

**March 29, 2011 / 9:45 am**  
**MFC Presentation at the J.P. Morgan Insurance Conference**

**MANULIFE FINANCIAL CORPORATION**  
**J.P. MORGAN INSURANCE CONFERENCE**  
**MARCH 29, 2011 – 9:45 AM**

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**Peter Levitt**, *Executive Vice President and Treasurer*

Well, good morning, everybody, I'm Peter Levitt; I'm the Executive Vice President and Treasurer of Manulife Financial. I'm delighted to be here this morning and I'm particularly pleased that I'm following Joe Plumeri because he has a phenomenal ability to energize the room. And so I know none of you are going to fall asleep during my presentation. So thanks very much to Joe for doing that.

I'll draw your attention first to our legal disclaimer, caution regarding forward-looking statements. You have three seconds to read this entire screen, one, two, three, going.

Okay, so what I'm going to speak to you about today is first of all our strategy that we laid out at the November Investor Day that some of you may have attended, but I think it's worthwhile spending a few minutes and providing a few slides to give you an overview of our strategy, and then I'll speak about our way forward.

You know, the last couple of years we've been in the headlines quite a lot. We've been in the headlines because we had some significant exposure to interest rates risk, to equity markets and our focus has been very much on risk management and risk reduction over the last couple of years. And we also had a significant focus on building up our capital levels.

Well, what you'll see in the presentation is that we have dealt in a material way with our risk and we've materially reduced our exposure. Our capital levels are at very high levels, well above regulatory requirements and well above our internal target.

But what I want to focus here is on our way forward. We have a growth story to tell and I think you'll find it quite compelling. I'll provide you an update on risk management and then make some concluding remarks.

I think most of you know that we have a significant global footprint. We are predominantly in the United States where we're best known as John Hancock. That's a wonderful brand, the name is taught in schools - in elementary schools - and then Americans come to realize that we own the brand and it's a trusted brand. Ninety-four percent of Americans have instant recognition of the brand and know what it stands for, which is a very, very powerful part of our story.

We are very big in Canada, of course, where we are based in Toronto and we do business in ten Asian countries, and that business is expanding quite rapidly.

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We trade on four exchanges, principally the New York Stock Exchange and the Toronto Stock Exchange under MFC. As mentioned earlier our capital ratio is strong. We ended 2010 with an MCCR ratio of 249%.

Now for those of you more familiar with American capital ratios, RBC or Risk-Based Capital, where you typically would expect a strong company to be in the 350-400% range, the Canadian metric is quite different and a strongly capitalized company would be around 200% and that would be sort of the upper end of the range that companies have traditionally operated at and we ended the year at 249. So we feel very comfortable with our capital position.

And then lastly from a claims-paying ability and financial strength rating we are rated by five companies. The financial crisis has been trying for all of us, including our company. And we did go through some downgrades but came through the financial crisis with strong ratings.

Our S&P rating continues to be AA today despite the turmoil that the whole industry and the financial services market have gone through over the last couple of years.

This chart shows the 20 largest life insurance, public life insurance, companies in the world. So you can see from this we clearly are a global player. We currently rank eighth largest in the world. This is based on market capitalization as of February 28th, and we are the second largest in North America behind MetLife.

Our global strategy is summarized on this schematic. You know, I hasten to emphasize that it varies; it's multi-faceted by geography, by product, by distribution channel. But the net story that I want you to take away from this is that we do have a strong focus on growth going forward. Clearly we will continue to focus on completing our risk management strategy, I'll give you an update on our progress but there's some more work to be done.

We are going through a product mix change, particularly in the U.S. where we have products that we are deemphasizing, products with long-tail risks such as no-lapse guarantees, but we are doing very well in products that we focused on.

We've freshened up our brand about a year ago and while our brand is extremely strong in North America we have work to do in Asia to make our brand more recognizable. We have some pricing increases that we're working on, particularly in our long term care business in the U.S. in particular, which I can speak to and then lastly, of course, managing our capital prudently.

So our strategic priorities are five fold: growth and maintaining strong capital ratios and ratings from our five rating agencies, improving return on equity, managing risk and then continuing to provide a very strong value proposition to our clients.

I mean, that sounds sort of obvious but when you go through the transitions that we're going through where we have stopped selling certain products, re-priced certain products, and promoted new products, it's actually easier said than done. This has been a very, very important focus for us to maintain our client loyalty and we are doing quite well on that front.

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At our Investor Day in November we announced that our objective was to increase our net income to \$4 billion by 2015 and we laid out our plan for doing that. We talked about the strong capital levels and ratings. Return on equity we expect to return to the 13% level by 2015 as well.

For those of you who saw (Jimmy)'s comments at the start of the day - he talked about the average ROE's in the North American insurance companies. We've been well below this level but we do expect to outperform based on the metrics that he showed. Unfortunately JP Morgan doesn't cover us, so we weren't on that table. I'm sure after this presentation they will cover us.

It's important to mention that all of our new products and business strategies are structured to earn a return of 14% minimum, and most are structured to exceed a 14% return.

To get to our 13% we will have to restructure some of our in force block as well, of course, which are - we have some historical under pricing challenges that we need to resolve. I'll talk later in the presentation about a shift to lower risk products and our client's value proposition.

So that in a nutshell is our overarching strategy. Now let me go to a bit more detail. From a global perspective this chart shows the IMF - the largest economies in the world based on IMF data, and we have material presence in the three largest economies in the world. We are big in the U.S., in China and in Japan, and then when you add our home base, Canada, we're strong in four of the ten largest economies in the world.

Our business is fairly well balanced across our major divisions. If you look at our geographic breakdown between Asia, the U.S. and Canada, our business - and this is based on 2010 adjusted net income - we have about 30% from each of those regions and the remainder is made up of our reinsurance business. So it does give us good geographic balance and good exposure to varying economies.

Though the characteristics in each of these regions are very different, but I don't think it's a surprise to anyone in the room that the growth rates in Asia are expected to be materially higher, this is based on OECD data where Asia is expected to grow between now and 2015 at a rate of about 10%. And this compares to both Canada and the U.S. projected by the OECD to be growing at a rate of about 2.5%, a material difference.

One statistic I want to draw your attention to on this slide is the expected growth rate in insurance premiums based on publicly available market research. Emerging Asia is expected to grow at 9.4% and this in 2011.

Now there are a number of countries included in emerging Asia but particularly China, Indonesia, Malaysia, Philippines, Thailand and Vietnam are all countries in which we have active businesses today and are part of that group of countries expected to grow at fairly significant levels.

And on the Canadian and U.S. side we obviously expect slower growth in markets but we have a very, very well established and broadly diversified base and we will leverage that to cross-sell opportunities and focusing on products where we've been underrepresented, particularly fee-

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based products such as mutual funds and asset management where we've had material focus in growing those products over the past couple of years and will continue to going forward.

So this summarizes the strategies by country. You'll see in Asia, for example, I spoke a lot about the growth rates. We've had in a number of countries a focus on insurance products, so the plan here is to expand to more wealth management focus products. And we've had a number of smaller acquisitions on the asset-management side, a company in China, a company in Taiwan that we acquired in the last year or two, and then as mentioned earlier Canada and the U.S. will focus on leveraging the brand and distribution capabilities.

It's worth noting in the U.S., for instance, we're now number one in variable universal life. This is really important to us because we had previously built up a significant book of no-lapse guarantee universal life which as you know, creates very long-term interest rate risks and it's not a product that we favor in today's markets.

So let me do a bit of a deep dive on Asia. On this slide the countries that are shaded in green are the countries where we have a business presence today. And, you know, a lot of people talk about the Asia growth story, and what I want to emphasize is it's not a story for us, we've actually already achieved material growth and we project it to continue.

If you look at the bar charts on the top right, for instance, this shows our top line growth in insurance sales by division. So going back to 2007 Asia represents only 19% of our total business, 2010 that has grown to 42% and in the business plan we presented in November we showed that we expect Asia to grow to 54% of total sales by 2015.

Now we are over investing. We are putting significant capital into our Asia expansion strategy. However, the growth is translating into bottom-line earnings. So our bottom-line growth rate, first of all as mentioned earlier, is 30% of our earnings in the last year. But the 12 year net income compound annual growth rate has been 18%. So the bottom-line is in Asia we are big and we are growing fast.

So our core strategy in Asia has three main focuses. As mentioned earlier we'll add wealth management. We are focusing on multiple channels. We've grown our agent sales force materially. But a big focus for us is also in bancassurance. This is where we enter agreements with banks to distribute our products.

We've had a number of those develop very well in the – you know, in Japan, for example, Bank of Tokyo-Mitsubishi distributes our products and we are the number one insurance product that they distribute, predominantly a focus on our wealth products until the last year and then a shift to add insurance products to their sales platform as well.

We have a number of other similar arrangements either in place or being developed in most of the Asian countries. So this is going to be quite valuable as part of our plan to ramp up our distribution very quickly. And then again, building the brand is a focus in Asia.

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In China our goal is to become the first foreign insurer with a national footprint. The national footprint is essentially east to west across the developed - economically developed part of China where we expect a presence from border to border, east to west.

And we're quite far along, we actually - we recently opened for business in the 46th city in China. We are in 46 of the largest cities, and as many of you know a large city in China often means a population of 10, 20 million people. And our growth rate is running generally at about every two to three months we open up in a new location.

The lead times can be long, the regulatory approvals can become complex, you know, each city is like opening up sometimes in a new country, but we're very good at it. And, you know, we were in mid-'07, I should be clear I'm guessing at the number but we're at around 26, 27 cities in mid-'07 and we now have 46. So that gives you a sense of the rate of growth, it's a very real story.

Hong Kong our base is very well established. There's where most of our Asia earnings are from today. So there we're leveraging our existing customer base as mentioned earlier in Japan. We'll diversify our products and in the rest of Asia we have low penetration but very high growth rates.

The insurance sales that we experience in China, sorry, in Asia overall, have been absolutely fabulous. In 2010 we had what we saw as a very big milestone; insurance sales reached and exceeded \$1 billion in our Asian operation. So we are pretty excited by that. That's an increase compared to a year earlier of almost \$400 million year-over-year improvement in insurance sales, it's a big deal, compound annual growth rate over 3 years, 35%.

I mentioned earlier we're growing our Asian sales force quite quickly. We have 42,000 agents in Asia today, and the sales force grew by 21% in 2010. I've already spoken about (our) growth rates in the emerging economies and our bank distribution strategy.

This slide highlights - I'm on Slide 16 for anyone who's on the phone. Slide 16 highlights the growth in insurance sales in Japan alone. You'll see in Japan over a 5 year period, from 2006 we grew from ¥11 billion to ¥49 billion at the end of - in 2010.

And one of the things I've mentioned earlier was the value of the bancassurance distribution channel. That's represented by the blue slice in the pie chart which added quite visibly to our sales in Japan.

To summarize our Asia strategy, there are number of near-term focuses that you'll see in the first half of the slide and that principally is what I've already spoken to so far. On a longer term basis we do see countries that we think are a good fit in our Asia expansion strategy; India and South Korea in particular. I noticed we didn't say South on this slide, we should be clear; we're not expanding into North Korea here.

And those are economies which we see the demographic and the addressable market, the population, particularly in India of the increasing wealth and population is likely to want or need

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our products going forward, growing over time and be a good fit for us. So it is an area that we'll focus on going forward.

There are further product expansion opportunities such as in pension and health products which we are not selling in Asia today to any significant degree and we see that as future opportunity on the longer term basis.

Now I can't conclude on Asia without talking a little bit about the situation in Japan and, you know, of course needless to say we are deeply saddened by what's happened in Japan and the suffering that the Japanese population are going through.

We're very fortunate as a company though that our employees have been largely unaffected. We haven't suffered any fatalities and no significant injuries. So on the people side, you know, we're very pleased with our situation.

On the financial side there'll be some impact. We do have a P&C reinsurance business where we do provide catastrophe risk insurance or reinsurance and we did provide guidance to markets press release that was sent out a couple of days after the earthquake where we announced that our maximum exposure, so this is looking at our worst case scenario, would be less than \$150 million lost, and that's a very definitive number because it's based on our contractual arrangements in the reinsurance treaties.

There will be other impacts. There have been a lot of questions particularly - and there's some discussion earlier today about mortality and morbidity in Japan. Now our in-force block in Japan is actually quite small on the insurance side. You know, we are, as mentioned earlier, in Japan more in the variable annuity and wealth business. So the impact is going to be quite small, you know, not - I would say not even a visible impact on our Q1 earnings.

Where we will see impact is the impact of equity markets. You know, as we communicated publicly in the past, we have exposure to equity markets. When equity markets decline so do our earnings, and while there are some concerns in the days following the earthquake that the impact could be quite large, reality is that North American markets have returned now to pre-earthquake levels.

And the Japanese market, looking at either the Nikkei or the Topix you're seeing markets that are down single digits percentage points from the pre-earthquake levels. So we'll see an impact on Q1 earnings but it's not going to be as material as we had been concerned about right after the earthquake.

I'll move on to Canada, a very different story. In Canada we have market presence that's very significant in products like individual life, for instance, we have market share exceeding 20%. So some of those areas, you know, the growth opportunities are going to be quite limited in the traditional products where we've built a very strong base.

But the good thing in Canada is we now offer a full product suite from travel insurance to life insurance, wealth management products, and banking. On the wealth side we're growing our mutual fund complex quite quickly. That's an area that we had not focused on enough

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historically. It's a great fit for our current strategy, consumes low levels of capital, a fee-based business, and the track record we have is fabulous with both the number of funds that have been incubated over a number of years and the performance track record from an assets management perspective is very, very strong.

So we see strong growth on that side, and I will speak - in about two slides I'll speak about our bank subsidiary which is another great story in the Canadian business.

This schematic basically shows the major businesses that we're in. Our Canadian customer base is about 7 million people, so 1 in 5 Canadians do business with us.

Where we see very good opportunities, in those two circles you see at the bottom, group retirement solutions and group benefits. So we have a very significant proportion of corporate Canada that does business with us on the group side. But the challenge we have is that with a lot of these corporations we have only a single group arrangement, either group benefits or group retirement solutions, and we don't see any reason why corporations wouldn't want to put all of their group business with us.

So we are combining our sales efforts, we have combined pricing strategies, we have developed Web sites so employees only have to go to a single Web site regardless of which group products they get from us. And in each case, you know, the decision makers for mid-sized companies, often the head of Human Resources, the CFO and possibly the CEO, they're the same people in each case and we have very, very strong relationships. So it's a big focus for us it to grow those relationships and leverage them.

I'll move on to Manulife Bank. The bank has really grown over the preceding decade. You know, you'll see it was relatively insignificant in 2001 but over the decade since then we've had growth rates in earnings of 42% over a 10 year period. The growth rates in assets are - has been 35% over this period.

The bank grew from a standing start to a level say that's about \$17 billion. The slides you see here is just our core lending assets. It includes the - it excludes the liquidity portfolio, etcetera, so lending assets are sitting at about \$13 billion as of the end of 2010.

We see no reason why this growth rate won't continue. There are a number of reasons for it. One is that we have an advisor based bank, so our distribution sales force, our advisors, stay closely connected to their advisory sales force in the insurance company. So there's a fair bit of, you know they provide leads to each other and we have - as I mentioned earlier today, serve 7 million Canadians in our other businesses.

The other thing that we - I don't think we mentioned on the slide but we have a very unique product, the Manulife One mortgage product which is an all-in-one savings account, checking account, mortgage and people actually have their payroll deposit paid directly against their mortgage.

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Advertising campaign for any of you who watch Canadian television, you'll see our ads all the time, and we talk about the Manulife One number, and the number is the amount of interest expense you'll save over the life of your mortgage by always minimizing your mortgage balance.

I think to an American audience might sound a bit foreign. Canadians want to get rid of their mortgages as fast as possible. Our interest is not tax deductible, there's a lot of incentive to get rid of mortgages. So that's a very successful product in that market.

I'll move on to the U.S. Our John Hancock, which I think I went a few slides, my apologies. Okay, I meant to be on Slide 22. So the story in the U.S. has been largely a story of repositioning over the last couple of years. You know, in the mid-2000s we did build up a very significant book of variable annuities with guarantees and no-lapse guarantee insurance products etc

And those products work less well when you go through financial turmoil. So we have deemphasized all of our new products where we still sell these products, have removed the guarantee features, have pricing that actually earns a target return that's acceptable to shareholders in the markets.

But the big story in the U.S. really is our shift to sell mutual funds and other fee-based businesses, particularly our 401(k) business. RPS, our retirement planning services, is a business that's growing at a tremendous rate. We're actually the number one provider of RPS products to the small case market in the U.S. under the John Hancock brand, and that's going to continue to grow.

On our fund side in particular, John Hancock mutual funds, in 2010 we're ranked number 12 in the U.S. by gross sales and number 5 by net sales based on industry data. So for a company that hasn't been known for mutual funds historically we were very, very pleased with this result.

On the insurance side I mentioned earlier we're now the industry leader in variable universal life, and the shelf space we have with distributors is also at an industry leading level, and I'll explain that in a couple of slides.

On Slide 23 what you see here is the effects of our repositioning strategies. So the first two lines are the products that I've just referred to as products that we want to be heavily focused on, mutual funds and our 401(k) business.

Now look at the growth levels. In 2010 our sales in mutual funds grew by 48%. We added just under \$10 billion in sales to our mutual fund business, and so they benefit greatly from the John Hancock brand. Our 401(k) business up 16%, also very respectable.

The two businesses that we deemphasizing, variable annuities and fixed products down about 50% each. And this is intentional; it is absolutely part of our strategy and right on target of what we're trying to get done. Our focus is very much on higher return fee-based products and services, the first two lines on your chart.

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From a distribution perspective the charts on Slide 24 shows the biggest distributors, are the independent distributors of life insurance products in the U.S. For every one of the distributors you see here John Hancock is either number one or number two from a shelf space perspective.

And when you're number one or number two you get a lot of attention and you get a lot of sales. So this is key - this is the reason why we've been quite successful in changing our product mix and moving away from products we don't want to be selling to products we do want to be selling.

It has been gradual. I mean, this started in 2008 through 2009 and '10 and it needed to be gradual. You know, when we're looking at the, you know, a fairly dreadful financial conditions in early-2009 we could have pulled the plug and said, "We don't sell variable annuities with guarantees anymore, period. We don't sell no-lapse guarantee universal life anymore."

But what happens is that your sales force are people that need to earn commissions, they need to pay their mortgages and feed their families. So we had a very carefully managed transition away from the products that we don't want to sell and introducing the products we do want to sell through support, training, wholesaling efforts that were quite significant, and that process is quite far along, not done, but quite far along where we are today.

So I'll cover risk management in a few slides. You know, it's great doing a presentation today versus a year ago because a year ago all the slides would have been about risk management and not about the business, and today I'm here talking about the business. But risk management is still important, so I'll give you a quick update.

Big changes in our recent hedging levels and this gives you an update over the past year, but I really want to focus on the 4th Quarter where we increased our hedging levels quite materially.

Equity market sensitivity, if you go back to the 3rd Quarter, at the end of 3rd Quarter our exposure was \$1.7 billion. Now when I talk about exposure what I mean is the impact of a 10% decline in all equity indices, the ones that we're exposed to, principally the S&P, the TSX in Canada and the Topix in Japan are the principal indices that we're exposed to.

If they all went down 10% our earnings would take a hit of \$1.7 billion before hedging as of the 3rd Quarter, after hedging \$1.3 billion. The comparable numbers at the end of the 4th Quarter are \$1.5 billion but after hedging \$740 million.

In terms of percentage of our underlying earnings sensitivity that was hedged, we were at 50% hedged at the end of the year. We continued to do significant hedging in the month of January and early-February and when we announced our Q4 results which you can look at it on our Web site or look into the analyst presentation, we announced further hedging had been done in early-2011.

We did in the - after the 3rd Quarter - announced the targets that we established for risk management. You know, previously we've talked more about opportunistic hedging. If we hedged everything in '09 we would have locked into perpetuity the losses in our portfolios. So

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we needed to wait for markets to resurge to some extent and held high capital levels to get us through that period.

But late last year we announced that by the end of 2012 we would have equity sensitivity hedged to a level of 60% of total exposure and 75% by the end of 2014. We are today very close to our end of 2012 target for hedging. So we are ahead of plan and we care to stay ahead of plan over the upcoming period. We may well get to the 2014 target before 2014. That's not a target date; it's the end date, the latest date by which we'll have all the hedging implemented.

On interest rate risk, on the next slide you'll see a similar story. If you go back another quarter to the second quarter, our exposure there was \$2.7 billion. Now here exposure is defined as a 1% parallel rate shock to all the yield curves, corporates, swaps, Treasuries, etcetera, and we're exposed to declines in interest rates.

The impact of 100 basis point decline would have been \$2.7 billion reduction in net income. Now the - that number is reduced by the end of 2010 to \$1.8 billion but very importantly after we take into account the gains in our AFS bond portfolio the impact would be only \$600 million.

Now the AFS bond portfolio are bonds that are held in our surplus segment, under Canadian GAAP, all of our liability assets and liabilities are marked to market and that's why you see this kind of volatility. You don't see equivalent volatility in American insurance companies because U.S. GAAP is so different, but we do face a quarterly mark to market, and that's why you see the numbers that I've just shown you.

Our surplus segments where our capital is invested is not mark to market. What we did in the 4th Quarter was materially increase the duration of our bonds and surplus segments, and that gives us a natural hedge. We have the ability and the intent to sell those bonds if we see a dramatic decline in interest rates to offset the volatility in our mark to market portfolio. Again, we established targets that we've announced. We'll have 25% of our total interest sensitivity hedged by the end of 2012 and 50% by the end of 2014.

My last slide on the risk management side basically is to demonstrate our shift in products. This slide shows only our products that are targeted for growth, insurance at the top, wealth management at the bottom. And the message here quite simply is the product that we've targeted for growth are, in fact, growing.

We'll move on to my concluding side, Slide 30. So again, to emphasize, we are capitalizing on accelerated growth momentum in Asia. It's happening, it's already happening, and will continue to happen.

Our transformation in the U.S. division is well underway given our ability to leverage the brand and our ability to leverage our number one and two positions with major distributors is very powerful and so you're seeing a tremendous growth in the core product that we focused on.

Canada, strong diversified, we've got a great little bank. You know, in Canada, of course, a \$17 billion bank is a baby bank. I realize compared to about 8000 banks in the U.S. it's quite a large

bank. But we try to catch up with the guys who are a few hundred billion dollars which is the average Canadian bank and we're actually doing pretty well.

They don't want to replicate our product in the bank because it'll decimate their margins. The margins for Canadian banks between their non-deposit products and mortgages are quite significant. Our product collapses everything into a single account and that's risky for the larger banks. So they will compete in due course. I think we're in a very good position to hold a competitive advantage in this product for some period of time.

I didn't speak much about our competency in assets and wealth management in general and our asset management business, but we have a strong and growing asset management business. And I should mention, you may have noticed I didn't speak about our investment portfolio at all, and the reason quite simply is we have an absolutely stellar performance in our investment portfolio.

Throughout the worst of the crisis we pretty much dodged every major pot hole in the highway. We had minimal exposure to all the names in the news whether they were European banks, hybrid securities or CMBS from the later vintages. You know, pick a product we were able to dodge most of those bullets.

And if you have any doubts about what I'm saying please go to our Web site and look at our investor - sorry, it's the Investment Fact sheet that we have. It's a little four page summary that you can look at. And people have the one on one meetings scheduled today will get copies of that fact sheet.

So this is a great story for us. We're extremely proud of it and it really helped maintain our ratings and financial strength through this period.

So we are addressing the challenges head on. We've certainly had some challenges over the last couple of years. We've improved our risk profile, we've got a ways to go but we're much happier than we were a quarter ago and extremely happy compared to a year ago with where we are, and then lastly focused on just keeping a very healthy balance across products, geographies and assets.

I think I actually finished almost on time. So I have time for a few questions, easy questions only, if you don't mind!

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## Q & A

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### **Unidentified Speaker #1**

In the past Manulife management has indicated interest in expanding in the U.S. through M&A perhaps. And obviously it seems like you're much more selective in how you're approaching the market now. So maybe you could address your views on the U.S. market but specifically talk about your interest in M&A here.

**Peter Levitt**

Yes, you know, generally our company doesn't comment on M&A initiatives. You know, what I can say is we have an active M&A group. We look at just about everything. When I speak to our M&A folks though what they tell me is that the ratio of what goes into the hopper and what comes out has never been as distorted where we've seen so many things on the table, but so few of them meet our criteria.

What's key to us is that any acquisition has to align with our strategy that I've just outlined. So anything that'll increase our exposure, for example, to equity markets or interest rates or increase our no-lapse guarantee business or variable annuities guarantees is not a business we'll be looking at. It has to fit the strategy.

There are a number of things that were rumored in the media, things that we're looking at that would have added to that risk but added to some of the businesses we're interested in. We're very unlikely to do that. So I think if we found businesses that were a very good fit with the strategy and were priced right, that were accretive in the nearer term, we would certainly look at them.

But it's not part of our business plan that we presented in November at our Investor Day did not include any expectation of M&A to achieve our earnings objectives and ROE objectives. Hopefully I skillfully evaded your question.

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**Unidentified Speaker #2**

Peter, can I ask you to talk about your long-term care business in the U.S. and specifically address some of the ALM challenges that I know you've disclosed quite robustly in the 3rd Quarter.

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**Peter Levitt**

Yes, thank you for saying that we disclosed it robustly. We certainly tried to do that. The long-term care business certainly has significant challenges. So let me talk about where we are first from a new business perspective. We discontinued sale of group long-term care in 2010. So the only new business being sold today is individual and all products have been re-priced to achieve our target returns based on the current low level of interest rates, updated morbidity studies, and claims experience. So on the new business we're in good shape.

But clearly the bigger issue is really our in force portfolio which was, you know, as we disclosed in the 3rd Quarter priced at a level that required a significant reserve change. It was \$750 million, I think, in that range and that reflected basically an update on interest rate levels, claims experience, and morbidity.

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And so we need to go through a significant re-pricing exercise. We did announce that we have gone to the states for approval. The unique thing about the market is you have to go to each of the 50 states individually and negotiate your pricing changes.

That's - the pricing changes we're asking for average 42%. So they are sizable, but the key thing to the strategy is that we are using what we refer to as the landing spot strategy. So we go to each individual policyholder and present to them a landing spot, a place where they can go to avoid a price increase entirely.

And it's usually changing a feature and in almost all cases, it's changing the inflation rider on their product. So we have - the majority of products actually have a 5% inflation rider, it's hard to imagine in today's environment that 5% inflation makes sense. In the vast majority of cases, if they reduce the inflation rider, not necessarily to zero, they can reduce it to 3 or 2, their price increase goes away.

So they have that option, the states have responded very favorably to the strategy. We did announce on February 10th with our 4th Quarter earnings that five states at that time had approved, four of them had approved 100% of the price increases and one had approved 95%.

That's a process that's probably going to take another year, would be my guess. It's long, it's arduous, it involves the head of our business living on an airplane and out of a suitcase visiting the state regulators.

But we're on track, we're pretty confident we're going to get here, but it's too early to tell you definitively that we've achieved our price increases that we're looking for, but we're optimistic.

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**Unidentified Speaker #3**

Just a couple questions. One, you gave a slide showing that your - I think it was the adjusted earnings from the U.S., Canada and Asia were roughly similar.

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**Peter Levitt**

Right.

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**Unidentified Speaker #3**

And yet there was another slide showing that the allocated equity in Asia was materially lower than the other two geographies and I wonder if you can elaborate on that?

And secondly, when you talk about ROE and ROE projections how do you look at your portfolio in terms of normalized credit losses and how should that - is that inclusive or exclusive of, you know, over the cycle credit losses and what do you think they should be?

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**Peter Levitt**

**March 29, 2011 / 9:45 am**  
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Yes. On the first question, I mean, that's quite astute because if you - I'm just going from memory, but Asia has about \$5 billion in allocated capital, the U.S. has about \$12 billion and - but the earnings contributions were about the same, and that's very key to the strategy.

You know, it's driven by a couple of things, but the biggest single thing is a big difference in product mix. So we have in the past sold products in the U.S. that are very capital intensive, you know, these long-tail risks that are embedded in a number of our U.S. products have we featured do attract large levels of capital, and that's what we're trying to move away from.

Another factor is that the capital levels even for an equivalent product in the Asian markets do tend to be lower. You know, there are some benefits, but I wouldn't say that's the principle reason, it's largely a product mix difference and I think in a large part that's driving our strategy.

In terms of our projections, yes, \$4 billion in net income by 2015 includes any potential credit losses. We - I think if you look at our history though, you'll see it's not much of a story for us. I mean, our losses and write downs in asset portfolio are truly quite minimal and it doesn't have a meaningful impact on our earnings projections, and the data is all on our manulife.com Web site.

Out of time? I apologize, but I'm out of time, but thanks for your attention.

Appreciate it.