lapse guarantee universal life, a significant piece of our franchise. But, the other aspect I'd like to point out is we do have five other core products here. As we move and look forward to 2011, you will see our business of Universal Life that's highly sensitive to interest rates be less than 20 percent. We're going to move to a product set that has guarantees that are less than lifetime. We're going to introduce products that have better risk sharing characteristics with our customers, policies that have more participating features, more pass through features, and the final bullet point on the bottom right here, they offer the ability to participate in the upside of a higher interest rate environment. So, think about the guaranteed life insurance marketplace today. The story we're working with with our key distributors today is, in many ways it's probably the worst time to put your client into a guaranteed product. Interest rates are at historic lows. If we believe that the markets will recover over the next five, 10, 20 years, the lifecycle of life insurance products, clients will want to participate in that recovery. And frankly, in a guaranteed product, they're not going to be able to participate in that recovery. With participating in pass-through products they're going to be. And frankly, these are products that our distributors have sold in the past.

When I first got into the Life Insurance business, someone said, "There's nothing new in life insurance." And I'm coming to realize that more and more every day. The reality is the type of products that we will be pivoting to are products that have been sold in our industry for many years, and we're going to revert back. We are a market leader. Our competitors take note when we've been raising prices over the last two years to reflect the lower interest rate environment. They're taking note now that we're making a product transition. Our distributors are behind it. We remain confident that we will be a key player in the Life Insurance business. And life insurance will remain core to our franchise in the United States as we move forward.

So, we are optimistic about our franchise in the United States, the brand, the people, the relationships, our ability to execute, and frankly, our ability to be there for our customers that are looking for retirement solutions, and retirement solutions that are much more sophisticated and more far reaching than just life insurance. They need wealth products. They need combination products. Customers we do business with are happy to do business with us in more than one way.

We'll continue to maintain our brand excellence. We'll continue to leverage the strength of our distribution. We'll continue to cross sell across these lines. And the transition you saw underway, as depicted in the numbers on the first slide. And as Mike referenced, the strong financials we put up in Q3, which reflected, you know, finally the rising prices we've put through, the lowering of the strain, the reducing of the interest rate and equity risk. Those trends will continue.

So, we feel very comfortable with the strategic decisions we've made, and we're very confident about our place in the marketplace and our ability to execute through a very difficult cycle in the United States and emerge a stronger company as the US economy recovers.

So, thank you all very much, and I look forward to seeing you later in the day.

Warren Thomson, SEVP and Chief Investment Officer:

I guess it's appropriate we shift at this point from the right-hand podium to the left-hand podium, as we're moving from the right side of the balance sheet to the left. What I want to do is give you a brief overview of our investment approach and philosophy, then I'll drill into the portfolio a little bit.

What I do think is important, though--there's a couple of very brief messages I want you to come away with. We have a very high quality, very well diversified balance sheet and asset portfolio that delivers superior risk-adjusted returns. In terms of our investment philosophy, we follow a bottom-up approach to doing our portfolio construction. It starts at the needs of an individual product segment.

We have two synergistic mandates within our investment operations. The first I'm speaking to you now about, which is our general fund mandate. My colleague, J-F Courville, will be speaking to you shortly about our Third Party Asset Management business. Our goal is to drive superior return and risk reduction through using a diverse mix of assets and for our general account, we do lean on the non-fixed income portfolios on our third-party managers. From a risk management perspective, we have a very strong risk management culture. From the top, we have two key committees that oversee our investment operations.

The first is our Asset Liability group, which is headed by our Chief Risk Officer and the second is our credit committee, which is headed by our Chief Financial Officer. Both of these committees provide oversight, guidance, and policy that direct our investment operations. And underneath that we have a foundation of strong portfolio managers that are steeped in credit skills.

Our asset mix is predominantly fixed-income. As you can see, nearly 90 percent of our assets are in the fixed-income universe. But, to that we add a small amount of non-fixed income assets. And again, I will detail these--those assets a little bit later in the presentation. But, that is--it's 11 percent of our mix, and it

is a key piece to actually improving our overall returns and keeping us out of the riskiest end of the fixed-income universe.

In terms of looking at the portfolio, a couple of key points to note. You'll note that the government bond piece is now at 20 percent. Our asset mix stayed at very stable over time. But, if you compare our Q2-- our statistical information package for our Q3 set, you would note that government bonds went from 16 percent to 20 percent. And that was primarily due to the high grading of our corporate surplus segment where we we're investing in the Government of Canada, US Treasury and Government of Japan bonds.

In terms of our fixed-income portfolio, this is the vast majority of our 205 billion on balance sheet assets. It's nearly 62 percent of our total holdings. And on this slide here, a couple of points to note. The green bars represent what we have in our public bond portfolios. The gold bars represent our private placement portfolio. The significance of the private placement portfolio is it's a key place where we can get incremental credit diversification. And a couple of items of further note here. In the financial crisis, two of the sectors that had the biggest stress, one being banks, the other being securitized assets. You'll note there are no private placements in those portfolios. And as a result of that, we were able to avoid even greater risk because there were risky components in both of those segments. But, our fixed-income and the other one to maybe note here is the private placements in the government portfolio. That's predominantly private placement transactions that we've done with the US government.

In terms of our below investment grade portfolio, again, you'll note government and agency is the overwhelming component of this portfolio segment. The government and agency holdings predominantly match our businesses in the emerging market countries. So, places like Indonesia, where the sovereign has a below investment grade rating, we're clearly matching currency in those jurisdictions. So, that accounts for a significant portion.

The second thing you'll note is on this slide you'll notice the gold bars relatively become larger. And that's, again, because it's in the below investment grade space. We think we get the highest value for money transactions investing in secured below investment grade transactions in this space in two sectors. These sectors where you can see that, one would be in our food and timber portfolios, another would be in the utility sector. We think we can drive significant opportunity and value in those spaces.

Our bond portfolio average quality, you can see, is improving since the depths of the financial crisis. Obviously, the--part of the uptick in Q3 was that movement into additional Triple-A rated government bonds. This is another key piece of information, again, for both our Canadian and US peers. This is something, I think, throughout the financial crisis that we're proud of our performance on both of these measures.

The top bar tracks our gross unrealized losses. And that bar is, to a degree, just sensitive to the general movement in interest rates and spreads. It does not necessarily reflect a lot of concern about the underlying credit quality of the security. The lower bar, which we do focus in on more, which we refer to as our critical gross unrealized losses. And that's securities that have been trading at less than--at a more than 20 percent discount to face for more than six months. And as you can see, since the height of the financial crisis, this has sequentially trended down. The bar that's on my extreme right, the net exposure as of the end of Q3, you'll notice is 350 million as at the end of Q3.

That's after you take into account the fact that some of these securities are actually held for par and pass-through segments. And also, under Canadian GAAP, we do take provisions against securities as they get downgraded. So, that net exposure is a pretax number and it were actually tax affected, that would be the bulk of the securities over which we have the most concern in terms of the emergence of credit losses over the coming time, which are clearly relative to our earnings levels as a de minimis exposure.

In terms of our direct mortgage portfolio, this is a portfolio that on the commercial side we largely originate directly, both in Canada and the United States, through field level branches, with centralized underwriting in each of the markets, Canada and the US. And we also have direct origination through agents for our Manulife One product in Canada. So, our residential mortgage portfolio is also coming into us through-- on a direct basis.

In Canada you'll note that a significant portion of our portfolio is insured by the Government of Canada through the Canada Mortgage and Housing Corporation Program, CMHC. That represents--almost a third of our portfolio is effectively Government of Canada credit. The remaining portion of our Canadian portfolio is a traditional commercial real estate portfolio. And you can see the distribution on the second pie chart there that gives you the mix. It's very diversified by property type. And a couple of the things that are a little bit different. The agricultural portfolio that we note there, that is not conventional agricultural land. That's more entities in the food processing business.

The portfolio does have very good statistics, both from a loan to value and a debt service cover ratio perspective that indicate its strength. And we have very few loans in arrears. There are only 13 loans at this point in arrears, seven of which are insured by the Government of Canada. In terms of our credit provisioning, as you can see, this gives you the last five years worth--so, 20 quarters on a slide to give you a sense as to what's going on with the financial crisis, the peak being at Q3 2008, which, again, as we disclosed at that time, we took the large hits on Lehman and AIG, amongst others. Since that time, things have stabilized. Most of the impairments that we've taken since that point have emerged in a very small residential mortgage-backed securities portfolio and a very small CMBS portfolio that we hold that are both in below investment grade positions at this point. The bulk of our holdings in the securitized portfolio, CMBS, are still all rated Triple-A.

The other point that I'd note is that we've obviously reverted, at this point, to having credit experience that is below our long-term price for expectations, and we are continuing to see that stability. And that's across our holdings around the globe. So, it's not just Canada. It's the United States and Asia. We have

stability in all our major markets in our portfolio. In terms of our non-fixed income portfolio, the largest piece is clearly our public equities. And I'll have more detail on that in a moment.

The balance of the asset classes, the next most significant, is our commercial real estate. And again, I will give you a little bit more detail on that one. Our public equity portfolio is very diversified by both geography and by industry. Over 60 percent of our portfolio is held for our par and pass-through segments, so is not for the shareholders account. A big portion of the portfolios that we do hold for the shareholder account are in fact indexed. We do have, also, very good diversity in terms of the sectors or industries within the equity universe.

So, why do we invest in alternative assets? They're both a good alternative to public equities, as well as the riskier end of the credit spectrum, the high yield universe. They do deliver strong historical returns, as you'll see in a moment. They do give us diversification through low correlation with the other asset classes. And they're a very good fit for our long duration liabilities. This does result in us producing higher risk-adjusted returns--better risk-adjusted returns while only adding a very small amount to our total portfolio holdings. This slide is a classic representation of Markowitz efficient frontier. The lower gray bar represents the typical US life insurer that would be constrained to holding bonds, mortgages, and high-yield instruments. And you can see the opportunities that they have to move adjusted risk and returns is rather limited. We also highlight on this slide all of the alternative asset classes that Manulife is able to avail itself of. And you'll see what we do is we take a very modest increase in return for a meaningful reduction in risk. This is truly only one of the true free lunches in investing. And by the way, the same people that do the work on our asset allocation products that Jim Boyle was talking about also do work on our general account with respect to this asset allocation work.

In terms of our commercial real estate holdings, commercial real estate, by background, is an asset class that we've been in for well over 60 years. We have professionals in Canada, the United States and Japan that actually manage our portfolio. We do all the portfolio management in-house. We do all our portfolio

management oversight in-house in terms of acquisition and divestiture of properties. We're a very disciplined value investor. We don't use leverage in the portfolio. So, all our returns here are unlevered, and the portfolio--one quarter of it is mark-to-market every quarter. And based on those--by independent arms-length third parties. And based on those marks, we assessed the rest of the portfolio to determine if incremental marks are needed each quarter. But, by doing that, we do keep our portfolio marked on a continuous basis to market.

In terms of our alternative assets, this is really the proof of the pudding in terms of the five--this covers the last five years. So, you really capture '08 and '09 here, which is the depths of the financial crisis. And you can see that each of these alternative asset classes has delivered very strong returns, including the hits that we took in '08 and '09, specifically in our commercial real estate portfolio. Part of the advantage is our commercial real estate portfolio is very well leased, very well--in terms of lease tenure--well, over five years of remaining lease term on average throughout the financial crisis and about 92 percent occupied. And because the buildings are maintained in a superior fashion, we're always able to secure new tenants on favorable terms. And because of that strength in leasing, we've actually seen a reemergence of appraisal gains coming through in our portfolio in Q2 and Q3, in Canada first, and then the United States in Q3.

In terms of these asset classes, they are all run by in-house teams. And so, to give you a little bit of background on each of them, I've mentioned our commercial real estate experience extends back close to 70 years. Our Private Equity and Mezzanine teams, we have teams both in Boston and Toronto. The Boston team has been in that space for over 30 years. Oil and gas run by NAL Oil & Gas, our wholly owned Manulife subsidiary. We manage about 50,000 barrels of oil a day. We've been in that space for over 20 years. Power and infrastructure, again, we've got teams both in Toronto and Boston. Both teams very well experienced, and again, it's an asset class that the Hancock has been in for over 30 years. Timber, an asset class--Hancock Timber is actually celebrating its 25th anniversary this year. Hancock Timber is the largest manager of timberland in the world. They do manage both for our general account and third-party clients. About 15 percent of their portfolio is for us, 85 percent is for third-party clients.

Similarly, agriculture is the Hancock Agricultural Investment Group. Again, a 20-plus year experience there, and a little under half of what they manage is for us, and the balance is for third-party clients.

So, every one of these asset classes we have validation, for the most part, from third-party clients who are hiring us to run these asset classes for them, as well as their own. And again, the point I want to note here is through this timeframe our average--weighted average return across these asset classes, pretax, was almost 11 percent.

In summary, we have a diversified and stable general account asset mix. It's a very high-quality, high-performing portfolio. We have a strong credit and risk management culture with centralized controls. And we enhance our returns through the use of alternative assets rather than going to the riskier end of the credit spectrum.

Thank you very much.

J-F Courville, *President and Chief Executive Officer, MFC Global Investment Management:*

Thank you, Anthony. Good morning.

I am excited to share with you some of the--talk about, rather, the global business of MFC Global Investment Management. It is a story of strength. It's a story of growth. It's one of global relevance, and it's one that leverages--it provides leverage, rather, for large parts of the organization of Manulife.

First of all, what is MFC Global Investment Management? It's the investment management arm of Manulife, dedicated solely to delivering long-term performance to Manulife's external clients around the world. It delivers this performance in an institutional grade environment to--directly to the markets, whether it be to pensions, through endowments and other wealth management organizations on an institutional basis. And it also directs it through our wealth management affiliates as they deliver solutions through mutual funds, annuities, as well as pension solutions.

MFC Global Investment Management was formed in 2001, leveraging the capabilities that existed, as Warren described, throughout the management of our general account. And those capabilities allowed us to offer very good solutions to external investors as well. These capabilities were deepened through the acquisition of John Hancock. And through that acquisition we gained some very significant capabilities that added on to what already existed within the Manulife family. As we grew the capabilities, we grew scale. And with that, we took the step of separating the general account and MFC Global Investment Management to provide a sole focus on external investors at that time. We continue strengthening the capabilities as well. As we really put a lot of ambition into succeeding the Global Investment Management space, we really started laying the foundations for growth. We concentrated on our commercialization and distribution platforms, as well as our infrastructure build out.

What does that mean? Strength of product, product optimization in fact, sales, consultant relations, marketing, everything that allows us to tell a very good story and validate the performance that we're producing in-house and--through sales in the marketplace--through the infrastructure as well. This meant providing a robust best-of-breed operating platform that allowed us to compete with the global asset management companies around the world and service our clients with the highest standards no matter where they reside and no matter where the money is being managed.

As we look forward, our growth will continue to accelerate. We are leveraging our capabilities around the world and effectively looking to cross sell across regions, across asset classes throughout our capabilities, and also through our various distribution channels. We have a global footprint. In fact, as you can see, we have more than 275 investment professionals, whether it be portfolio managers, analysts, traders, etc., located in 17 offices across countries and territories around the world. So, a robust set of expertise working together to provide best-of-breed solutions.

Our capabilities are numerous. The main portion of our activities in our AUM, in fact, lies in our MFC Global Investment Management public markets area. This is the management of public securities and equities and fixed-income. Our capabilities are based in the US, in Canada, and in the UK, and in around Asia. And as Bob mentioned, we're on the ground in many of the countries--in all the countries in which we operate, extracting value and--through our local knowledge. We also operate, as Warren described a little bit before, in the alternative markets. We have under the brand of Hancock Natural Resource Group the operation of two lines of business, our Timber Investment business, as well as our Agricultural Land business.

The Timber Investment business is the largest institutional provider of such services in the world with \$8.5 billion under management providing returns to investors in that asset class for 25 years. Also, since 1990, our Agricultural group has been developing a solid base of investments throughout the US, Australia and Canada to supplement what we had been doing in the Timber business around the world in many more countries and has amassed \$1.4 billion in assets under management in that asset class. In fact, representing a 43 percent of the NCREIF Index, highlighting the importance of this operation on--in this asset class.

Then we wrap all this up together under our portfolio solutions efforts. This is a group of highly educated portfolio managers that perform strategic and tactical asset allocation services. They're based in the US, in Canada and the UK. Part of their work, of course, is to bring together the multi-asset class funds that Jim talked about earlier, lifestyle, lifecycle funds with--under which we've developed a very strong franchise. But, they also perform more customized portfolio solutions, such as liability driven investing and other solutions that require the combination of asset classes. But, of course, as an asset management organization, we're in the business of one thing, of providing performance--long-term performance to the investors that entrust us with their funds. And performance we have. We--if we look across the actively managed portfolios in equities and fixed-income across our capabilities, our track record in the five-year and three-year space shows that we've been outperforming about two thirds--rather, of the assets in the

strategies in equities and fixed-income on an active basis have been outperforming their benchmarks and their peers in the industry. So, a very solid track record of performance on the long-term basis. But, even better news is that performance is accelerating. If you look at the shorter-term performance, more than 80 percent of the assets managed is in the--managed in those same capabilities are outperforming their benchmarks and their peers.

With that performance has come an increasing level of validation in the marketplace through third-party recognition. Morningstar has now awarded us globally 40 five and four-star rated funds across our various capabilities. And to show the acceleration in this area, this compares to 33 at the end of Q2 2010 and to 27 at the end of 2009. So, we're obviously accelerating our record of performance, and that's positioning us extremely well in the marketplace. And this is all, also, very beneficial in that it is spread across our multiple regions of operation.

Recently, the Wall Street Journal also cited five Category Kings for John Hancock funds in the US only. All five of these Category Kings were managed by MFC Global Investment Management.

I want to highlight just through this the importance of the global recognition that we're receiving for our performance. This is a story that's not localized, but rather it is spread around the world. And you can recognize by these various awards that our success is quite widespread. Let me focus on two recent awards. Bloomberg Markets recently praised our global equity team based in Boston, receiving strong recognition for its long-term management performance. They managed the John Hancock Global Opportunities Fund, a fund that was named as the top performer in its entire category.

Also, across the world, Investor Magazine recognized our Indonesia Equity Fund with its Best Islamic Equity Award. And this performance is leading to growth in our entire investment management complex. We've enjoyed 27 percent compound annual growth rates since 2001. Our assets under management now lie at \$123 billion. And as of December 1st of this year, we will also now include the multi-asset

class funds that Jim and Warren described a bit earlier as well, adding about \$61 billion in assets, which will take our asset base to \$184 billion. This puts us comfortably into the realm of the top 50 money manager list as compiled by pensions and investments.

We are also making a move on our brands. We by the end of the year, we'll transfer--transform our brand from MFC Global Investment Management to Manulife Asset Management. We're doing that for very logical reasons. We want to better leverage, of course, the recognition and the strength of--in the brands and the financial strength of Manulife as our parent company. Of course, we want to get closer to our parent company that has established itself throughout so many markets around the world. But, at the same time, we will stay true to our sole dedication to being an investment manager, a pure investment manager providing long-term performance for investors.

In conclusion, we are rapidly growing asset management business. Our success speaks for itself, and we hope to continue that, of course, through strong dedication. We have deep capabilities broadly based around the world. We have a global network with a local knowledge advantage, extracting information and sharing information around the world as people work together to provide the best performance possible. We also provide superior long-term performance, and our track records have been strong and they are improving. We have a differentiated philosophy. Basically, we have empowered investment teams operating within a--with all the boutique advantages, but within a deeply resourced environment with on the ground presence, but with broad sharing of knowledge and expertise.

We are creating value and we're helping accelerate the growth for Manulife's Wealth Management businesses. In fact, just one element of that leverage--currently--Jim talked about the great success in the mutual fund sales in the US. We heard the same for Canada. Just one example, seven of the top 10 selling John Hancock funds right now are managed by MFC Global Investment Management. So, it's through providing this great performance and continuing in our investment-led focus that we can actually help MFC Global Investment Management grow, but provide tremendous leverage for all the wealth

management distribution platforms to be successful in the marketplace, providing great value for our clients and benefiting Manulife and its growth plans.

Thank you.

Morning Q&A Session

Anthony Ostler:

We've now reached the point for the morning Q&A session. We ask each participant to limit themselves to one or two questions in an effort to help ensure that we address everyone's questions. If you have a question, please raise your hand and wait for a microphone before proceeding with your question. And please also remember to state your name and your company. So, any questions? Do we have a question at the back?

Tom MacKinnon, Equity Research Analyst, BMO Capital Markets:

Great. Thanks very much.

You're probably going to get a lot of questions with respect to just some of the arithmetic involved--.

Anthony Ostler:

--Sorry, Tom--.

Tom MacKinnon:

--Oh, sorry--.

Anthony Ostler:

--Could you just state who you are?

Tom MacKinnon:

Oh, Tom MacKinnon, BMO Capital.

Anthony Ostler:

Thank you.

Tom MacKinnon:

You're probably getting a lot of--just the arithmetic all involved with this 215 stuff--or 2015--so, slide eight. Now, the expected cost of additional hedging of \$400 million, obviously that's not all in 2015. Right? I mean, you've already got 125 of it right now. So, you know, we should probably look at not that all in 2015. Is that correct?

Michael Bell:

Yeah, that's fair, Tom. We--.

Tom MacKinnon:

--So, something like 80 million over the next five years or something like that or--I don't know how to--.

Michael Bell:

--So, several points there, Tom. The--first of all, please recognize that's the additional cost of hedging relative to where we were at September 30th--.

Tom MacKinnon:

--Right--.

Michael Bell:

--So, it would not include, for example, the headwind that we have from the in-force hedging that we've done over the last five quarters. So, this is the--you know, if September 30th is the starting point, this

would be how much headwind would we, in effect, be buying by putting on additional equity market hedges, which reduce our volatility. So, the two and a half billion of futures that we shorted on Monday, for example, round numbers, we would expect to create headwind of approximately 250 million pretax, 150 million after tax in 2011. As we add to the hedging program, we would expect to grade up to the 400.

I would expect that relative to the earnings sensitivity reduction that we get that the hedges that we put on place--in place in, you know, like the 2014, kind of, timeframe should be less expensive because the markets ought to be higher at that level, which would reduce the cost of either the macro hedging, if that's what we're doing to hit the sensitivity, or it should reduce the cost of the expected micro hedging, the traditional dynamic hedging approach. But, there are a lot of different factors. I can't emphasize enough that 400 is a placeholder. It could easily be higher or lower.

Tom MacKinnon:

Okay. But, I guess the key takeaway, it's not all in 2015. And I guess your point is it's probably not straight line graded up.

Michael Bell:

Exactly.

In fact, if anything, I would suspect that it will be more front ended because, again, the--it's a--you know, we just used up, if you will, 150 of that 400--.

Tom MacKinnon:

--Right--

Michael Bell:

--For what we--.

Tom MacKinnon:

--Got you--.

Michael Bell:

--Just put in place--.

Tom MacKinnon:

--The 500, in terms of corporate and other that you got in there, you said it's offset by expected gain-- investment gains. You had 480 or 90 hit in the last 12 months without any expected investment gains. So, what else is funny in this 500 that we should probably look at as being unusual going forward?

Michael Bell:

Sure. As you can imagine that is, sort of, a catchall category for a number of different items. On the plus side--and again, this is a little squirrely, but I'll be responsive to your question.

Number one, we do expect some additional investment gains. As long as the economy is in reasonable shape by the time we get to 2015, I would expect, as Warren and Scott Hartz have talked about, us to be able to outperform our longer-term assumptions that are built into our reserves. So, we have a benefit in there from that.

Second, we have a benefit in, by the time we get to 2015, of higher interest on surplus at the corporate level because by then we've been--we've now generated several years of earnings that more than half of those earnings, then, end up being kept in the corporate coffers and earning interest on surplus, ideally at higher IOS rates than what we're making today, for example--again, if investment markets and interest rates are at all cooperative.

Going in the other direction, we do assume in this model that we are refinancing any debt that is maturing. Again, the--we have built in some additional costs of carry--negative costs of carry in for that. I hope that ends up being conservative, but that was our modeling assumption.

And, importantly, we have built in a corporate contingency for other things that will likely go bump in the night. I have no idea what those will prove to be, but we've also built in some corporate contingency, which, again, anytime you're talking about 2015, if you don't have corporate contingency in there relative to some of the tapes, I don't think you're being prudent.

Tom MacKinnon:

So, the two things that you mentioned offsetting wouldn't all happen in 2015 as well.

Michael Bell:

That's absolutely correct, Tom. That--.

Tom MacKinnon:

--That would mean if they were--I don't know--even if you've got a hundred or 200 million of these things that are offsetting, they're not all in 2015. So--.

Michael Bell:

--That's correct--.

Tom MacKinnon:

--Okay.

And then, finally, what do you have in terms of--you've got some average allocated equity number here.

Michael Bell:

Yes.

Tom MacKinnon:

And when you did that, that's all--that's the average in 2015, right?

Michael Bell:

Yes.

Tom MacKinnon:

And what did you use as--so, the average is, you know, you've got some earnings and dividend in that. Is the earnings that you had in there, this four, when you did that average allocated equity--?

Michael Bell:

--The--I mean, the short answer is that it's the average equity over calendar year 2015. So, it would be influenced by both the beginning of the year and the end of the year. The equity does grow over the period because we expect that the majority of the earnings that we earn over the period are retained, and therefore increase our retained earnings, increase our common shareholder equity. Importantly--and I was going to cover this, this afternoon, but I'll mention it here as well. Heather asked me the same question in the break.

Importantly, we accumulate all of our projected earnings between now and 2015. That's a very substantial capital level and above what--above, for example, the MCCSR that we're holding now. We would expect to be able to deploy that as free capital. Since modeling either share repurchase or acquisitions struck me as a hazardous exercise, we basically assume that that money came out of the capital base, you know, in the form of a special dividend, if you will. But, it essentially vanished from the capital base, so we didn't add anything to earnings for the use of it. But, we did take it out of the capital base because, again, I would expect that if things worked exactly as the glide path, we would have more capital than the current capital standards would suggest we would need to.

Tom MacKinnon:

So, that number has something different than your current dividend, obviously, deducted from retained earnings. Is that what you're trying to say?

Michael Bell:

So, round numbers in particular, Tom, we adjusted that 2015 average equity by \$2 billion to reflect the phenomenon that I just described.

Tom MacKinnon:

Okay, so we would work with the two billion--the difference between the beginning and the end--?

Michael Bell:

--Yes.

Now, I would point out that has a relatively small impact on the ROE. I mean, even if we sat there and held on to that--my illustrative \$2 billion placeholder, you know, if we earn 6 percent on that, that's 120 million of earnings you'd have to add to the numerator. Add the two billion to the denominator, it would take the ROE to the low 12s rather than the 13. Again, it's not a huge impact.

Tom MacKinnon:

Because--I guess the point to make, if all of these things don't happen in 2015, this--the arithmetic that you're showing here on the ROE would be higher. I mean, and you've given us--this is misleading because it assumes everything is happening in 2015. But, you're just telling us this is not--.

Michael Bell:

--Well, I wouldn't suggest this all the--I don't believe it's misleading at all. And I--it--our model is a multiyear model that grades into 2015. Again, I don't want to get into the guidance business. I'd prefer not to talk about 2012, if you will.

Tom MacKinnon:

And then--.

Michael Bell:

--As much as I appreciate your questions, we probably ought to give at least a couple other people--.

Tom MacKinnon:

--Is there any change on your interest rate assumption? What did you use on interest rates going out here, flat--?

Michael Bell:

--We--essentially flat. There are some moving parts. The interest on surplus assumption remain constant with the 2010 levels.

Donald Guloien:

Yes, I just want to be clear on one thing that Mike said. Just to reiterate it, is we have a multiyear plan. We chose to use the endpoint--.

Michael Bell:

--Yes--.

Donald Guloien:

--Of the plan is representative. But, it's a multiyear plan. And no, it doesn't all happen in 2014. And, you know, it's not the classic hockey stick either. But, we're not going to get into the guidance business so we're not going to give you the piece-by-piece, year-by-year. Otherwise we would be.

Michael Goldberg:

Thanks. That was a long question. Michael Goldberg, Desjardins Securities.

Just for the sake of consistency, how does the \$4 billion--is it the same definition that we're talking about as the seven to 800 million that you've previously talked about as normalized or which excluded the experience gains and the assumption changes? And if it is different, how is it different, and can you quantify the difference?

Michael Bell:

Sure, Michael. It's Mike.

The--first, this is our net income goal, just to be clear. So, this is the all-in goal as part of the strategic plan that we have set for management that we have reviewed with the Board. And as Donald indicated, we would expect to be held to that benchmark in terms of our performance valuation. So, it is on an all inclusive basis.

I would characterize it as--well, first, you never know--I don't know what the adjusting items are going to be. I don't know what the adjusting items are going to be in 2011, much less for 2015. Other than the investment gains that I mentioned in reference to Tom's question that we expect Warren's operation to generate and the benefit of some modest experience gains, for example, that we saw in the most recent quarter, I'm not consciously aware of other significant adjustments that would bridge between adjusted earnings from operations and net income.

But, again, there are a lot of moving parts here. So, I wouldn't--you know, when you start talking about 2015 earnings, it does assume certain long-term assumptions, which I'll talk about in the afternoon session.

Michael Goldberg:

Okay. So, is it fair to say, then, that the number is not materially different from, you know, the approach that you've been using in the past?

Michael Bell:

I would characterize it as not materially different, but the--but, again, it is, really, a net income goal, so somewhat different from the adjusted earnings from operations, which really had a separate purpose.

Michael Goldberg:

Okay. I have one other question, which is, you know, a more specific question--sort of, curiosity for Warren. You noted that the almost 10 percent cash-on-cash return that you earn in commercial real estate, unlevered--why don't you lever it on a nonrecourse basis where there seems to be, especially now, the availability of some very low-cost, long-term funding?

Warren Thomson:

We think we carry the leverage on our balance sheet in the first instant through our capital structure. We don't think it's appropriate to then layer on a second layer of leverage at the asset level. And that doesn't account for why we don't believe--where some analysis might conclude that some of our alternative assets, such as real estate, earn the riskier asset class spectrum, from our perspective they deliver positive cash flow returns, regardless of the market and without concern around having the asset go underwater due to leverage in an economic downturn. Going back to the early 90s real estate downturn by way of example, I think our lowest cash yield was in the order of 4 percent at that time. So, the reality is not having leverage on a real estate portfolio really turns into a very stable cash flowing asset class.

Anthony Ostler:

Great. So, our last question before lunch will be Jamie Keating. So--he's up here at the front if we can get a microphone for him. And then, we have--we'll have a question-and-answer period this afternoon as well, so if there's other questions, we'll catch them then. Thank you.

Jamie Keating, Portfolio Manager, McLean Budden: T

Thank you, Anthony. Jamie Keating, McLean Budden. I have questions for Bob, if I may. I'm struck by the--by, Bob, your depiction of the stability of the competitive environment in Asia--and not challenging it. I mean, just--I just want more color, I guess, on all the change that's taken place with, if you will, extra national players that have come and gone in Asia. And curious about what that's done to pricing and if that is at odds with the way you were depicting it or whether you're seeing a longer-term view? Can you just give me a little color on what the competitive environment is on the pricing?

Bob Cook:

Yes, I think if we could spend the entire day discussing the competitive landscape in Asia. It certainly is probably more complicated than I could explain in two slides. My point was simply to make the--to--you know, looking at the history and looking forward to the future. I think that there are a small number of multinational players who have consistently been able to perform over time. And I think in terms of your question on the impact on pricing, I think our--you know, our view on that is that's actually helpful to the prognosis for pricing because, you know, a stable set of, you know, large responsible competitors tends to lead to, you know, more rational pricing and less downward pressure on margins. You know, if we were talking about a much longer-term planning horizon, you know, I would certainly have to agree that, you know, margins in Asia, you know, 10 years from now are probably going to be less than they are now. But, in the planning horizon we're talking about, I think, you know, we will benefit from having, you know, rational competitors who, you know, will price with the same kind of discipline that we do going forward.

Anthony Ostler:

Great. Well, thank you, Bob. And thank--Jamie, does that answer everything you need? Okay, thank you. So, that brings us to lunch. And our lunch is going to be held across the hall in the Holmes-Gooderham room, which is where breakfast was. We will be reconvening at 1:15, so that we can stick to our schedule for our 2:00 pm finish. And we look forward to more questions this afternoon. Thank you.

Anthony Ostler:

Welcome back, everyone. I hope you enjoyed lunch and had an opportunity to meet and speak with our executives. On behalf of the speakers that follow I wish, again, to note that they will 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--assumptions applied and about the material factors that may cause actual results to differ, please consult the slide presentation for this day and webcast available on our website, as well as the securities filings referred to in the slide entitled Caution Regarding Forward-Looking Statements. I would also like to refer you to Note to User slide that sets out our performance in non-GAAP measures used in today's presentations. With that, I'd now like to hand you back to Michael Bell, Senior Executive--sorry, Senior Executive Vice President and Chief Financial Officer. Mike?

Michael Bell:

Thank you, Anthony.

Hello again, everyone. I trust that you found this morning informative. I also hope you enjoyed the lunch. And I personally enjoyed the opportunity to catch up with several of you and hope we will have some time either after the session or at sometime in the near future to continue that dialog.

This afternoon I'm going to review, again, our 2015 management objectives and give a little more granularity on several of the assumptions and interpret some of the results. Again, importantly, though, I'd like to reinforce this should not be taken as guidance. This should not be interpreted as guidance. But, we do think that we've set some reasonable management objectives, specifically that being \$4 billion of annual earnings and a 13 percent ROE by the time we get out to 2015. Also, importantly, we would expect that this earnings level would come with less expected volatility than what we've had over the last couple of years. And that would be because of the improved risk profile with the hedging and the mix of business changes that we expect to make over that period.

In a couple of slides, I'll review the key drivers of our future earnings growth and ROE improvement. And I also would like to discuss several known areas of uncertainty as we look to the future as well.

So, let me start by reviewing several of our key planning assumptions. First, we have based our management objectives for 2015 on the current accounting and capital standards. In my view, that's an absolute necessity since I guarantee you no one in this room knows exactly where the accounting standards are going with IFRS. And no one has a crystal ball in terms of where OSFI will set the capital standards for Canada or even what other global regulatory regimes we might be operating in, in 2015.

We've also assumed no additional acquisitions or divestitures. We've assumed that equity market returns and interest rates are consistent with our best estimate of long-term assumptions. So, as an example, that would--generally, it's a little different by geography. But, in aggregate, that would assume that equity market returns would be approximately 10 percent a year, so 8 percent price change plus 2 percent dividends. It would assume that interest rates are reasonably close to where they are now. I mean, it's not absolutely precisely right to say that we've assumed flat interest rates. There are some nuances with the ultimate reinvestment rate that Cindy and I have talked about on prior analyst calls that come into play

here. So, we've assumed no future basis changes, which means essentially very modest uptick in interest rates in the future.

We do have this placeholder, which I'll talk about some more in a few minutes on in terms of the additional expected hedging costs. And importantly, this placeholder is relative to the hedging position that we had as of September 30th. So, it reflects the cost of additional hedges beyond what we've placed--had in place at September 30th going forward. We do expect to get some benefits of potential variable annuity required capital releases. That stems mainly in our Japan business. So, in Japan, the combination of equity markets meeting our longer-term assumptions and getting closer to the maturity date as that business matures, we expect some capital releases from that book maturing. We do believe--and if you were listening carefully to Warren's discussion, you understand why we believe this. We do believe there's some additional opportunity for favorable investment experience in the future to--better than our longer-term valuation assumptions. That will depend, of course, upon, improved economic conditions. But, we think that's--there's potential upside there. And we've assumed no net new issuance of debt or equity. Meaning that the existing debt--the modeling assumption is the existing debt is refied as it is--as it matures, but that we don't issue any new debt. We don't issue any new equity. As a result of that, earnings accumulate and our leverage ratio--our financial leverage ratio comes down and gets closer to the 25 percent long-term target by the time we get to 2015.

I'll repeat the slide that I used this morning in terms of recapping the 2015 management objectives.

Again, a reminder, this is not guidance.

Several comments here, though, at the--in terms of the key numbers. Again, that \$400 million number--just to be clear, that \$400 million number for the expected cost of the additional hedging is additional headwind, the--on an annualized basis in 2015 of \$400 million to pay for the expected cost of the additional hedges that we expect to have in place at that point in time relative to what we actually had in place in September 30th on the in-force block of business.

Again, that number has the propensity to bounce around based on how fast we hedge, the approach that we take, whether we hedge through the traditional dynamic hedging approach and hedge specific VA blocks or whether we go to this new macro hedging approach and just basically say we're going to go hold something in the surplus segment. So, again, there are a lot of different variables there, but 400 is the placeholder. And importantly, that's an annualized number, and that's an incremental number relative to what we have hedged as of September 30th.

The \$4 billion target in 2015 realistically ought to be thought of as a range. We talked about possibly putting it out as a range. But, again, given that the range also, to me, would connote possibly false precision, we said, "Look, let's put the \$4 billion out there. That is the target that we've talked to the Board about. But, we'll communicate that there's clearly a range of outcomes. There's a fan of outcomes there."

Now, we would expect that fan to be narrower than what the fan is on our currently quarterly rates because, think about it, the interest rate sensitivity--we've told you that by the end of 2014, we expect to reduce that by at a minimum of 50 percent. So, we'd expect that 2.2 billion sensitivity that we have today to be down at 1.1 billion or below. We would expect the equity market sensitivity to be less than half a billion dollars for a 10 percent equity market decline. So, we would expect the fan to be somewhat tighter. And as we talked about in the Q&A session, there is some contingency built into that number as well.

As it relates to the \$31.7 billion estimate for shareholder--common shareholder equity in 2015, a number of you had questions for me on the break on that. I would reference a couple of things. Number one, that does, in fact, include the existing accounting standards. So, it does include the hit that we will take with the opening balance sheet for IFRS in 2011. It also assumes that we would be able to deploy approximately \$2 billion of additional capital, given that if we literally let all of these earnings accumulate during the period, our MCCR, for example, would be well above our long-term targets. And given that

we would be a less risky company at that point in time, we think it's reasonable to assume that we would be able to deploy that. But, again, there's a lot of uncertainty there, a lot of uncertainty in terms of where capital rules are going. But, that is in fact the underlying planning assumption.

So, let's dig into detail in some of the specifics. I'll repeat the slide that I used this morning. By way of summary we do expect significant contribution from the growth of our high return businesses. You heard from Bob Cook, the description of the opportunity in Asia. We're very bullish on it. We feel very good about the opportunities to grow our Wealth Management businesses, excluding variable annuities, in North America. And again, that's a big driver of our earnings growth and ROE. We will have--we--I shouldn't say we will have--we certainly expect to have a significant benefit from lower new business strain. Again, the results in 2010 had been negatively impacted by the low interest rates and the high levels of new business strain. The combination of repricing these insurance products, as well as having less sales volumes for the highest strained products, we would expect to contribute to our earnings certainly by the time we get to 2015.

We do benefit, as well, from growth in fee income. We expect our assets under management to be quite a bit higher by the time we get to 2015 than where it is now. We benefit from that higher fee revenue. And importantly, because we expect less growth in our lower return businesses, that has a beneficial help on our business mix, which helps our ROE as well. And those items are partially offset by this decline in financial leverage over the planning period, and also the additional costs of the incremental hedges that we would expect to put on in that period of time as well.

Now, in summarizing the results for each of the three major divisions, for our Asia division, we expect earnings to contribute--to be \$1.4 billion US in 2015. That would represent an ROE in excess of 20 percent. Specifically, we expect significant growth for our High-Return Insurance and Wealth Management businesses. And expect that approximately three quarters of this earnings growth would be outside of Japan. So, the--good results in Japan, but significant earnings growth outside of Japan as well.

The 2011 new business plan contemplates a longer-term IRR in excess of 20 percent, which we also expect to improve our ROE over time. And as I mentioned, as the variable annuity block matures in Japan, we would expect a significant capital release relative to the required capital that we had at September 30th in that business. Switching now to the Canadian division, we expect in 2015 the Canadian business to be able to contribute a billion and a half of earnings, which would represent a 14 percent ROE. As I thought Paul did an excellent job of describing, we have a very diversified, very strong portfolio of businesses in Canada.

We specifically expect significant growth for the High Return Wealth Management businesses. We expect the Mutual Funds, Manulife Bank and Group Retirement Services businesses to more than double in terms of earnings over the planning period and contribute a significant amount to the earnings growth that's outlined on this slide. The new business plan in Canada contemplates an aggregate IRR--excuse me, IRR in excess--easy for me to say--IRR in excess of 14 percent in 2011. And again, that helps boost the ROE over time as well. And for completeness, we expect additional expected earnings growth, as well as top line growth in the Individual Life, Group Benefits, Affinity, and also VA business in Canada.

In terms of the US, we expect that the US operation would be able to contribute a billion six of earnings in 2015, which would represent an 11 percent ROE and an improvement relative to the ROE on a rolling 12-month basis that we've had recently. We expect the planned growth in our Retirement and Mutual Fund businesses, as well as higher expected earnings in the Life Insurance and LTC businesses to contribute to the significant earnings growth.

The new business plan for the US in 2011 also contemplates an IRR in excess of 14 percent. Again, higher than the products that we've written over the last several years and useful in terms of improving the overall ROE for this business over time. And we also expect--for completeness we expect the amortization of the DAC to lessen as the VA book matures. That gives us some earnings lift in addition to the other major factors.

The last topic that I want to cover is the topic of known areas of uncertainty. And again, this, very importantly, is why this should not be viewed as guidance. There are a number of factors that are known unknowns as it relates to our 2015 outlook. Now, the first and the most obvious one are the market and investment risks. Now, we don't completely control that. Obviously, through the hedging program we would expect to reduce that risk over time. But, as we sit right now we obviously are--continue to be exposed to changes in equity markets and interest rates.

In terms of the investment risk, we're very, very proud of Warren and Scott's organization's investment discipline. We would expect that to continue, but obviously there are investment risks out there in the market that are known areas of uncertainty. We also recognize that there are potential accounting changes, you know, that are well beyond the IFRS Phase 1 rules that we know about. We know that IFRS Phase 2 is a clear known unknown. It has the potential to be very negative for our entire industry. It would be--could be particularly onerous for long-duration guaranteed products. But again, none of us know with clarity how that will play out.

As Donald mentioned this morning, there's some signs that perhaps the--there's positive momentum against some of the changes out there that would be particularly onerous to our industry. But, that's an area where we'll know a lot more over the next couple of years. The regulatory and capital regime, that's also subject to change over the next several years. We know that our friends at OSFI are reviewing a number of different standards. So, again, exactly how those will play out, that's a known unknown. And then, the timing and approach to our expanded hedging is another variable where we have a--I think a reasonable placeholder in place, but it's another variable where certainly actual results will likely differ from that placeholder. Also, for completeness, I would ask you to make sure that you review our public disclosures for a complete description of our risk profile and some of the actions that we take to attempt to mitigate those risks.

So, by way of summary, what I hope you heard today is that we are confident, we are on a path to stronger fundamental results with less expected volatility in the future, that we do have strong businesses in each of our major geographies. Those strong businesses are bolstered by globally recognized brands, Manulife and John Hancock. And we do have a strategic plan to drive a favorable shift in our mix of business by leveraging our strong market position and our strong brand. And we're confident we've got good opportunities out there to increase our ROE, to grow our earnings and reduce our risk profile. We need to execute on them effectively, but we're confident the opportunities are out there.

And I hope very much that these additional financial disclosures today will help support the sum-of-the-parts valuation that I know a number of you have been asking me about for the 16 months that I've been in this job. Again, this is not the final chapter in terms of our disclosures. I am committed to further expansions in our transparency over time. But, hopefully this was a useful step for you. So, in total, we believe we have a strong opportunity to increase shareholder value.

Thank you very much, and I look forward to taking your questions after Donald gives his final comments.

Donald Guloien:

Thank you, Mike.

Ladies and gentlemen, I intend to be brief. I couldn't say I always meet that objective, but I'll try to.

To rephrase, again, we are very optimistic about the Company's future. I'd sound more optimistic, but I had a flu shot last night that my arm reacted to. And, anyway, so I'm feeling a little doped up today. But, the fact is, I'm very optimistic about our future.

Our strengths are obvious. We have a very strong capital position, and we're going to do what it takes to maintain that strong capital position. We have an enviable market position in Asia. I think that's obvious in those who've watched Bob Cook's presentations, either today or other times, and watch what we do there, but also in retirement segments around the world and other growth markets.

We have excellent brand recognition and reputation, superior asset quality, and, of course, we're augmenting that reputation through our branding exercises. Superior asset quality, a quality team, strong financial strength ratings, and, again, we intend to keep those in significant scale.

The way forward, in summary, we've talked about over and over again. I think people are probably getting tired of hearing the message, but it's all in the execution, now. We are very well positioned for growth, and you can see that happening in our interim results, and we'll continue that. Addressing our challenges head on, improving the risk profile, narrowing the fan of outcomes over the four-year planning horizon—or five-year planning horizon significantly. Capitalizing on accelerated growth momentum in Asia, obvious things. A strong diversified financial services company in Canada. Focused transformation well underway and showing early returns. You know, I—before I was going to commit any trajectory, I wanted a little bit of proof of concept. And the last couple of years have been proof of concept. You know, it's not like these changes started last week or after the second quarter. These changes have been underway for well over two years now. And we have the proof of concept that it's starting to work.

Core competency in asset and wealth management will be further leveraged through MFC Global Investment Management, soon to be renamed Manulife Asset Management. Tangible performance objectives with compensation linked to accountability. And I'm a practical guy. I was also not going to stand before you and put—talk about a vector of earnings until, you know, I had the commitment of the management team.

Our compensation for the entire management team, as well as the people who report to them, will be five major factors. The first is—and I think most important to you, is achieving those earnings objectives, both short and long-term, leading to achievement of that five-year plan. So, we intend to—I can't presuppose what the Board would do, but the recommendation that we have for the Board is to take a look at the earnings vector over the next five years, incorporate that into our PSU targets. And, you know, on the

annual basis, you know, I think as stock markets go up and down and hurt our earnings and--you know, we don't necessarily want Bob Cook to leave the Company, but if he's doing--proving on his objectives--so, one of the things we'll look at is some adjustment for--possibly for equity markets and interest rates in the short-term.

But, it'll also have a very, very significant component of the compensation plan geared on getting the equity and interest rate risk hedged and the fan of outcomes attenuated because I don't think any investor in Manulife wants us to be talking four years from now or five years from now about earnings getting buffered around by quarterly movements in equity markets. So, there'll be a huge emphasis on that. We want to maintain the health of our franchises in terms of executing on the strategy. Again, we'd be the first to admit that we can't control what interest rates or equity markets are going to do in the next quarter, but we can control the growth of our businesses and the movement of the businesses into a more stable and reliable framework and a higher ROE framework.

We want to reduce risk. I talked about that before. That is a very significant component of our business strategy. It will be a very significant component of our compensation plan, whether measured by the MCCSR capital measure we have, but also by execution of our hedging activities. We want to maintain strong capital levels. That is a sine qua non for Manulife. You know, we take it as a great obligation the fact that we handle people's most important financial decisions over a long period of time and often for a multiple generation wealth transfer. And so, that means that financial strength can't be a passing fad, something you do, you know, for part of a decade, and then not for a part of a decade. We have to make sure that we are able to deliver that right through the piece. And improving the stock price, we all have a huge interest in that. And I feel particularly beholden to the investors that invested at 19 bucks a couple of times and, you know, helped us recapitalize the Company. And I want to make sure you get your money back and a very, very handsome return on that. And I understand that I am more in a deficit position relative to meeting that obligation than before with the stock price at 15. So, we'll get you the stock price you need over the planning horizon.

So, with that, I'll open it up to questions and answers.

Afternoon Q&A Session

Anthony Ostler:

Yes, and the--actually, the first question's going to be Mario Mendonca for Canaccord Genuity. And then, we'll get to the rest. We'll--we have--we'll go overtime if required, okay? So, thank you.

Mario Mendonca, *Equity Research Analyst. Canaccord Genuity.*

Thank you.

A few questions. First, Michael, you addressed this one--you tried to address it early on. The goal is--or the cost is 400 million in 2015. You're 150 of the way through that already.

Michael Bell:

Yes.

Mario Mendonca:

The math leaves you 250. Divided by five, that's 50 million a year. So, you've gone through 150 in a few weeks, but you're talking about 50 million a year over the next five years. The point I'm making is, the 50 million a year seems awfully small in the context of the 150 you just used up now. Now, I appreciate that there is an element of higher equity markets reducing the cost, but am I reading this right? Does 50 sound right to you in terms of such a small amount going forward?

Michael Bell:

Yes, Mario. I'll start and I'll ask Bev or Cindy or Donald, for that matter, to add. The--you've got it exactly right. The--it is going to be heavily dependent upon what equity markets do. So, let me give a good news scenario, and then a negative scenario. On the good news side, if in fact we had a significant run up in equity markets, we would have the ability to reach our earnings sensitivity targets faster with a smaller amount of futures hedged because the--if equity markets increased significantly, our unhedged equity market sensitivity would come down naturally. And therefore, to hit the lower equity markets sensitivity, we'd get some benefit just from markets increasing. So, that would be one scenario where it would be, in fact, something less than the 400 million.

In addition, if we could get a pop in interest rates at some point over the next couple of years, in all likelihood we would take that opportunity to migrate the hedging program from the macro program over to the, you know, targeted dynamically rebalanced traditional hedging program because we could do that because we would be swapping the total equity return for swap rates in the scenario that I'm illustrating would be much higher. We could do that with a lower impact.

On the negative side, even if we went out and hedged a lot under the macro hedging program this year or next, if markets then tanked, God forbid, in 2012 or 2013 rapidly, we would have to put significantly more futures in place on a macro hedging basis to achieve those sensitivity targets. And therefore, the impact in 2015, if they stayed down, would be greater than the 400 million in all likelihood.

So, there are a lot of different factors. Bev's base case scenario, which again, is based on the 10 percent a year equity market returns and hitting the equity market sensitivity reductions that we've outlined on a time-based basis, would, in fact, produce a number in the magnitude of 250 million in 2015. But, there are so many different scenarios here that this is not one we can put a pin in. It's one we're going to have to talk about probably each quarter for the next couple of years.

Mario Mendonca:

So, does the 400 million include the 10 percent market performance? Is that essentially the embedded assumption on equity markets?

Michael Bell:

Somewhat more conservative than that. Again, if you literally did the 10 percent equity market return and hedged, in some sense, sort of, just in time to hit the triggers, it would be more like the 250. If, in fact, we end up being somewhat faster to hedge or get a little less benefit from the equity market, the performance, it would be more like the 400. And again, it could be worse.

Mario Mendonca:

Okay. And from a different--a more positive perspective, if you look at the last, say, eight quarters, Manulife's either had to deal with very low interest rates declining or equity markets declining, and sometimes both at the same time, and a low MCCR. So, it's been no easy thing to cope with. But, you're now faced with a different situation altogether this quarter. Markets are up significantly and despite QE2, interest rates have rallied at the long end.

Michael Bell:

Yeah.

Mario Mendonca:

And you have an MCCR of 230-something. So, you suddenly have an entirely different decision tree here and what I'm getting at is, are you more likely to let all of that fall into the MCCR and have it go to 250-plus or are you going to do something with the excess reserve, if you will, that maybe hastens the goals and has you achieve the goals sooner? What's the mindset of the Company? Perhaps that's a Donald question.

Donald Guloien:

Well, you know, the PR guys would tell you it never--you know, in my role, you never speculate on a hypothetical. It is a much improved position, you're absolutely right there. And we have a number of options. You know, what we're going to take is a balanced approach. We've tried to be very clear with people. I mean, you're quite right. I mean, in that kind of posture if you hedge more, you reduce the volatility, your costs of hedging go down. I mean, that's the biggest thing I would emphasize, and I think you've got it, Mario. But, I want to make sure that everybody does.

When Mario talked about that cost is already locked in, you know, the 250 based on what we hedged, that cost goes down as equity markets go up because we don't have to have as much of the futures on, we can roll them off. And as Mike quite correctly pointed out, if it goes the other way it becomes more onerous and so on. But, you know, with that posture, we have a number of options. And I think the bias would be to strengthen the capital position because as markets go up, you know, they can go down the very next day.

I like--you know, as I've said many times, I tend to be optimistic, but have to prepare the Company for a wide range of outcomes. I think, you know, there's people in the room who thought that our equity raise, you know, last December was, you know, unnecessary and uncalled for. And I never predicted what happened, but it sure came in handy. You know, that wasn't foresight or prescience on my part. That was sheer dumb luck. But, it's, again, a good thing that we did it.

You know, the fact is, we don't know. So, we have to prepare ourselves for a wider range of outcomes than what you or I think is reasonable. So, some portion of that would flow to higher capital levels because, you know--some of that would flow logically to increase hedging. As markets go up, no secret, our behavior will be to hedge more. And, you know, my hope would be that--you know, precisely for the things that you mentioned. The long end of the curve is coming up, which has the logical people concerned about the long-term inflationary effects of quantitative easing.

You know, the economy is going to get better. It's a question of when. And that would be reflected in the equity markets. And if I was a betting man, we would be able to hedge a lot faster than as what is indicated here at lower costs than what is indicated here. But, what we've given you is a reasonable approximation of what would be realistic to expect under a--.

Mario Mendonca:

--And to--just to be clear, your predisposition is to strengthen the capital as opposed to do something special on the hedging side?

Donald Guloien:

To do both. To do both. And it really depends at the time. I mean, you know, we've changed our hedging strategy--this is--we're not trying to avoid answering the question, but it all depends on the circumstances. You know, we've changed from, you know, exclusively dynamic hedging. And when interest rates became an issue with dynamic hedging, now we switch to macro hedging. You know, we're not closing our mind to other approaches that could, you know, evidence themselves.

So, you know, it depends. If I could find a very low cost way of hedging and putting all of this behind us, we--you can be sure that we would do it. You know, the fact of the matter is, I think we've handled this incredibly responsibly. You know, again, a lot of advice from people was to hedge out, you know, shortly after I took the job. And let me remind people in the room, equity markets are approximately 70 percent higher than they were back then.

So, you can imagine, you know, what the shadow cost would have been of taking that advice. It would have been very convenient for the management team here. But, it would have been a terrible thing to do for shareholders' interest. Now, the market is up that high, it just run, you know, 20 percent in the last couple of months. More hedging activity is going to take place. And it'll be a balance, Mario. And I--.

Mario Mendonca:

--Sure--.

Donald Guloien:

--And I can't tell you--I also don't know--Mike has repeated so many times, you know, the posture is for OSFI. I mean, you know, we really don't know--I mean, some people in the room would like us to give the answer, "Oh, we'll increase dividends." Well, you know, we don't know what the capital standards are going to be. And, you know, when there's more clarity around all those things and we really know what the markets did rather than speculating on the hypothetical we can answer the question more fully.

Mario Mendonca:

And then, just one final question. How much of your long-term comp would be based on beating that 13 percent objective in 2015?

Donald Guloien:

Well, it hasn't been determined yet. The Board hasn't--you know, the Board is not obligated to use that plan. They can use a--you know, they can say we want you to get there six months earlier than what's suggested. And, you know, that we will go through with our Board. But, you can--I guess what I want people to know is that the management team is prepared to commit to those numbers and have that comp ride on it.

Anthony Ostler:

Okay. So, the next question--we've got a question from Darko Mihelic. Right there, thank you.

Darko Mihelic, *Equity Research Analyst, Cormark Securities:*

Hi, thank you. It's Darko from Cormark.

Just a couple of questions, Mike, with respect to your objectives. I guess one of the ways you can have a higher ROE in Asia is to not allocate enough equity to it. When I look at the changes in equity from where you are today to where we get to by 2015 it's the smallest increase--.

Michael Bell:

--Yes--.

Darko Mihelic:

--Of all. In fact, it's less than 10 percent. I would have thought that something with such a high growth rate would actually attract more capital. So, I wonder if you could just talk to--and it must be the Japan [inaudible] numbers, seeing as they're--.

Michael Bell:

--Yeah--.

Darko Mihelic:

--Generous capital coming in, but why not--why are they not being held in Asia?

Michael Bell:

Sure. So, we'll walk you through the mechanics of it first, and then talk about the likely business trajectory that we'll go towards Darko.

First, in terms of the mechanics, we have modeled our long-term equity assumptions over the next several years for each of our businesses. In Japan in particular, that modeling would suggest that we would have a release a little bit more than \$0.5 billion of required capital would get released between now and 2015 as the equity markets improve and as the Japan maturity benefit policies get closer to their ultimate maturity date. If you think about it, the required capital is based on, you know, tail CTEs. But,

those tail events get less severe the closer we get to the maturity date because there's just less of a period for things to go awry. So, therefore mechanically there's about \$0.5 billion less required equity in the Japan VA book for that period.

Now, if you took that out, the equity would be something like 20 percent higher in Asia in 2015 versus now. And some of you have pointed out that, "Boy, that seems light given the growth opportunities there." A couple things. Number one, what we've modeled is for, essentially, the capital investments that Bob and Bob's management team in Asia have asked for at this point in time. You know, this is going to be the growth in our business. This is where we need to invest in additional distribution relationships, etc. I think it's fair to say, and I don't want to bid against myself here in terms of capital allocation decisions, but the--I think it's fair to say that Donald and I would likely be open minded to allocating more capital than what's in the model right now if there were incremental opportunities to invest that money and get better than a 20 percent return than what's currently out there. But, what's out there right now is, in fact, consistent with the Asia business plan.

The other point that I would make is that our philosophy in terms of capital management is to say once earnings are created, those earnings then become corporate resource and are available to be reinvested in any given business opportunity. And therefore, the earnings that Asia makes don't--doesn't stay in Asia. They're earned. They're available for a broad range of purposes.

I think it's fair to say in answer to Tom's question earlier this morning, the \$2 billion placeholder that we have on this, you know, sort of, capital, above what we think a reasonable long-term target would be, in all likelihood that kind of \$2 billion in the current trajectory probably would find its way to being invested in Asia, whether it be in acquisition opportunities or further growth rates. But, because we don't have a tangible plan on the table it seemed very imprudent to, you know, just arbitrarily add that in.

Darko Mihelic:

Thank you. And the second follow-up question with respect to the US division on page nine of your--one of the things that you look for is higher expected earnings in US life and long-term care. We don't have a slide in here that talks about long-term care. So, I wondered--.

Michael Bell:

--Sure--.

Darko Mihelic:

--If you can just--why should we expect to see better returns out of long-term care?

Michael Bell:

Sure. It's--and, in fact, Darko, it's the same answer for both life insurance and long-term care. So, let me address both of those in combination.

Number one, we have suffered from significant new business strain, as well as some adverse policyholder results over the last several years. So, if you look at that rolling four quarters, we've got a significant amount of new business strain in there from life and LTC, as well as, you know, negative morbidity experience for LTC, negative lapse experience for--actually, I think the lapse experience may have been closer to zero. But, there were periods in there certainly where the lapse experience of LTC was unfavorable. And some, in particular, significant new business strain for life insurance. With the price increases that we've put into effect for both of those businesses, number one, we expect substantially better new business strain results going forward than what we've had in that rolling four-quarter period.

Number two, based on the repriced products and the different mix of business, we expect the new business that we're writing, you know, today, 2011, 2012 to be generating much more in earnings in 2015 than what some of the prior issue years have been able to generate, you know, three, four years out. In

other words, the earnings pattern is much more frontloaded on a CGAAP basis than what it's been in the past. And third, we do get natural growth in life and LTC because of the recurring premiums in the renewal book.

So, for all of those reasons we believe that significant earnings growth is in our future for both life and LTC. Although, again, admittedly, the LTC sales volumes will be quite a bit lower--or expect to be quite a bit lower. And the life sales mix will look very different. As you heard from Jim Boyle's presentation, the life sales will be much less weighted towards universal life with no-lapse guarantee and much more weighted towards products that will give us more earnings in those years, and also have less interest rate risk.

Darko Mihelic:

And I--if I could just squeeze one more in. One of the things that caught my eye in the last quarter was--and I want to talk now about--specifically about one of the known unknowns--.

Michael Bell:

--Yes--.

Darko Mihelic:

--Which is the potential for OSFI to increase seg fund reserve calculations.

Michael Bell:

Sure.

Darko Mihelic:

One of the things that you pointed out was of concern was that there was a potential that OSFI would place higher capital requirements on those policies that have a trigger--sort of triggers that would go beyond 2011 and any new deposits and existing policies that come in after 2011--or January 2011.

Are you prepared to talk about how much of that book has those features and what the potential impact could possibly be at this stage?

Michael Bell:

Darko, I don't think it would be terribly productive to go through that now. It's a very technical discussion. And I think there are probably broader issues that are more useful to spend our time on today. In addition, there's so much uncertainty in terms of exactly how the rules are going to play out. I mean, as an industry we're working with OSFI to get clarification on it. We believe that the intent of the new capital standards would be to focus it on new business that was written in 2011, not some of the nuances that you're identifying as real gray areas. And our intention would be to get OSFI to clarify that that is, in fact, the intent. And then, to tighten the rules on what in-force business--we think it really ought to be very minimal. I mean, I--we believe it's capricious to change the rules after the fact for business that was written under the rules at that point in time.

Donald Guloien:

Yeah, this is not--let me jump in here. Not that Mike's answer isn't perfectly adequate, but I guess I'd want to make another point--is, you know, we're not a bank. Banks have, you know, liabilities that extend at the long end for five years, on average two and a half years. If you change the capital rules, you know, they deal with it. And especially if there's a two year phase-in there's hardly any impact, right, because you've got two years to phase in. You know, the liabilities are rolling off. It's not a big impact. We write these things for 40 years, 40-year obligations and it can be longer. But, you know, that's a reasonable representation of the time horizon.

As Mike said, it's sort of capricious to have one capital standard and determine it's adequate, and then, you know, when you're 10 years into a 40-year journey say, "Well, guess what? The standard's going to be a lot higher." And I applaud OSFI for the approach that they took of putting a higher capital standard

on new business, which is entirely sensible if you think as a regulator of the risk associated with the higher.

And, you know, recalibrating equity risk, which was reflected in the third quarter, that's also a responsible thing to do if you think equity risk is really higher than the calibration. You know, companies should reflect that. But, to change the standard totally as it applies to in-force business when, you know, companies have it for the next 30 years and wrote it under one capital standard and say, "Guess what? We got it wrong. We want a totally different standard," is a very difficult thing for companies to deal with.

And we think, so far, OSFI dealt with it appropriately. I don't think there's any intention, you know, to change the rules totally. And, you know, they put out an exposure draft that talks about, "Well, what about business?" And I can see the point. If you had a dollar of business and somebody added \$10 to it and it became a totally--like a new policy, should that be more like a new policy? Sure, I would concede that.

But, if somebody makes a minor addition to an existing policy, surely we don't put--subject it to a new capital standard. That would be a sneaky way of basically increasing the capital standard. And we don't think that's OSFI's way of regulating things. They tend to be a pretty good regulator. So, I--you know, I can't see that in, you know--and if that is the intent or that OSFI would stand behind something like that, you know, changing the rules through the back door as it were. That's not the way they tend to operate. Do they want more conservative standards overall? Sure. And, you know, have they sent out a very important signal on the new business? Sure. And those are appropriate things for a regulator to do. But, you know, knowing full well that we write contracts over a 40-year duration, to change the rules, you know, right in the process, you know, is a very awkward thing to do. In fact, you know, it would put Canadian companies in a much weaker position than they would elsewhere because that's not happening in the United States. It's not happening in other jurisdictions. It would be highly unusual behavior. And that's why I think, you know, in addition to the technical arguments that Mike has, which are very, very

strong for not getting into it--and it quickly does get very technical. You've got to deal with the macro picture and say, "Would that be a sensible approach to regulation?"

You know, the other point I'd raise is OSFI has made very clear that they're looking at giving credit for hedging. Now, there's no promise to how much of a credit. But, you know, we've hedged, you know, on a dynamic hedging basis, 52 percent hedged or reinsured a block of 53. I--you know, I don't know how to convert the macro hedging into the equivalent, but it's a very significant reduction in risk. We get no direct cap--you know, reduction in capital--required capital for that. In other jurisdictions you get a direct offset. So, you know, it would be--I don't know if the word is capricious, but it would be a really, really conservative philosophy to increase the capital standards on the in-force business after it was written on one basis, fully agreed to, to not give credit for hedging. And we're hedging, you know, at a very vigorous pace. To not give any credit at all for hedging on the other hand, I mean, to me that's setting up for a structure where companies will be laden with so much capital that they will be--difficult for them to do a good job for the shareholders and have a significant impact on the competitiveness with the Canadian industry. And I don't think that's likely to happen.

Darko Mihelic:

Thank you.

Anthony Ostler:

Thanks, Donald.

So, it's now two o'clock, but we're going to go for another 15 minutes or so because there's a number of questions on the runway. We've got the next one over here. Andre-Philippe?

Andre-Philippe Hardy, Equity Research Analyst, RBC Capital Markets:

Thank you. Two questions. First, on the earnings objectives, the earnings objectives for Asia imply a CAGR that's in the single digit, if my math is right, which is really surprising. I'd expect a higher number. And it's only slightly better than Canada. So, maybe it's a starting point, but that's my first question.

The second one is probably for Jim Boyle. You've highlighted four products, and you've highlighted them before where there is a need for redesigning and repricing. How far along the way are you? How much of the impact is already in your sales and strain? And how much more impact do you expect for those four products?

Michael Bell:

I'll start, Andre, on the first one. Bob, by all means, or Cindy, please add. The--we have--Asia--the pattern is a couple of things, Andre, including what you described. Number one, we have modeled in there that a significant investment over the period, for example, in expanded distribution. So, we're very much cognizant that to win in Asia, we're not trying to win just for 2015, we're trying to win for the long-term. So, that is depressing the CAGR.

Number two, the starting point is a little bit odd. Again, we chose to be very mechanical and take the last four quarters. But, as an example, that had some higher new business earnings in there for Japan that I do not believe is really an appropriate run rate. But, again, we just wanted to be mechanical in terms of how we started. I think it's fair to say that since we expect three quarters of the growth in Asia to come outside of Japan, that the CAGR outside of Japan is very high and very attractive despite the fact that there are significant investment dollars in there. And Japan is a little different animal in there. Again, still reasonable earnings growth in Japan, but we are in the process of weaning Japan away from the Variable Annuity business, which has been a good profit engine for us, and instead, shifting over to insurance products in particular where the earnings emergence is more in the future than day one.

So, again, there is, sort of, some funkiness going on with the arithmetic there.

Bob, by all means, please--okay.

Jim Boyle:

Andre, I assume you're speaking of the Life business?

Andre-Philippe Hardy:

Yeah, the individual life, the VAs, the long-term care, and the book value fixed deferred annuities.

Jim Boyle:

Oh, so all of them. Okay. So, your question, to repeat it back, was where are we at in the product development cycle with new products and where are we at with raising prices?

Andre-Philippe Hardy:

Yeah, or more--if you can express it in a way that helps us understand--like, obviously, your sales are already down on variable annuities. The strain would already be down in the no-lapse guarantee UL. How much more do you expect in terms of financial results?

Jim Boyle:

Yeah, I think that we've done a very effective job of resizing our businesses such that our expenses are in line with our sales forecasts, okay? So, when you look at strain from an expense standpoint, we've done the work we've needed to do there.

We've raised prices as interest rates have dropped. So, to the extent interest rates continue to drop, we'll have to do more. But, in the event they're stable, you know, the work that needed to be done has been done.

In the variable annuity side, you know, we've de-risked that product. You know, we've resized the business, and, you know, we have very modest sales goals there. So, I wouldn't expect to see too many changes on that front because I don't think that market will rationalize, you know, rapidly in the next two years.

Long-term care is a bit of a different story, obviously, because of the in-force rate increase. You know, next year for us is going to be a year of, you know, not focusing on new sales in that business as much as it is focusing on our in-force clients and helping them through that rate increase. We raise prices, again, because of lower interest rates on the new business in July. We'll do that again at the first of the year.

You know, from a relative pricing perspective, you know, we like where we sit in the marketplace. We like the risk profile today. We wouldn't expect to sell nearly as much next year as we're selling this year because we're probably at least 25 percent higher than the market on new business pricing there.

Anthony Ostler:

Thanks, Jim.

So, the next question over here is Steve Theriault. Over here--right here. Right there.

Steve Theriault, Equity Research Analyst, Bank of America Merrill Lynch:

Thank you. Steve Theriault from Bank of America-Merrill Lynch. The first question, I just want to come back to the long-term care side. Recently one of your--well, a few competitors announced exit from the long-term care business, so--you touched a bit on this, but a couple of questions.

Could you get even more aggressive in terms--more aggressive in terms of pricing new business now with potentially more business coming your way? And I understand that offering the product gives you negotiating leverage to an extent, but why not fully exit long-term care?

Jim Boyle:

Okay, I'll start. And Donald and Mike, if you want to join in, please do. You know, as it relates to raising prices, you know, the reality is I do think that it's not going to be so much about raising prices in long-term care. It's going to be about completely redesigning that product in the marketplace. And, you know, I would tell you we were at a distribution conference with our long-term care folks last Monday. And as you can imagine, they were a little disappointed having to deal with their clients--anticipating having to deal with their clients on the in-force rate increase, really struggling with understanding the economics behind the decision. It was, you know, as you could guess, a fairly tense meeting.

Tuesday, one of our competitors announced they were out of the business. By Wednesday those distributors were incredibly engaged in working with us to design products that fit our risk tolerances. It would be very different than the products that are in the marketplace today, likely different commission structures, different risk sharing characteristics, certainly different capital. So, for us, you know, next year it's not going to be as much about sales. We will be sort of redefining the product and believe we have a leadership position in this marketplace where we can come up with something very different. But, that won't be a first quarter or a second quarter type of item. That will be longer-term.

Steve Theriault:

All right.

Donald Guloien:

Nothing I can add to that answer.

Anthony Ostler:

Great. So, the next person is Doug Young.

Doug Young, Equity Research Analyst, TD Newcrest:

Hi. Doug Young from TD.

Mike, I guess just the first question on the MCCSR that you're assuming in 2015 with the two billion out.

Can you give us a little bit more clarity in why you're comfortable with that level?

Michael Bell:

Sure. Doug, that's a very important question. And, once again, this is another item where we had to a placeholder assumption into the model. And basically, that placeholder assumption was modestly higher than our actual capital levels at September 30th. So, in effect, a somewhat higher MLI MCCSR than the 234 we were at in September 30th. But, the reality, though, is that there are a number of factors that will come into play on what the right level is. So, again, I'll try to give you a balanced answer here. Number one, I would actually argue that by the time we get out to 2015, our MCCSR levels will be not really apples-to-apples to our current MCCSR level because our risk profile we would expect to be significantly improved.

So, I would argue--just to give you an illustrative heads or tails, I would rather have an MCCSR, for arguments sake, of something in the 220s and have fully met our hedging targets for interest rates and equity markets as compared to at September 30th being at 234 and having the open positions that we had for both equity markets and interest rates. So, I don't think it's so much the number as much as how much cushion does that gives us, including the difference in the business mix and including the expanded hedging program.

So, I would argue that on the one hand, perhaps the placeholder assumption that we have was conservative because a number--you know, even at 234 would be really fundamentally more of a cushion

than where we were at September 30th. On the flipside, as Donald reinforced a couple minutes ago, no one knows where the capital standards are going. And certainly, by the time we get out to 2015 we may be living in a very different world there.

And so, as a result, it did not make sense to me to model something greater than \$2 billion coming out of our average equity for 2015. And hence, that's where we drew the line on this arbitrary placeholder.

Anthony Ostler:

Okay. Then we have a question over here or did--Doug, did you have a follow-up? Sorry.

Doug Young:

Yeah, just a quick one, actually. Just on--have you had any discussions with the rating agencies lately? And any views on that front? Thanks.

Michael Bell:

Yeah, now I've got close personal friends here. The--yes, we have ongoing discussions, Doug, as you can imagine, with all of the rating agencies. The ratings are very important to us, not just in terms of how we financially manage the company, but how we protect the brand out in the marketplace.

I mean, we're very proud of our John Hancock and Manulife brands. They connote financial strength to people, and therefore it's very important for us to have strong financial strength ratings from S&P and Moody's, as well as the others. So, the--yeah, so we have ongoing dialogue. Again, I suspect that S&P will draw their conclusions on the negative credit watch that we're on today probably in the next 30 or 45 days or so. No guarantee of that. And I don't want to put words in Robert's mouth. But, the--we would expect that to be resolved.

And again, we believe we have a strong case for maintaining the current ratings. But, you know, that's not ours in the final decision.

Anthony Ostler:

Thanks. So, we have a question over here in the--.

Robert Sedran, Equity Research Analyst, CIBC World Markets:

Hi, it's Rob Sedran from CIBC.

Just a couple of quick ones, and one is just a follow-up. We've--you've talked about the uncertainty still around capital and--or the capital standards and accounting standards changing. It doesn't sound like you're overly fussed by it. Is it fair to say it's something that, you know, might take your ROE--might eat into that \$2 billion contingency rather than, say, take your ROE from a 13 target to an 11 target or something that severe?

Michael Bell:

Robert, I don't think that we can give you a bunch of comfort in that area. I mean, I just think there's too much uncertainty on the accounting regime, too much uncertainty on the capital regime. I would hope that rationality will prevail and it would be in the kind of magnitude that you're describing. But, you know, that is a hope and not a--certainly not anything close to a guarantee. These are outside--these are driven in many cases by political forces, certainly outside of our direct control. We're doing what we think is Yeoman's work to attempt to influence the debate. But, at the end of the day I don't want to give you a false comfort there. Donald, I don't know if you want to add anything.

Donald Guloien:

Yes, I mean, we heavily debated, but we figured that you guys would think we were hiding something, but--to not have the ROE in it at all because--and it really is interesting. You know, a lot of the discussion

around the table, "Is it, you know, too conservative? Can we add on 70 points or something like that?" And trust me. You should not, you know, with orders of magnitude. There's so much uncertainty. Let me give you a--you know, the solvency, too, you know, the European development with a head of steam, was going in a very conservative direction. The EUs had a good look at it and under the guise of saying it's way too complex is also saying it's going way too conservative and is pulling back. And the United States capital standards have been lightened up rather than strengthened over the most recent history.

You know, Canada is going in a different direction. I mean, the--you know, it's pretty fair that the direction here is that if you make capital standards more tough, you know, that's not an irresponsible direction for a regulator to take. But, you know, it's unfair to ask us to speculate how far that will go. You know, I think the behavior that I observed is actually quite reasonable. And, you know, the direction is set and, you know, OSFI has some views on products that are risky and has taken appropriate action. But, you know, I don't see any evidence that they're trying to put companies out of business.

So, you know, I can't imagine there'd be any need for capital actions that would take a 13 percent down to an eight or a 10. But, we can't promise that. We aren't in control of that we're not going to pretend to promise it, and we should avoid at all cost, and Mike's done a great job of doing that, of trying to bracket it because we have zero control over that effort.

All I can tell you is that the--you know, what seems to be going on in other parts of the world is, you know, a move to lightening capital standards for a whole bunch of reasons. Number one, because they recognize that, you know, life insurance companies--and AIG was an exception. It was nothing to do with their life insurance business--are not a systemic risk. The largest life insurance--are not a systemic risk to the global economy.

Number two, because the way we compartmentalize our operations to those that are global companies, it is unlikely that a problem in one jurisdiction is going to roll into a systemic risk in others. And that is more than a theory. That's been tested over and over again.

And last, but not least, life insurance companies, if they're allowed to maintain a long-term posture towards investing and dealing with their customer needs, they're actually a very stabilizing influence in a macroeconomic sense. You know, so central bankers like life insurance companies for the stabilizing influence.

You know, we were out there lending money, financing wind farms, doing all of the right things, right-- during the worst part of the crisis. And I think from a macroeconomic perspective, any intelligent observer would say that's a really good thing. And ideally you'd want more of that activity rather than less of that activity.

So, things that would make it more difficult for life insurance companies to meet the needs of Canadian and other consumers around the world, the long-term retirement needs, savings needs, and so on--or long-term care needs, and also limit our ability to invest long-term in the global economy would not be an intelligent posture to take. But, we don't control that.

Robert Sedran:

Okay. And just second--the second question is, you know, you--Donald, you used to talk about a target rich environment from an M&A perspective.

Donald Guloien:

Yeah.

Robert Sedran:

Has your appetite come down? Are we thinking more now in terms of in a footprint tuck-in kind of stuff or could we be sitting here in two years talking about a Europe segment?

Donald Guloien:

It could--it's a very interesting--it hinges a little bit on how some of these capital things develop more broadly, including locally. I think it could become more of a target. Not as target rich as it used to be. The--you know, there's less actionable now, quite honestly, than there was a year ago. You know, tuck-ins we're always aware of and participating in. You know, we tend to be very disciplined about that. We lose more deals than we conclude. That's a good thing. You know, I think--and frankly, Manulife's ability to take advantage of those things depends on how well we execute on this plan and how fast we get rid of some of the risks that we have. You know, it is interesting, the temperature check in this room compared to where it was at the end of the second quarter. You know, there's an attitude in this room, people asking about "When can you raise the dividend. You know, are you being too conservative on, you know, hoarding capital?"

At the end of the second quarter it was like, "Are you going to have to go do an equity raise?" And, you know, so--and frankly, not much has changed other than a couple points on the S&P. And I know that changes people's mindset. I still remember the attitude at the end of the second quarter. I remember the attitude at the end of the first quarter and the end of the third quarter. My emotions don't tend to budget much. The emotion is--have a very, very robust capital base that'll allow Manulife to deal with, you know, a reasonable fan of negative outcomes, as well as the positives, try and get the equity risk and the interest rate risk behind us as practically as possible and as quickly as possible, you know, being practical about the shareholder's interest, and to grow like heck those businesses that don't give rise to equity and interest rate sensitivities that have the greatest prospect for high ROE returns because that is something that we can control.

So, that's what the focus of the business--if we do that and execute well and have a little bit of luck, I think we'll be in a fantastic position to take advantage of all kinds of opportunities because we haven't lost our skills there. The skills are excellent, and, you know, I can't think of a deal that has gone badly for Manulife. But, you know, until we do some of those things, which is additional motivation for the management team, until we put some of these issues behind us, we are not in the best position to, you know, be doing the humongous deals.

Anthony Ostler:

All right. So, we're slowly running out of time. One--is there any one last question? Anyone else have a question here for us? We'll obviously be available after Investor Day. So, it looks like we're done. So, I want to thank everyone for your time today. It's been a fantastic interchange. And if you have any further questions, please feel free to reach out to me or Donald or Mike. Take care and have a great weekend.