

# FINAL TRANSCRIPT

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

## **MFC - Manulife Financial Corporation at Scotia Capital Financial Summit**

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## CORPORATE PARTICIPANTS

### **Tom MacKinnon**

*Scotia Capital - Analyst*

### **Donald Guloien**

*Manulife Financial Corporation - President and CEO*

## PRESENTATION

**Tom MacKinnon** - *Scotia Capital - Analyst*

Our next speaker is Donald Guloien, President and CEO of Manulife Financial. Don's been with Manulife for over 25 years in various positions throughout the organization -- most recently serving as Senior Executive Vice President and Chief Investment Officer, a position he held for six years prior to his becoming President and CEO of May of this year.

I'll now turn the podium over to Donald Guloien.

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**Donald Guloien** - *Manulife Financial Corporation - President and CEO*

Thank you, Tom. I know how well covered this event has been by the media, so I'm going to open up with a product placement. If you'll notice, I'm wearing Manulife One cufflinks. If anyone in the room has a mortgage or residential mortgage and you're credit worthy, we'd like you to talk with us because I'm sure you share the same interest as we do in that you repay your mortgage maybe 12 years earlier than the alternatives if you manage your cash flow effectively.

But that isn't the entire subject of my conversation; I'm here to talk you about Manulife Financial's ten years of success as a public Company and well positioned for future growth. In about a week we will celebrate the launch of Manulife as a public Company on the Toronto and New York Stock Exchanges as well as stock exchanges around the world, and we're very proud of that track record.

We're also -- as the lawyers would tell you that past performance is no indication for the future necessarily, but we think we're extremely well positioned for another decade of fantastic growth, and that's really what I'm going to focus on here today, although I will touch a little bit on some of the history.

The first slide is a legal disclaimer and we've handed out hard copies of the presentation, so I'm sure you'll have a chance to read that thoroughly. The agenda I'm going to cover today -- I'm going to start with an investment thesis -- as Tom mentioned, I tend to be an investment guy and I think that's the guts of the presentation -- and talk a little bit about market positioning, which will explain why I feel so positive about where we're going in the future.

And then I'm going to cover some topics of note, and these run a range, things like earnings capital, de-risking, asset quality, and executive compensation alignment. It's kind of interesting, we put that on -- I'm very proud of what we are doing there. It is kind of interesting with the press coverage this morning how topical that is. And then, of course, I'll wrap up with some conclusions.

The investment thesis is fairly simple. Manulife is a Company that is well positioned to take advantage of the global need for highly reliable savings, investment, and protection providers, whether they be baby boomers in Canada, high net worth in the United States, business owners in Japan, or emerging middle class in Asia.

Right now, domestic franchises, whether they be banks or insurance companies, look highly attractive because of the relatively strong performance of the Canadian economy. And I'm a very proud Canadian, but I'm also very proud of the fact that Manulife does 75% of its business outside Canada in principally in Asia and the United States.



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And I think it's only realistic to believe that the recovery in the United States will take place. The United States will continue to be an engine of growth and that Asia will continue to outstrip most of the Western world in terms of the growth opportunities that it presents. So Manulife is uniquely well positioned to take advantage of that, although I must admit for the next couple of years Canadian franchises look pretty strong.

The Company is well positioned to take advantage of the long-term impact of the financial crisis. We have obviously had our challenges, principally related to the equity guarantees embedded in our variable annuity products, but we have withstood the challenge without the need for government money, whereas many of our international competitors have been seriously wounded, if not crippled, by this crisis.

And that crippling will have effect over a longer period of time with companies forced to sell principal assets and inevitable consolidation that will result from that. So we benefit from the flight to quality, from higher margins, organic growth, consolidation, market position, and cost and availability of capital.

A company with the skills to diversify its offerings. And I talk a bit about diversification because one of the things I want to do in order to have the equity guarantees play a lesser role in Manulife's financial results is to diversify the streams of income that come into the Company.

But, I want to remind you and convince you that we're not going to diversify beyond our skill set. There's lots of opportunities to take ideas from one part of the world into other parts of the world and leverage the existing skill set that Manulife has without going too far afield. The dumbest thing to do would be to -- from the frying pan into the fire, trying to get into businesses that we know very little about as an attempt to diversify. So by taking expertise from one market and applying it to other, we will diversify our offerings.

A company with great asset quality. I'm obviously very proud of that, but that is a Manulife culture. The leader of the investment operations doesn't take all the credit for that. We have a fantastic organization that has as its very culture the avoidance of risks for which we're not being properly compensated, and that is why we have performed so well in terms of the investment portfolio.

And we are uniquely well positioned to benefit from the improvement, despite the fact we have a great asset quality, uniquely positioned to benefit from the improvement in global equity markets and economic outlook as it relates to the other parts of the business. So, that's the investment thesis.

Our strengths; strong capital position and getting stronger. You've heard me talk about fortress capital and I'm not going to keep driving home that word, but at the time we started talking about it, I guess it was the third week of June, and people said, what the heck is Manulife talking about stronger capital?

You hear virtually every CEO, every regulator, every rating agency worldwide saying capital is going to be the sine qua non; it's going to drive the financial services industry, whether you're an insurance company, a bank, whether you're -- happen to meet Obama's test of -- systemically important, whether European, Canadian, Asian, or American, it is a constant.

You hear the reports from Europe suggesting that the Solvency II could cause companies to have to raise GBP50 billion in additional capital. No, I'm not staking my reputation on that estimate, but the fact of the matter is capital requirements are going up across the financial services industry because regulators, rating agencies, governments, and the general public is deathly afraid of repeating anything like what we've gone through in the last two years.

We're very well positioned in growth markets; I think I talked about that before. Excellent brand recognition and reputation, obviously here in Canada, but equally strong in Asia with the Manulife brand and John Hancock in the United States.



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Superior investment management, not only for the Company's general account, and I'm very proud of that again, but we built up \$100 billion in assets that we manage for third parties in MFC Global Investment Management, which makes that little business one of the biggest asset managers in Canada.

A quality team. I don't mean the guys at the top of the house -- the guys and girls at the top of the house, I mean the whole organization. We really, really, I think, are good at attracting and retaining the best and brightest. And, why are we able to do that? Because they see the international opportunities. We attract people who see that being a global Company situated here in Canada, it's a great place to work.

And whether it be people like Mike Bell, that is my new CFO that I attracted from the United States from a high quality company with many opportunities, sees that the global scale that we offer is an incredible advantage.

Scale of the Company. In all of our businesses, I've been -- it sounds like humility, but it's not. I've been able to say that we were successful in the M&A business because we never had to do a deal. Again, very proud of our financial people, the M&A team that I led, but the real advantage we enjoyed was that we never had to do a deal. We never had a business that was below scale and we said we need to pay any price to do a strategic deal.

And that's what's gotten people into trouble. They paid too much for acquisitions. And that's why the oft reported statistic of 75%, 80% of deals end in dismal failure because the CEO at the outset paid too much and then left it to the operating people to basically deal with an untenable amount of goodwill and suffered the consequences. So Manulife, in short, has a great track record and a promising future.

Our brands, Manulife Financial, John Hancock in the United States -- ranked consistently one of the top three brands against, not financial institutions, but all companies in the United States and MFC Global Investment Management. And if anything, our brand has strengthened in the United States as a result of the financial crisis for obvious reasons. And what do those brands mean? They mean in every jurisdiction strong, reliable, trustworthy, and forward-thinking. And part of my mission as CEO will be to keep building that brand and reinforcing it in everything we do, whether it be advertising, charitable giving, or communications.

Our challenges. You don't have a great story without challenges. Equity market impact on variable annuity guarantees, I don't think I need to dwell on that. It's obvious to everyone in the room and it's something that we're going to deal with over a protracted period of time. A lot of people have given me advice say, why don't you just hedge the whole thing out, blame it on the last guy, drive the stock price down, have your stock options set at a low level, and go on to make a fortune.

I try and be polite with people like that, those type of suggestions. No one that really knows me well or knows our board well would seriously suggest that we take such a course of action. That's not in shareholders' interest; that's a stupid, short thing to do. We don't plan to do that.

We've taken a lot of risk by taking on all this variable annuity exposure without hedging and you can imagine my views of whether that's a good thing or bad thing. But the fact of the matter is we're not going to deal with it in 24 hours by putting it behind us at a huge cost to the shareholders, so what we're going to do is take it off over time. And we've been successfully doing that and I will speak to you about that; that's shareholder-friendly.

In the meantime, you -- hold a little bit of extra capital to enable us the ability to do that without having capital imperiled. And the key thing that we look at is how much distance do we have between the capital level and the level where we feel uncomfortable, say 150% MCCR? And we talked at the end of the second quarter having a buffer of approximately 40%. That's the key thing that we look to as opposed to the absolute level of the MCCR; people like to use that as an indicator.

So, there's a combination of things as we deal with that. We'll be hedging the risk, limiting the product guarantees and features and so on, making sure that we're selling the products with the best features in terms of the total amount that we take on, and



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managing that relation to the rest. So hopefully, what you will see over time and what you will see over the course of this year and continuing is a diminishing sensitivity to equity market risk without spending ridiculous amounts of money to hedge out of the money, which is obviously shareholder-friendly.

Lower interest rates and spreads have an impact on all insurance companies, sometimes in different ways depending on the mix of their business, but suffice to say in the second quarter. And I think you can reasonably expect in the third quarter, that lower spreads will have something of a negative impact on what we would otherwise report as a result of more booming equity markets.

The impact of the market meltdown on sales of wealth and high-end estate planning products. Again, I want to be honest with you. This is not the best time, hasn't been in the course of the year, to sell high-end estate planning products. If you've got a business owner who is worried about his wealth or her wealth having been diminished as a result of the stock market meltdown, it's the last time they want to write a check for something called an irrevocable life insurance policy. When cash is king, you don't want to lock up money forever.

On the other hand, the inventory -- people still have that need, they still have the estate planning need, they still have the desire to pass the business, and they still have an estate tax problem. In fact, there used to be people who'd hoped the estate tax would go away in the United States; there's fewer people anticipating that that's a realistic possibility. So our inventory of cases is actually growing, and you got to believe that once people feel comfortable that the recession has truly ended that those applications and underwriting evidence will be turned into checks.

The short-term impact of the dividend reduction is negative. When I talk about strong, reliable, trustworthy, and forward-thinking, when you drop dividend people say, well, are you really all those things? And that was part of our calculus in making the dividend reduction, although we obviously felt it was the right thing to do, and I maintain that to this day. And capital required -- and servicing that capital, again, is going to be a challenge for all financial institutions, not uniquely Manulife, but I don't mind addressing it head-on.

The way ahead for Manulife is to grow our businesses with priority on the highest return products and geography and diversification of risk. I think that Manulife can do a better job, frankly, of allocating capital around the world to the highest return geographies and products.

When we had excess of capital and the Company was doing things like buying back stock and increasing dividends, there's obviously -- you put less of a priority on making sure that capital is intelligently allocated to the highest return possibilities.

We were never stupid in that allocation. People did a pretty good job, but there's obviously a heightened degree of sensitivity and one that we'll be pursuing. And Mike talked about that in our second quarter call. People said, how are you going to get ROE up? It's a fairly simple matter of following this religion very aggressively.

Take advantage of the flight to quality; we're doing that. We're seeing gain in market share in a number of key markets. There's other markets where we're not wanting to have growth be excessive, so those two combined together. But certainly in the markets where we want to grow, we're seeing the flight to quality.

We want to reduce our equity sensitivity through de-risking product structure and hedging. We're hoping in the fourth quarter to actually merge our two US companies. We have one company that has lots of variable risk; we have one company that has virtually no variable risk. And obviously in terms of fungibility of capital, it makes sense to have the two of them combined in one company.

We think this will have a very significant impact on desensitizing our MCCSR, but obviously when you put everything under the MCCSR umbrella, it'll probably diminish the MCCSR a bit, but we will be in a much more comfortable position in terms of equity



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sensitivity. I can't guarantee that we'll be successful in that, but so far the discussions with the regulators, which is New York, Massachusetts, and Michigan, has been very promising.

We want to charge more for taking risks and offering quality. We want to do product extensions, leveraging our existing skills, particularly in all elements of savings and investment management. The need for retirement savings products is greater than it ever was because people have seen their fortunes diminish, but we have to offer a range of products, not just those that are attached to equity guarantees. So, you can expect to see an expansion of all types of wealth management products at Manulife.

Opportunities for acquisition and geographic expansion, leveraging existing skills, and competitive advantage. A lot of people say, there's a lot of guys out there talking about deals that are going to be made; I don't see much deal flow happening. Well, there is. It's at the small end now with talking about businesses, but believe me, it will lead into others because there are companies that simply do not have a sustainable future. And build capital fund, organic growth, and pursue strategic opportunities.

So now, I'm going to talk to a little bit about the market positioning and I will start with the ten-year track record, of which we're very proud. Those of you who are old enough to remember, Manulife launched at \$18.00 a share; we did not go out cheaply. We strained the market. There is essentially no discount -- IPO discount. Other companies, I guess it was fashionable to go out with a big IPO discount and be able to report a month later that your stock went up 30%. We didn't do that.

We went out -- we felt a great deal of responsibility to our policyholders who were trusting us to sell into the market -- their shares into the market at a reasonable price, so we priced it essentially with no discount. In fact, the stock traded down a little bit after we went public. So we went out \$18.00, split adjusted, it works out for some strange reason to be \$8.95. I don't follow that math, but anyway now it's at \$22.53 or it was at the time this slide was prepared; 252%, producing a total shareholder return, dividends included, of 12%.

And I might remind people that we started off paying no dividend and paying no dividend for a number of years because we're in growth mode. If you go back to the slides of those days, why are you paying no dividend? Because we're in growth mode. Insurance is a capital-intensive business and we see lots of strategic opportunities, so why would we pay it out in dividends? I'm not going to say the environment is exactly the way it was in 1999, but some of those things still [obtain]. And suffice to say, we're closer now to where we were at the start.

In terms of the return for US shareholders, more dramatic, 3.4 times what we were at the time we started, providing a total shareholder return of 15% and obviously US shareholders are thankful for that, and it's a superior return to many other alternatives.

Market capitalization is four times, premiums and deposits four times, funds under management four times, employees two times. Speaks to productivity ratios, right? And number of agents up 120% to almost 2.5 times where we were. And our rank in terms of market capitalization, which is a reflection of scale, from 12th position in the world to fourth position in the world.

Proven successes in terms of what we've been able to do. What caused that fantastic return? Three simple things. Proven success in organic growth; being able to grow our businesses successfully in every market where we do business; proven successes in identifying, pricing, executing, and integrating strategic acquisitions, and all elements of that are important.

It's not the investment banker's role, although it's important. It's not the CEO's role in negotiating a deal. It's not the negotiations that take place and so on. And it's not just how well it's integrated, it's all of those things. And for a deal to be successful, all four things have to be present, and that's why 80% of deals do not fail. And our track record, I think, is impeccable. The John Hancock gets a lot of attention. Those who really understand the Japan entry will see what a sweet deal that was. North American Life was a fabulous deal for North American Life policyholders and for Manulife policyholders who then became shareholders.



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Dominion Life, Confed, Zurich, and you see we have a -- Confed was a multi-stage process where first we took over the business and then we took over the assets and liabilities. Daihaku was similar to that. AIC is actually similar to that. First we bought Berkshire, then followed AIC. I think most of you would agree that was a well negotiated process.

Improvements of -- a success in avoiding the common calamities on assets and liabilities. We avoided virtually every one of the mishaps on the asset side and the liability side, a great record. I'm obviously very conscious of what equity guarantees have been, but I would call that a very, very stressful period rather than a calamity because the outlook is still today that we will make money on that business, although it is clear that it subjected our shareholders and management and everybody else to far too much stress, and I would not like to see that repeated on my watch.

Scale -- the largest company in life in North America in terms of market capitalization and the fourth largest in the world, and it moved up from 12th position in September '99. High ratings from all the major ratings agencies; again, very proud of that, more important these days than ever.

With great franchises. And most of you know the franchises, so I'm going to be brief here and sort of skate through the one slide per major region. Canada representing just under a third of our total earnings. We have top one or two share in all of the major businesses -- individual life, fixed annuities, seg funds, group pension, group benefits, other businesses, Manulife Bank, Critical Illness, Affinity, all highly successful businesses. Diversified distribution including independent agents, financial planners, banks, and stock brokers, characterized by product innovation and service excellence.

The United States with insurance representing 23% of earnings and wealth management representing 18% of earnings. Industry leader in life insurance, variable life, long-term care, small case 401k, and variable annuities; all businesses that will experience organic growth in terms of the industry growth.

Diversified product and distribution platform including independent agents, our own John Hancock Financial Network captive agency business, financial planners, banks, and stock brokers. It's interesting if you see that JHFN is actually doing quite well, which is more mid-market in the business. Manulife's heritage was the upscale and the estate planning business I described in very negative terms earlier in my remarks. It's interesting that the more middle-market sale and upper-middle-market sale is continuing quite successfully.

And well regarded, John Hancock brand. We have fun with the investment bankers. Some of my best friends are investment bankers. They occasionally come in and say, you could stick the John Hancock brand on almost any product and you could sell it. Well, we don't want to do that, thank you. That's what got people into a lot of trouble. Product innovation and superior execution are obviously the keys to success in the United States.

Asia and Japan -- we have operations in ten countries and territories; Japan, Hong Kong, Indonesia, China, Singapore, Vietnam, Philippines, Malaysia, Taiwan, and Thailand, and strong market positions in life, annuity, group, and wealth management products.

A very significant platform for growth and we'll see expanding product lines through group products throughout Asia and especially wealth management-type products. We distribute largely through a career agency, but distribution channels are increasingly being diversified to include independent agency banks and other forms of distribution.

And reinsurance is a niche business as we've talked about before, including life P&C and international group programs, which is an opportunistic deployment of capital. If we see reinsurance rates hardening, we tend to apply a little bit more capital to the market. If rates are falling it goes the opposite way. We also like it because it's a non-correlated risk to many of our other core businesses.

So other topics of note -- earnings, capital, de-risking, asset quality, and executive compensation alignment. Normalized earnings -- we told the market the second quarter that we would -- we conditioned the market that we would give you some expectations



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of where we would return on a normalized basis and the number came in at 750 to 850 after tax per quarter for the remainder of 2009 and 2010. That implies a near-term normalized ROE. That's assuming equity markets and capital markets stay about the same at 12% with a higher long-term target.

We did this very simply by looking at the earnings that would come out of the in-force business, release of PADs associated with the in-force business going off the books, and expected return on surplus investments using the same underlying assumptions that we would use in the valuation. It excludes the market impact of segregated fund guarantees, which can be positive or negative, non-recurring market investment-related gains or losses, and basis changes, and other items.

Obviously, that leaves scenarios for higher or lower earnings, depending on what happens in markets and with the business. The underlying business growth, including increasing fee income from growth in assets and growth in business, is obviously a major driver. We expect to be on the positive side.

Potential policy-related experience gains in mortalities and lapses, investment and market-related gains, including how we do relative to market on our unique portfolio of investments, as well as how the market does as a whole. Higher prices and margins on insurance and wealth management products and lower/higher operating earnings -- operating expenses and accretive acquisitions.

Our hurdle rates. I have had investors ask me this questions; it's a great one is -- okay, Manulife's had a history of producing closer to say 17% ROE, something of that ilk. If you're changing expectation to expect maybe 12% going forward, does that mean that if you invest money at 12.01% on a deal or a product line that that's good? And the answer is no, we continue to generally require 15% plus.

The number we typically use is actually 16%, but that implies a degree of precision that I don't think anybody -- anybody who tells you they have a precise number is either skewing things or whatever, not that smart. There is a range of consideration to go into the assumptions that drive what you make on a deal and it's really factoring all factors basically at the surface rather than a single number that's relevant doing a deal. So, I'll say 15% plus return on equity employed or about a 13% weighted average cost of capital on both our sales of products and acquisitions.

In terms of capital, fortress capital provides more flexibility to respond to both risks and opportunities from a continued position of strength. And throughout my presentation and everything you hear from Manulife is an emphasis on strength. We plan to continue that and we want to keep amongst the highest ratings available in the financial services industry.

Companies we believe with strong financial strength ratings capital ratios will benefit from a flight to quality. And the path to that is obvious -- delivering strong operating earnings; reducing our company's sensitivity to equity guarantees and other types of capital markets movements; and prudently managing our capital and leverage.

The decision to reduce common shareholders' dividends was obviously heavily deliberated by our board, but is an effective non-dilutive means of building capital and we believe will be in shareholders' long-term interest, although obviously it has a short-term impact on the stock price and a short-term impact on our reputation because people say, maybe there's a bigger problem out there that is lurking below the surface that has caused them to drop dividends and I assure you, that is not the case.

All major shareholders will benefit from strong capital ratios and financial strength ratings. We recognize that the additional retained capital has an implicit economic cost, but we're pretty good at investing at the margins, so we hope to minimize that cost. And we hope to be able to raise dividends once normalized earnings expectations begin to increase and equity sensitivity to capital markets has been reduced.

So, I have had investors say, is this a permanent thing? Are you trying to get back a posture where you have no dividend load at all? No, we think dividends are an intelligent thing. They keep management having to come back to markets to justify their



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strategic plans and we think it's a very, very good discipline. But I think the high pay-out ratios that companies exhibit is unless they have a truly low risk or no risk business, I think, are not wise going forward in the financial services industry.

De-risking; I'll give you a little bit of an update on that. Our US new business has been hedged since November 2008. Our Canadian wealth management business has been hedged since April 1, 2009, and other products commencing later in 2009. And we hope to hedge the Japanese new business by the end of 2009. The hedging of new business has gone very well.

We've hedged \$1.6 billion of Canadian in-force, \$648 million of the US and another \$2.3 billion in the second quarter. In total, we've got \$14.5 billion of guaranteed value being hedged with a corresponding \$1.5 billion of that amount of risk, which otherwise would have been in the money. We are withdrawing and modifying products that have rich features. I think we're amongst the leaders in that, although some of the European countries have actually gotten out of the business entirely, which leaves a more concentrated market.

And I don't know what your experience is; when markets get more concentrated, I think there's a tendency for product margins to improve over the long term assuming that you've got intelligent competitors who are driven by the same needs to produce a return on capital. And I think that should be pretty obvious that everybody in this space has that same need.

So products have been withdrawn, bonuses and reset frequencies reduced, fees increased. We just put out a press release yesterday talking about the in-force Canadian business, where we're increasing fees on both the new and in-force business, as well as de-risking some of the product. We're changing our fund offerings to reduce risk and improve hedge effectiveness. I'm a big believer in active management of portfolios, but in terms of hedging efficiency, it's a lot easier if there's a very, very tight tracking to an index.

We're also reducing the equity component -- increasing index component, and the components that are difficult to hedge such as funds and investment features that are not in the mainline indices. And introducing new products. The annuity note product in the United States, for instance, is a leader in terms of simplified design. A lower cost, actually, for the consumer; it's a good deal for the consumer, fewer features, much less optionality that affects us. So again, I think it's a win-win.

Asset quality -- won't spend a lot of time on it. You know the Manulife story. It's a high quality asset portfolio. Some analysts have speculated that a result of building fortress capital and so on will ditch the portfolio and go back to just holding fixed income. That's not going to happen. I don't know the ultimate outcome of capital negotiations of the European and the states and so on, but I think that's a very unwise decision, if companies were to take that.

In fact, Manulife's diversified investment portfolio is what has kept us out of the trouble because we never had to pursue the higher risk forms of fixed income that led other companies to such difficulties. One way to track that is this -- I can talk about the story, but I think you've got it -- very diversified portfolio, very high quality bonds, well positioned, limited exposure to RMBS, monolines, European bank hybrids, no hedge funds, no CDOs -- very, very high quality portfolio.

One way of measuring portfolios of Canadian companies vis-a-vis US companies that track this thing -- gross unrealized losses. It's kind of funny to be up here saying \$5 billion of gross unrealized losses is a small number. But believe me, relative to our competition, it certainly is and you can see how much that number is coming down, and I think you'd agree with me that most of that is the result of generalized spread widening.

I would also tell you that on the Canadian model we provide substantial reserves against anything that is problematic in that portfolio. And there are either provisions against the assets specifically, or more typically where we've downgraded things, and we tend to downgrade more vigorously than the rating agencies do on our portfolio, we reflect that in the actuarial reserves.

So there's specific reserves -- credit reserves associated with anything that was downgraded. So, a very substantial buildup of reserves in that standpoint. And you can see the development of those gross unrealized losses entirely manageable by Manulife.



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Now, I want to be realistic. There will be more losses -- and this is one of the reasons why our earnings expectations are a little different than they were in the past. We're not out of this economic malaise. With the high unemployment we have that is affecting a number of businesses and even though Ben Bernanke and others are seeing an end to the recession, there will be higher credit losses in the future.

Manulife's last four years has been characterized by reversal of provisions and typically gains from credit, and that is obviously unsustainable in the long term. You can't keep having gains from credit. It's very hard to; I wish I could. So the likelihood -- I'm not telling you about anything cataclysmic. I think we will be better positioned in terms of the quality of our portfolio than just about anybody else out there, but there will be more in credit than there has been in the past.

Executive compensation alignment. A lot of people asked questions and said -- friendly sort of question -- if you're cutting the dividend in half, I hope your compensation is cut in half. My response was my comp went down about 80%, so I actually feel good. I own a lot of Manulife stock in my own right that I bought with my own money, not through stock options or RSUs or anything -- I bought with my own money.

But it's actually performed well even after the dividend cut, because with a 50% cut in dividend I still keep the other 50%. Executive comp has been much tougher than that. We have, I think, one of the highest degrees of alignment between the executive group and the shareholder. And I'm very proud of that and plan to continue that. In fact, we're reinforcing it.

So, we have a very strong pay-for-performance culture at Manulife. Executive compensation pay-outs were as per plan design. The board didn't have to intervene to get -- we didn't have to voluntarily give back our comp; it wasn't offered to us in the first place because our plan design didn't produce that.

70% to 80% of our pay at risk is tied to the share price and in terms of annual incentives, very much geared to return on equity. So what happened, we had zero annual bonuses for our senior management in 2008. Performance share units paid out less than 50% of the prior year. But, we do have condition -- not everybody's medium-term compensation plans are performance conditioned; ours are. So the pay-outs for 2007 and 2008, unless we produce 60% or 80% return on capital, Mike, are effectively worthless and stock options are under water for seven of the past eight years. So we are very, very much aligned with shareholders in terms of getting the share price up over the long term.

Going forward, there's further alignment. I have agreed and have demanded that my officers at the senior level, Mike and John DesPrez have clawback and share retention requirements that are leading-edge. We have a balanced scorecard for annual bonus including risk and capital elements. It was more focused simply on ROE in the past; it's a more blended build of people of short and long term and tougher hurdles, overall, for senior management pay-outs. So, the bottom line is management is highly aligned with shareholders; we feel the pain.

Conclusions. Manulife well positioned to prosper. Manulife has proven to be reliable, strong, and trustworthy in the most adverse circumstances and benefit from the flight to quality. We expect to benefit from expected industry consolidation. We expect that companies will adjust their products to generate higher profit margins with lower risk, not because they want to; because they have to.

We anticipate that rating agencies, regulators, and the general public, including the investing public, will require higher level of capital, not only for us, but for all financial institutions, which will favor the stronger, more conservative companies. Manulife will benefit as stock markets grow and interest rates return to more normal levels. Manulife will continue to address customer needs with a view to delivering growth in absolute terms and market share.

So that's it, Tom. I'd be happy to take questions.



Sep. 17. 2009 / 2:40PM, MFC - Manulife Financial Corporation at Scotia Capital Financial Summit

**Tom MacKinnon** - Scotia Capital - Analyst

We have time for a couple of questions. Yes?

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## QUESTIONS AND ANSWERS

### Unidentified Audience Member

Thank you. Can you please provide some detail on the interest rate reserves strengthening? Some analysts have floated numbers between \$1 billion and \$2 billion for this quarter. Can you talk about Manulife's exposure to interest rates?

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**Donald Guloien** - Manulife Financial Corporation - President and CEO

Sorry. Can I comment on the --?

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### Unidentified Audience Member

On the interest rate reserves strengthening in Manulife because some analysts have estimated between \$1 billion and \$2 billion.

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**Donald Guloien** - Manulife Financial Corporation - President and CEO

Well, I can't comment on the accuracy of their numbers, but the -- Manulife is sensitive to the absolute level of interest rate and also the difference between sort of corporate A rates and swap rates and that delta. And, in fact, credit spreads has continued to come in as they did in the second quarter. I can't tell you -- we're in interim period and have them close the books. And even if I knew today, there's still, whatever it is, 13 days to go in the month, so I wouldn't be able to tell you. But, you can expect that the general trend is somewhat negative on credit spreads.

I think you'd have to compare it with the prior quarter and make your own guesses as to where it would fall out. I will point out, though, the good news is credit spreads can't keep tightening forever and this builds up our reserve basis. And if you look at spreads where they are, relative to what it would have been historically, there's not too much tightening that can go on in the future.

So when you think of those two exposures, that -- yes, we are negatively exposed to credit spreads coming in, positively exposed to equity markets going up. Equity markets -- I mean, just a matter of fact and I'm not suggesting anything in the future, but equity markets can go up infinitely; credit spreads, they can't go below zero. Sorry, interest rates can drop, which would negatively affect us, too. But again, with all the money that's been printed, you make your own assessment of which direction that's going to go.

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### Unidentified Audience Member

Don, just quickly, the -- in terms of desensitizing the Company to the equity market risk embedded in the VA guarantees, etc., right now the impact of a 10% move in the equity market has about a \$1.5 billion impact on earnings. Is there a number -- is there a target that you're looking toward and is there a timeframe that you're trying to get there?

Sep. 17. 2009 / 2:40PM, MFC - Manulife Financial Corporation at Scotia Capital Financial Summit

**Donald Guloien** - *Manulife Financial Corporation - President and CEO*

Well, we have some views, but our -- how we get there? We would not talk about targets in any sort of public forum because the timing to get the target is not time-based; it's market-based. If I said I wanted to get to X in three years, if markets stay flat, to be quite honest with you, we would not get there because I don't intend to hedge out of the money -- substantial amounts of money.

I look back at it and in my assessment I can start from time zero as the new CEO, but say the Company took a lot of risk with shareholders' money in not hedging these risks; to hedge it at the bottom, although it might make me look good, is not the right thing to do. And therefore, that means that we will have some of this risk for a longer period of time than some people might feel comfortable with. But I believe it is in shareholders' interest given the likely general direction of equity markets.

So I would like to see that risk significantly diminished, but I can't promise you that it would be cut in half, for instance, in three years. It really depends on what markets do. But we are very much committed to hedging that risk because we do not want to have -- that is too much sensitivity. I think Manulife will always have a sensitivity to equity markets. Frankly, as equity markets -- I'm biased to be optimistic, but that is too much sensitivity and we'd like to reduce that substantially.

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**Tom MacKinnon** - *Scotia Capital - Analyst*

Last question here.

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**Unidentified Audience Member**

Within the context of fortress capital, has the current economics given rise to a lot of profitable acquisition opportunities, and what maybe product areas or geographies would be most favorable right now?

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**Donald Guloien** - *Manulife Financial Corporation - President and CEO*

Lots of opportunities. They don't tend to be the big blockbuster deals just yet, but they will emerge into those; that would be my prediction, although all the legal language would apply to that. But I know it in my bones and I'm not bad at predicting these things. But there are lots of sort of small or medium-size deals that are highly attractive today; I think it's one of the best times, frankly.

In terms of geographies that are attractive, we do not make our decision making at all on the basis of geography; we prefer X place against Y place. They're done on what is the best deal in terms of the best long-term growth for shareholders. And obviously, Asia has a lot of organic growth that comes from the growth of those markets, so it starts with a little bit of a run -- a head start.

But an attractively priced deal in the United States or Canada -- if some company were to fall into distress for the next little while and have to sell something at an attractive price, that is equally promising. So what we do, we have a template for how we evaluate it. I'm not caught up in numerical analysis, but it's about eight points that we look for deals, to put them through a screen to sort of assess how attractive they are and that determines what priority we place on them, so it's a balance.

So again, if that sounds opportunistic to people, yes it is. Again, we have a really nice base of organic growth. Our desire to do strategic deals is predicated by opportunities -- how attractive they are, rather than having to build out a business.

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**Unidentified Audience Member**

(inaudible - microphone inaccessible)

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**Donald Guloien** - *Manulife Financial Corporation - President and CEO*

Yes. It's pretty simple, Jill. We do not want to add more equity risk for reasons that we just talked about. Anything that plays to Manulife's core strengths that is outside that, diversifies that, which is a lot. Right? As much as this has become a big thing for us in this tough market, it isn't all we do; it isn't even the majority of what we do. So, all things that we do with excellence are game for that.

So with everything outside that is game for acquisition, assuming it's attractively priced and that we're bringing more to it than just our wallet; that we can leverage an existing skill and that we obviously have a high degree of confidence in our due diligence process that there aren't lurking problems associated with the acquisition.

**Tom MacKinnon** - *Scotia Capital - Analyst*

Okay. Thank you very much, Donald.

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