



# Investor Day

September 29, 2008 - Transcript

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## Participants

### *Manulife Financial Corporation*

Dominic D’Alessandro	President and CEO
Peter Rubenovitch	SEVP and CFO
Donald Guloien	SEVP and CIO
Paul Rooney	SEVP and General Manager - Canada
Robert Cook	SEVP and General Manager - Asia
James Boyle	EVP – US Insurance
Hugh McHaffie	EVP – US Wealth Management
Simon Curtis	EVP and Chief Actuary
Amir Gorgi	AVP - Investor Relations

## **Welcome - Amir Gorgi – Presentation**

**Amir Gorgi:** Good morning and welcome to Manulife Financial's 2008 Investor Day. I'd like to extend this welcome to those of you joining us via webcast this morning. My name is Amir Gorgi, I'm Head of Investor Relations and I will be your host for today. Joining me at the front table is Peter Rubenovitch, Senior Executive Vice President and Chief Financial Officer. Also joining us is Dominic D'Alessandro, President and Chief Executive Officer.

Before we get officially started, I'd like to make a few administrative announcements. Each of you should have received a package this morning, upon registration, and this includes copies of today's presentations as well as biographies of today's speakers. For those of you joining us via webcast, this information's also available on our website at [www.manulife.com](http://www.manulife.com) under the Investor Relations section. In the interest of time, I will briefly introduce each speaker and I encourage you to refer to their biographies for more details.

A few housekeeping items. In the case of an emergency, our fire exits are located at the back of the room to your right leading to the rotunda. Washrooms are also located at the back of the room through the doors and then to your left past the elevators. Finally, we'd ask you that you turn off your cell phones and BlackBerries or put them on mute if possible.

Turning to today's agenda, you'll note that we have a full and comprehensive day. Each session will span approximately 45 minutes starting with the presentation and concluding with the question-and-answer period. We ask participants to withhold their questions until the end of the presentation and limit themselves to one or two questions and we'll try to answer as many questions as possible.

If you do have a question, please raise your hand and wait for a microphone before proceeding with your question. Please also state your name and the company that you represent, for those of us that are on the webcast. We will pause for one hour for lunch today. And we ask that everyone be punctual in returning to this room so that we can resume in a timely fashion.

For those of you that regularly listen to our earnings calls, you'll know this next slide off by heart. On behalf of the speakers that follow, I wish to caution investors that the speakers' remarks may contain forward-looking statements within the meaning of the Safe Harbor provisions of Canadian and US securities laws. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in these statements.

For additional information about material factors or assumptions applied in making forward-looking statements, please consult the slide entitled Caution Regarding Forward-Looking Statements in this presentation, as well as the securities filings referred to in the slide. That caution, together with the securities filings also provides additional information about material factors that may cause actual results to differ materially from expectations.

With that, I'd like to pass it over to Dominic D'Alessandro, our President and Chief Executive Officer who'd like to make some opening remarks. Dominic.

## **Opening Remarks - Dominic D'Alessandro - Presentation**

**Dominic D'Alessandro:** Well, thank you very much, Amir, and good morning, ladies and gentlemen. I am very pleased to have this opportunity to welcome you to our Investor Day. I must say I'm surprised to see so many of you here in such great number. I thought you'd be on the phone or listening by webcast.

We have a comprehensive presentation for you today. And I know that you'll have lots of questions about Manulife and what the strategic implications of all of the turmoil that's in the marketplace today. I will come back at the end of the day to address any of the questions that you think I should be answering on the subject. It's a very fluid situation. I've been following developments over the weekend. The markets have not yet responded to the announcement of the bailout that apparently is going to be enacted as favorably as I would have liked.

We think Manulife is in an excellent position compared to everybody else in the financial services industry to weather the storm no matter what happens. I remind you again that we -- our leverage is rather modest compared to other companies in the financial services sector. And that our deposit base is very, very stable. However, we're not immune from the events that are happening. Prior to the weekend, we had disclosed to you our exposures to, I think, Washington Mutual and to Lehman and to AIG. Today this morning, our exposure to the other one, what is it again, [Colin]? To Wachovia, it's a little under C\$600 million.

I can't tell you at this moment what the impact or what the prospects for our C\$600 million is, but probably by the end of the day or another day or so we'll know a lot better. Apparently, Citibank and Citicorp -- and what's that name again? Wachovia, have come to some arrangement, the terms of which -- the announcement was made at 8.30 -- the terms of which I don't know. However, I would say this, that if you add up all the four companies that I've mentioned, it's about C\$1 billion and pretax, pre-par, pre-other adjustments, pre-recoveries. So, I think it's well within the ability of Manulife to withstand the cumulative impact of those four failures.

And I would ask you, particularly during the presentations today, you're going to have quite some detail on the structure of our reserves and how we estimate and how we pad them. And so, as I say, keep those in mind. I will be back, as I said, at the end of the day to respond to questions I'm sure some of you -- it's at the top of your mind. Some of you have been speculating about what my intentions might or might not be, what I might or might not do. And we can chat about that a little bit when I come back.

So, have a very good day and I'm sure it'll be an interesting one. I looked through the presentations, they're very comprehensive and contain a lot of detail which I hope will satisfy you. So, thank you very much.

## **Financial Review - Peter Rubenovitch - Presentation**

**Peter Rubenovitch:** Thank you, Dominic. I would like to now run -- go through our financial story and then I'll dedicate a couple of slides to cover our Reinsurance Division. As you know, we had an exceptional track record of growth. We're quite proud of it. The Company is very strong, has a diversified earnings platform. We continue to have record sales levels and leading market shares and we've had very profitable new business growth. We have a high quality, diversified investment balance sheet and it's quite a conservative balance sheet, as Dominic mentioned, with us leveraged than most of our competitors.

At a glance, if you look at where we make money and how our business has been depicted over the last three years, as you see there the US Insurance business accounted for 17.5% of our earnings in '07. The Wealth business in the US accounted for 25.6%. Our Canadian operations was a similar contributor to earnings last year. Our Asian operations are about 20% of our earnings. Reinsurance Investment Management and Other was 11.3% of which Reinsurance was about 6%. We have very strong market positions across all these businesses in which we choose to operate and we continue to add to our revenue strength of our positions.

If you look at our finance snapshot, our premiums and deposits via compound annual rate of growth of 18%, which we're quite happy with. The addition of John Hancock made a contribution that you can see they've continued to enjoy very nice growth subsequent to and we enjoyed strong growth prior to the acquisition of John Hancock.

Net Income grew by 26% per annum in the same five-year timeframe. The same comments about the consistency of growth is observed over multiple years. As well, you can see a snapshot here of the various key businesses and each of those are growing as well. We had excellent growth in Funds Under Management from C\$105 billion at September '99 and we went public to C\$400 billion at June 30th '08.

We are the industry leading return on equity, the 18.4% recorded last year, it's better than our peer average in Canada or in the United States. The first half of '08, equity markets impacted earnings dwindling down a bit, but on a constant currency basis they're off only 5%. And fully diluted earnings per share was off 8%. Our ROE was still 16% for the first half and perhaps more importantly, our insurance sales on a constant currency basis were up 20% and our Wealth Management sales were up 8% while our new business embedded value rose by 25%. So, these were very strong operational results and included the adverse impact of weak equity markets particularly in the first quarter of '08.

Our earnings growth has been diversified. You can see by a key product line, the compound rate of growth is annually strong, ranging from 18% to 49% per annum. And the first half of '08, although modestly soft given some of these exceptional numbers was still very, very good across all business lines. We enjoyed a diversified earnings base -- many geographies, many product lines, many categories of activity contribute to our earnings. We've had very strong contributions from insurance over time and the wealth business is increasingly important to us.

Many of you will have heard me speak quarterly about our source of earnings and the disclosure about earnings quality that this indicates. We have a history of strong, expected profit on in-force and earnings on surplus gaining through a substantial portion of our earnings. Our experience gains are chronically material and the impact of new business is generally maintained in a controllable, narrow range, so strain is quite acceptable. Management actions and other elements are a diminimist contributor to our earnings. And of course, we do have to pay taxes, those are accrued for our income taxes.

We've had record sales in medium market shares. In '07, we look at the year-over-year growth, quite strong across all our key business lines. In terms of market share, we've indicated, where statistics are reliable, where our market share is based either on published results surveys or the best information we can obtain. Our market ranks are generally number one or close. And generally rising in '07 versus '06 based on the most consistent data we could obtain.

Our new business embedded value continues to be quite strong. Is divided with Insurance and Wealth contributing, as indicated on these charts. The new business embedded value creation on the wealth side has been rising in recent periods and continued to be an important attribute with first half of '08.

We've returned a substantial amount of capital to shareholders. In '07, over 80% of our earnings were distributed through share buybacks and common dividends. And that's a record level for us, but it's continuity of the very strong cash contribution of shareholders that that has been made by our Company. Our dividend is at a five-year compound annual rate of growth of 23%. We had another increase last quarter and we showed a pro forma full year result based on that level. So, we have a very strong track record of contributing dividend growth and our payout ratio for '07 was 31% of earnings.

Our capital ratios remain strong against regulatory requirements. On the Hancock side at December 31st '07, we were at 439%. On the MLI side at June 30th, we were at 200%. Each of those are against the regulatory minimums indicated on this chart. All of our operating units are also adequately capitalized and well in excess of their respective regulatory regime requirements.

We have low leverage. At the end of the second quarter of '08, we're at 20.5% debt to capital. As many of you'll be familiar, the rating agencies give us some credit for hybrid instruments that is not reflected in these numbers. So, this is a quite strong capital structure position. Leaves us lots of flexibility and is an indicator of the financial strength of the organization.

Simon Curtis, our Chief Actuary, will go over reserves and actuarial matters in more detail, but as a highlight, our provisions for adverse deviation continue to grow as percentage of our actuarial liabilities. It's an indicator of conservatism and strength in our actuary reserves.

We have a very diversified, high quality investment portfolio. Don will speak to you, Don Guloien, will speak to later about our investment attributes and assets and our strategy there. But I think the key is we have not been active in some of the most contentious categories that have been problematic for financial firms. Our sub prime monoline asset-backed commercial paper, SIV exposures, et cetera are either non existent or certainly quite manageable. Credit quality generally across the firm is quite strong.

We do have exposures, Dominic mentioned, to some of the financial names in the news, but I think the economic impact on the firm, likely reflected this quarter, will be relatively nominal compared to that of many of our competitors. We don't write any credit derivatives and we have no synthetics securitizations. And Don will go through in some detail the many types of things that are not working out well that we don't participate in.

We're quite large, our scale is significant, we're now the largest life insurance company in North America and the fourth largest in the world. I think that's interesting, but it's never been an objective of the firm to be big. But rather, our focus is on profitability, generating earnings growth to produce good EPS growth and a substantial ROE.

And we have produced good value for our shareholders. Since we're a public company, you can see the charts tracking us against the S&P/TSX financials. The same thing in Canada and the same thing on the US side where we track both the Life/Health Index and the S&P in total. And the green line, the Manulife line, is certainly an attractive investment result versus those respective indices. So, I think we've had a very exceptional track record.

These are interesting times, they present opportunities and challenges, but we have a strong and diversified earnings platform, continue to have strong sales and market shares and a very profitable new business mix. High quality and diversified investment portfolio, conservative balance sheet and therefore, I believe we are very satisfactorily positioned to deal with today's environment.

So, I've gone through this with the intent of answering questions, but I'd like to take a minute to talk about our Reinsurance business which is of interest I believe to many of you. 6% of the Company's earnings were a niche specialty plan and a couple of loans. It represents an opportunistic deployment of our capital. And parts of the business exploit the expertise we have with life actuaries and underwriting, and part take an opportunity to get the attractive rates of return on non-core related business.

It's a bottom line focus without pursuit of volumes. So, this is the division that has no growth objectives but rather a risk-adjusted-return target. We don't have many direct competitors of size and our focus of course is on ROE and risk management in this business line.

Our key business, the one we've been in longest in this division, is the Life business, we're a very large life retrocessionaire. That's a reinsurer of reinsurance, mortality is the primary risk and we do it in size. We have an enormous in-force block of quite long duration and its earnings over periods of time were very, very predictable and stable.

Quarterly, they will be somewhat volatile because of the large retentions we have. And so, if a handful of extra quite wealthy people die in a reporting period, the results will be more or less favorable depending on those volumes. But over periods of time, it's a highly predictable business and very compatible with the skills we have in the rest of our organization. We have very limited structure book, it's largely surplus relief transactions in the US.

Our P&C business is primarily property and some aviation. It's basically annual. It's largely super cap cover for Acts of God, so primarily we're looking at wind storm, hurricane, that sort of thing. It's a max retention business, so we have a cap on our exposure and we have a finite amount of capital at risk. So, you remember when Katrina happened, we had a max loss. That's a good indication of the amount of money we could lose for a single event. And some of these exposures could be exposed for two events a year. Much of the capacity at present only is exposed to a single event.

So, we really can have a finite amount of loss, it's quite manageable for the Company. The target rate of return that we established for this business is well beyond the typical company standard because of the volatility of this business. You typically have many good years, three, four or five good years and then a very bad year. There's not much that's generally in between.

The Accident and Health business is essentially in run-off. There are two blocks, one in the Reinsurance division that relates to the old Manulife Accident & Health line, it's in litigation and arbitration. There's a similar block in Corporate managed by the Reinsurance division. And these are running down. They're quite stale and generally speaking, they're becoming less and less important as we either arbitrate, litigate or otherwise resolve the claims and generally commute the treaties.

IGP is an interesting business, relatively small. What it does is provides cover to citizens of the world, folks who work for multinationals in foreign jurisdictions. Multinationals, if they don't have big pools of people in a country, would not get good group rates for life insurance and other benefits that they want to provide their employees.

This organization arranges local cover in a number of countries, dozens of countries, for these multinationals. We're the number one in the world, we believe, in that space, but it's a fairly small space and one that we're excited about. But we're trying to find other products to sell to these multinationals or to offer in conjunction with the many partnering insurance companies that we operate with across the globe.

So, life retrocession, just a quick primer for the few who may not have heard this before, essentially the insurer has a retention, the reinsurer has a retention and then we have a retention. And in some instances, there may be exposures beyond our retention that goes to somebody else or it doesn't get covered. And so, we're taking that layer, remote, from the original underwriting, but we require information so that we can, for the large cases and for portfolios, meet our underwriting standards.

Property and casualty, why does it work? Well, it is a high return on capital business. It's a non-correlating risk. We are a consistent provider of some capacity, but at our price and as a consequence if rates were to stop immaterially, we wait -- we have a portion of our capacity unfilled or perhaps in some cases even all of it. So, we're very driven by rate of return. Single event losses are capped, as I said.

We do have good going -- ongoing relationship with clients. They value our capacity because it's a non-correlated risk, so if there's an enormous natural disaster, our financial strength is likely going to be less impacted than firms that are specialists in the P&C business. And we have no legacy issues, our financial strength is our -- one of our important attributes and we do have expertise having been in this business for quite a period of time. We're not seen as a direct competitor for the P&C companies that we insure.

So, the risk management framework is fairly integrated into our Reinsurance division. We have a number of specialty businesses that we find attractive. Bottom line focus not volume driven and we trade on the strength, the financial strength of the Company in a rather conventional way. And we're an attractive partner because of our conservatism and our financial strength.

So, if I may, I'll be happy to take any questions from the floor on either of those two presentations. There's a mic on either side. We'll have somebody come by and -- there you go. If you can identify yourself for the simulcast please.

#### **Financial Review – Peter Rubenovitch – Q&A**

**John Reucassel:** John Reucassel from BMO Capital Markets. Just a couple of things Peter, first in the past, you've talked about medium term EPS guidance of 15% growth. I know '08 is going to be a tough year, but is that still your target? And then just on leverage, as you defined it in that table, what -- how high are you willing to go given the opportunities out there? Or what are the ratings impact? Or are you willing to entertain lower ratings at the holding company level for the right deal? Or any color around that?

**Peter Rubenovitch:** All right, so let's start off with the earnings growth objective or the EPS growth objective of 15%. That is a medium-term objective. It's one we continue to pursue as is the 16% ROE objective of the firm. Our pricing and our business plans are generally put together on that basis. But quite clearly, we've done substantially better than that for a period of time and those were in good markets. And I would say that in tough markets that would be a more difficult objective to achieve. But it's one we would still pursue. So yes, we have not changed our financial bellwethers and of course, I've never provided either quarterly or annual guidance and wouldn't intend to commence doing so at this point in time.

With respect to leverage, we have never had a capital structure, since we're a public company, that was at our target mix. And we're only beginning to approach the objective. And our objective, I think, would be to remain a fiscally conservative firm. I think we have a lot of latitude for the emergence function of coverage ratios and earnings and hence capital formation. I think, for the right transaction, it's not impossible that we would end up with a higher leverage ratio than our target. But I would rather hope we were doing it for something that's so economically attractive that rating agencies would see the merit of the transaction and sustain our ratings.

But it's never been the way we've operated as a primary focus. So, we're not leveraging to our ROE, in fact, we're going into our capital structure over time. And I wouldn't see that changing unless there was some compelling motivation. Now, this is not a market in which one would change one's capital structure dramatically and expect a neutral response. There's a lot of concern in today's market.

Having said that, I think our financial flexibility, only flexibility that we're prepared to entertain its use on a reasonable basis and I think our track record will give us some latitude. And it's not a particularly current issue because we're well below our current targets for leverage at this time. But I don't want to suggest there's a hard ceiling. I think it would be situation specific to quite an extent.

So another, get one here, get you a mic. Any trouble with our mic? There we go.

**Michael Goldberg:** Michael Goldberg, Desjardins Securities. Peter, just in light of events and I know that Dominic will be speaking later about this, but can you talk about Manulife's liquidity? And what you're seeing and experiencing in money markets and in contact that you have with providers of liquidity and backup providers of liquidity?

**Peter Rubenovitch:** Well, I'm glad you asked about that. Our philosophy in liquidity has been, as you all know, to manage our liquidity off the financial strength of the firm. So, we're not particularly dependent on external sources for liquidity. One of the early things we did was to break down the silos at each of our business lines at a start point in time, used to maintain their own cash needs separately. And we've pooled those so that the Company's cash is available as opposed to sort of sloshing around in different silos. We've also used our balance sheet, because we don't intermediate liquidity for third parties in any substantial way to provide our own sources.

So, some of you will recall, and certainly I know there's a few rating agency faces in the crowd -- will recall that we've, quite a number of years ago, eliminated bank standby lines on commercial paper as a primary backstop to our liquidity needs because we have C\$8 billion to C\$10 billion to C\$12 billion of cash at a typical quarter end. So, we have a lot of natural liquidity in the firm. And we've not sopped that up, we've used it to provide for our own financial needs.

So, we're somewhat distant, we're not looking at a whole bunch of funding needs to meet our cash requirements. And that's reflected in our liquidity ratios that we review with rating agencies. In fact, just two weeks ago, we went through our ratings review cycle that we review with them to satisfy them on that issue.

With respect to money markets, there was a tremendous amount of nervousness when a significant money market account burst the buck. We don't have any current issues and I suspect most others do not. The nature of our money market funds is highly conservative, but we do have a challenge managing our treasury accounts where a lot of cash is kept in the market. And we've been very cognizant of our counterparty exposures more so than would normally would be the case.

So, our problem is one of making sure our money is safe in a somewhat perilous market climate. We're not seeing liquidity stress and we're not likely to be the first place you would see that sort of thing because we're generally not big in the deposit gathering business.

We do have a bank, the bank is continuing to perform very nicely, it's very attractive to depositors because it's part of a very strong group and it's got very little, in fact no interesting assets on its balance sheet. So, what happens I think is in a review it shows very nicely, but we're only a peripheral player in the deposit gathering business or on balance sheet. Our funds typically come from our wealth management clients and from our insurance clients. In particular, most of those are the on-balance-sheet accounts and as you see, our sales continue to be very, very strong.

Get you a mic, just one sec.

**Deborah Frame:** Deborah Frame from Empire Life Investment Management. Have you changed any of your securities lending parameters or guidelines as a result of what's been happening recently?

**Peter Rubenovitch:** Absolutely. We've, over the last year or two, strengthened our collateral requirement procedures and practices. We've tightened our counterparty name limits. We do it all the time, dynamically, but in recent periods quite significantly. And I think we'll probably have another round of that as some names that are of higher quality turn out to be problematic. Our practices in this area have been pretty benign from the gate. You have read about a number of firms that have had material problems because what they do is they lend securities. They take the proceeds and they invest them to earn an additional return by taking risk, in some cases sub prime assets or rather eventually impaired categories.

The Canadian model doesn't work that way. What we do is we are happy to have the fees that we obtain for the securities lending and we put those monies in basically very low risk assets, so we're not looking to make an additional return and hence don't have much credit excitement on an investment strategy. So really, our main focus is, if we're lending securities, making sure that our coverage ratio is adequate because basically when you don't lend naked and that we don't have significant peril if someone defaults because you generally have 24 to 48 hours notice period or whatever so that you can close them out.

But you don't want your security to rise in value and you not be indemnified if the counterparty fails. So it's an administrative area we're tightening on. But we're not involved in the American style, second wave of exposure, where you're investing those monies for profit. We just basically invest it very low-risk stuff and it's not been a problematic area for the firm.

**Deborah Frame:** Do you have your own internal lending program? Or do you use an external financial institution?

**Peter Rubenovitch:** We do both. We use external parties for some of the activities, there's a trust arrangement. But we actually do direct or directly manage -- direct if it's something we're not on balance sheet for. Or directly manage the placement of those proceeds so that we have control of the credit risk from the cash if there's cash deposited proceeds. And then, there's some other programs we're peripherally involved in or fund managers who manage money may have arrangements and we've insisted on some decent standards there as well.

Yes, get you a mic.

Colin Devine: Colin Devine, Citigroup. Peter, what is it about the characteristics of the liabilities that you've been writing the last few years that's causing the percentage of the PfADs to grow? What's changing?

**Peter Rubenovitch:** Well, there's a couple of things. We're selling more Wealth business as you can see. And the Wealth business is inherently a little more volatile than the traditional protection business. And more of our business is investment related in terms of its outcome and it's a consequence again. So, those two things go to causing mix to make PfADs rise.

Simon will go through that in a little more detail and you could ask him more about it. But essentially, that's the key parameter in terms of mix. The other thing is, I think despite that, I don't believe we've become less conservative. And as a consequence, our business volumes are stable to growing and that's probably contributed a bit of it as well.

**Colin Devine:** Is this increase going to continue or are we -- what is it sort of maxed out?

**Peter Rubenovitch:** Well, it's hard to say. I think we have standards that would be applied quite mathematically. So, as business mix changes, for example if the Wealth business grows more slowly because of turbulent times, and that's typically what happens, then Insurance business will be a bigger piece of new business. And the growth in PfADs would just moderate due to mix.

I think also if there's more uncertainty about investment markets, we tend to strengthen our PfADs in that type of period, so you could have offsetting or competing trends. But long term, I would expect Wealth to grow faster than Protection because our market shares are bigger in the Protection business. And Wealth tends to have larger PfADs because there's investment related uncertainty and customer behavior uncertainty that you'd want to be more conservative on than would be the case for more traditional insurance products.

### **Asia – Robert Cook - Presentation**

**Amir Gorgi:** Okay. Our next speaker is actually joining us via video conference from Hong Kong, it's Bob Cook, he's Senior Executive Vice President and General Manager of our Asia Division.

Bob, you there?

**Robert Cook:** Yes, I'm here can you hear me?

**Amir Gorgi:** Yes, loud and clear.

**Robert Cook:** All right, thanks very much, Amir, and good morning, everyone. I guess before I get into my presentation, I should indicate to you that we held an Investor Day exclusively on the Asian properties on September 9 and I know many of you either attended that or listened to it. For those of you who didn't, the slides and the webcast are still available on our website. What I'm going to do for you this morning is basically just give you a very -- about a 15 or 20 minute version of the five-hour presentation that we did in Tokyo.

So, with that as an introduction, if we could go to the first slide on consistent growth record, we have achieved a pretty consistent record over the last 10 years of about 30% top-line growth and 30% bottom line growth. And that is largely the goal that I've set for our organization to continue going forward.

This first slide is a little different from the ones you'll see in the other presentations today. Most of the other presentations use a five-year history. I decided to use a 10-year history of our results in Asia because I wanted to be able to communicate to you the fact that there have really been four main drivers of this consistent track record that we have delivered in Asia.

And those four, the way I describe them is first of all organic growth, which is just doing more of what we're traditionally good at. My second category is what I call business development, which is expansion into new lines of business or into new channels of distribution. The third is then mergers and acquisitions where there have been over 10 acquisitions made in this time period shown here.

And finally is territorial expansion where over the course of the period shown here, we have added Japan, Malaysia and Thailand to our portfolio of businesses in Asia. So, all four of those drivers have been important parts of our history. And I would say to you, I believe that all four of them are going to be important contributors to our future results as well.

Turning to the next slide entitled Diversified Portfolio of Businesses, really what I wanted to do on this slide is try to show you that what we're trying to do in Asia is deliver the same kind of results that we see from the rest of the Company. We have a diversification by geography, which you can see in the pie chart in the upper left hand corner, where you see a pretty even split in terms of the income we earn from our Japanese and our Hong Kong operations and about 18% coming from our other Asia operations. But that piece of the pie is the fastest growing piece of the pie that we have.

You see in the bottom right hand corner that we are attempting to deliver the same kind of diversification by major line of business that you see in both Canada and the United States, where we're trying to put the emphasis on both the wealth management side and on the protection side. As you can see, on a top-line basis, our wealth management sales already deliver more than 50% of our sales results in Asia. In time, you're going to see the bottom line will shift to this kind of mix as well. Right now, insurance probably accounts for about two thirds of our bottom-line results in Asia. But as I said, over time that force of the top line will cause the same kind of results to be delivered on the bottom line.

The next slide just shows you our regional footprint. We are in 10 countries in Asia, from Japan in the north through China, obviously the biggest geographic, through Hong Kong and Taiwan and then the countries of (inaudible-technical difficulty) ending with Indonesia in the south.

The next slide shows you our organizational structure. We report results to you in three reporting segments, Hong Kong, Japan and Other Asia. We run the business in the four segments shown here, Hong Kong, Japan, ASEAN and China. I guess there are really two messages I want to give you by showing you the org chart. The first is just to re-convey to you the message of the stability of our organization.

Last year, I showed you our org chart and indicated that we had no changes from the previous year and we were probably the only major insurance company in Asia that could make that claim. This year, we've had only one change since last year. In Japan, Geoff Crickmay who ran the operation retired. But he was succeeded by Craig Bromley who had already been in place in the organization for a couple of years as the CFO. So again, a very strong indication of the stability of our organization that we use to manage Asia.

The second message I'd like you to take away from this slide is the tremendous experience base that we have in our senior management team. Marc Sterling has been in Asia for close to 20 years and is running our China operation. Philip Hampden-Smith has worked for us in many countries, Hong Kong, Indonesia, now based in Singapore running our ASEAN countries.

As I mentioned, Craig Bromley has been in Japan for several years now and has now taken over as head of our Japan operation. And Michael Huddart has worked in Taiwan and Indonesia and Hong Kong for

Manulife and in Indonesia and Thailand for other companies in Asia. So, he's a true Asia hand. So again, one of the management teams in Asia that I think has one of the best depths of experience in Asia markets than any of our competitors.

Turning to the next slide, I guess the way I think about the 10 countries that we operate in in Asia is I kind of segment them into the developed markets and the developing markets. We're in four developed markets, Hong Kong, Singapore, Japan and Taiwan. And really what is common in those markets is that there are Asian populations that favor the growth of our Wealth Management businesses. And that characterizes our strategy in all four of those countries.

The other six countries are developing markets. And for the most part, what is common amongst those markets is they tend to have very large populations, very fast growing economies and a low degree of insurance penetration, favoring our traditional protection products as the primary business line in those six markets.

Turning to the next slide on core strategy, I mean obviously because the nature of the markets and the competition varies greatly country by country, so too does our strategy. And as some of you have heard me speak before and I think other officers of Manulife have said this, I don't think the actual choice of strategy matters a great deal. We're going to beat our competition by out executing them. And I think that's kind of the core of what we're trying to accomplish here in Asia.

Now having said that, I guess the umbrella that I would describe as our strategy is that I'm attempting to make Asia look more like the rest of Manulife. So, we are attempting to ensure that we have well developed insurance and wealth management businesses in every country in which we operate. And we're attempting to ensure that we operate through multiple channels of distribution in every market that we operate in.

Now, some of this is a strategy that we've kind of adopted from the starting point in market, others we're kind of changing what we've historically done. In some markets, we're traditionally known as a captive agency company. But even in those countries, we're changing the culture of our organization to think of ourselves as manufacturers who would attempt to reach our target market through any channel of distribution.

And I guess the final core element of our strategy is to get better leverage of the Manulife brand and its historical commitment to Asia. Now, this element of our strategy has probably changed a little bit since I first wrote this slide about a month ago because I get the elements of this that, in today's market, our most important is to get leverage of the financial strength of our Company and to take advantage of what we anticipate will be an ongoing flight to quality in the weeks and months ahead.

What I'd like to do now is just spend a minute or two on each of the four geographies in which we operate and just give you a sense of our strategy in each one of those. So, turning first to Hong Kong, our strategy in Hong Kong is to have an extremely diversified product line. The rationale for that strategy is that we already have a very deep customer base. We have a customer base of 1.4 million out of a total population of 7 million here in Hong Kong.

So, our basic strategy is more cross selling and ensuring that our customers own multiple of our products. We have very strong market positions in our various businesses here in Hong Kong. For example, we're the number two player in the mandatory Provident fund, which is kind of Hong Kong's version of the defined contribution business.

There's potential in the future for our fourth major business. The Hong Kong government is in the process of going through what they call a medical reform. They're trying to figure out the best way to fund healthcare for the systems in Hong Kong in the future. There is a variety of options that they have tabled for consideration and in many of them we think we will be well positioned to provide a private sector solution. So, we shouldn't [stop]. We're quite hopeful that that could lead to the development of the fourth major business for us.

I think in terms of looking forward, we're quite positive about growth in Hong Kong, despite our relatively mature position here. And the reason for that is just that a very positive outlook on the economic

environment for Hong Kong. I mean Hong Kong is, as you know, the gateway of China and I think has established itself as the financial center for accessing China. And I think that is going to lead to an ongoing pattern of economic growth going forward and increasing wealth amongst the people of Hong Kong. And that'll fit very well with our desire long-term to further grow the wealth management side of our business here in Hong Kong.

Now in 2008, 2008 is proving in current equity market conditions to be a tough year for wealth management. So, but the offset to that is we're having a very strong year for Life Insurance. And I think that just shows again the benefits of the diversification of our operation here in Hong Kong into the multiple businesses in which we operate.

Turning to the next slide on Japan, Japan is delivering some great numbers this year. As you can see, our insurance sales have doubled this year, our variable annuity sales have tripled this year over the same period last year and our funds under management are up by half over the same period last year.

What is happening in Japan? I guess the two things are first of all is the restoration of our variable annuity franchise. As most of you know, we had some issues related to the tax treatment of our product about 18 months ago, which caused a significant fall off in our sales. That was fixed and then what you're seeing over the course of the last year is not a product story.

What you're seeing over the course of the last year is a distribution story where we have rebuilt all of the relationships that we had previously used to distribute our variable annuity portfolio products in Japan. And have dramatically extended those distribution relationships to a much wider range of financial institutions than we ever had before, over 20 banks, about 10 securities firms as well as some of our more traditional agents and planner channels.

The other story I would like to tell you about our success in Japan is that the insurance sales growth you're seeing is partly coming from our traditional captive agency channel who are having quite a good year this year. But the real story there is that we have built an entirely new channel for insurance, what they call the MGA channel in Japan, which is an independent advisor channel. And we've essentially built that channel into the same size as our careers distribution channel in just over a year of work. And we believe that there is great upside for further growth of insurance sales through that channel.

Turning to the next slide on ASEAN, the ASEAN is a very complicated story and I want to try to give you a very simple summary of it. I think most of you get our China strategy and the opportunity that we are trying to tackle in China. So, I guess what I would submit to you is that ASEAN is 600 million people, strong economic growth and high savings rates. So, the way I see our ASEAN story is it's the same kind of opportunity that you understand in what we're doing in China, but it's an easier regulatory environment and there is much less competition. So, I think this is going to be the next great story that Manulife has to tell about Asia.

Our strategy, first of all in all the countries in which we've started in ASEAN, we have strong agency systems. But as you can see from the bottom right hand corner of this slide, we are actively pursuing a strategy of diversifying that distribution, notably into the bank market. And secondly, our strategy is to initially start with our traditional base of being strong in insurance. But as you can see from the bottom left hand corner of the slide, we're actively pursuing the development of our wealth management infrastructure in all of these countries as well.

The next slide is on China. Our strategy in China is to essentially be the first of the foreign joint venture companies to be able to legitimately claim to be operating on a national platform. Currently, we have licenses in 34 cities, which is more than any other company, so we're well on the way to realizing that vision. Our objective is to continue to grow that and to be operating over the next five years in 75 to 100 cities.

And I guess just to again, tell you a little story to give you a flavor for the nature of the opportunity here and the importance -- the reason why we keep telling you about the number of licenses that we get in China is, of the 10 new cities that we opened last year, eight of the 10 had a population greater than Toronto. So,

every time we get a license, we're getting a huge new opportunity in terms of potential customer base to pursue.

Let me turn to the next slide. Looking forward, growth in the future. I guess I told you in the first slide that I really saw four drivers of our growth over the last 10 years. And I believe that all four will be important parts of our growth story going forward.

First of all in terms of organic growth, I think most of you are familiar with that part of the story. That's the story about fast growing economies in places like China, Vietnam, Indonesia. I think you're familiar with the demographic story, whether it be the young age of population in the developing markets, which is the natural sweet spot for our insurance businesses, or whether it's the aging population in the developed markets, which is a natural for our expertise in the wealth management area.

And I think you're also familiar with the low insurance penetration in most of the countries in which we operate, which is -- again, we see as a great driver of continuing organic growth. I think examples of this, the Japan variable annuity story, whether you look at it over the last year or last five years, is a tremendous growth story for us.

Indonesia, somebody -- one of you asked me a month or so ago what's the next big business for Manulife. Well, I think Indonesia will be the next big business that we talk to you about. It's a business -- it's a country that we've been in for 22 years now, so it's getting kind of just at that sweet spot where earnings start to grow exponentially. It's where the profit emergence on a newly started block of insurance business really starts to become meaningful.

But our story in Indonesia is more than that. We're in multiple businesses there. In addition to insurance, we're in the Group Life and Health business in Indonesia. And also, we run the number two asset management company in Indonesia. So, we have a multi business strategy there, all of which are now starting to just be on the verge of throwing off meaningful earnings for us.

My second category of growth is business development. And this is doing things that we haven't done in the past. And again, a couple of examples there for you, first of all would be the establishment of the asset management companies. When I came to Asia in January of last year, we only had three AMCOs in Hong Kong, in Japan and the one I just mentioned in Indonesia. Today, we have eight. And we have projects under way in the last two countries, China and the Philippines, to round out that portfolio of AMCOs. Because again, as I said earlier, we see that as a key part of building the infrastructure we need to grow the Wealth Management businesses in addition to our Insurance businesses.

The second thing we've done is we announced -- at our Investor Day in Japan, we announced our entry into the Mutual Fund business in Japan. Now obviously, I don't have to tell you that this year may not be the best year in which to launch a Mutual Fund business anywhere in the world, let alone Japan. However, I think that basically what we're doing here is we're building a foundation of something that over the next decade is going to become a very big business for us in a very rich developed market, and one which helps to fill out and diversify our wealth management strategy in Japan so that it is not entirely dependent on the Variable Annuity business.

And the third example I would give you of the kind of things that we're doing here is the establishment of that MGA channel in Japan where we recognize, much as we did 10 or 15 years ago in the United States, we recognized that there was a shift taking place in the Japanese market in terms of how insurance gets distributed. And we wanted to be at the early part of that wave. And I think we've only just seen the very beginning of the kind of success that we'll have in that channel.

I think acquisitions will play a role in our future as they have in the past. We're known in the market as having a good track record for acquisition. And there are a number of, obviously I'm not making any predictions of when or where that might happen today, but there are a number of countries in Asia where it appears that the industry is on the verge of going through a period of consolidation. Some of this is basically driven by regulator action to impose more stringent risk-based capital rules on the industry. And not all

companies will survive and this will, we think, give us an opportunity to add scale to our businesses in some countries.

And finally, territory expansion, again I'm not here to make any announcements or make any predictions, but I think you're all well aware that there are two obvious countries missing from our portfolio in Asia, being India and Korea. We still are troubled by the ownership restrictions in India. However, obviously we view it as an attractive marketplace. And if that situation changed, we would be very anxious to operate and think we could make a significant contribution to the industry there. And Korea is a place where currently new licenses are not being granted, but if that ever changed, there are many attractive elements of the Korean market. And again, we think we could compete very well in it.

Turning to my final slide, what do I see as the keys to winning in Asia? I think first of all, before I came to Asia last year and I was working in our US operations in Boston, we used to talk a lot about the "war for talent." But having been in Asia now for a couple of years, what's going on in the US is just a little street fight for talent, the real war is going on in Asia. And I believe that we are in a good position to be able to compete and win that game.

And just to tell you a little a story about that, you know at last year's Investor Day, I told you about our entry into China and the fact that when we started our operation in China, we pulled people of Chinese decent from nine different Manulife operations around the world. And that gave us a great leg up in getting started, getting a good foundation in China.

The story I'd like to tell you today is that of the 34 cities that we are operating in in China, the city management of 75% of those cities is local Mainland Chinese people who we have recruited and trained and developed over our decade in China. And I think that's a great indicator of our ability to develop the talent we need internally, because the single biggest obstacle to growth in China, not just in the insurance industry but frankly in any industry, is the ability to develop that kind of mid-level talent. And I think our track record of doing that is an indication of a key strategy we have for winning the "war for talent."

My second message in terms of the key to winning is a message you've heard me give in my prior job running the John Hancock Life Insurance business, which is it's all about distribution. And again, a couple of stories to tell you about how we are going to win on the distribution front. When we were not selected as one of the first four companies to provide variable annuities to Japanese Post Office, many of you wrote reports indicating that was a big set back for us. And certainly, we would have preferred to have been chosen.

But our key point to you is that we did not sit back and lick our wounds. What did we do in response to that? We engaged in a process of rapidly expanding our distribution relationships with regional banks, we rapidly expanded our distributional relationships with securities firms, we built the MGA channel that I talked to you about, we were an active player in building products to take advantage of the opening of the life insurance market with banks and we greatly expanded our team in Japan. So, that's the way we view it. We lost a little skirmish in terms of one distribution channel. We fought back many different ways to grow.

Similarly, another example would be Indonesia and Hong Kong where we have built our businesses there on a captive agency system, which we then became known as that was the only way we distributed our products. But in both cases, we have continued to respect the value of those agency systems, while changing our culture to enable ourselves to diversify into multiple other channels. So, we know what the role is all about, the role of all that distribution, and that's what we're doing in all of our countries.

And the final key to winning in Asia is to recognize that it is not all about the top line. There are a lot of top-line stories in Asia that other companies will tell you about. But we believe that the other core parts of the story are the same ones that we tell you about any Manulife business anywhere in the world, which is that it is essential to run them with financial discipline, to try to win by out executing your competitors and to manage the quality of your business as much as you pay attention to the quantity of business.

So, I guess my final comment to you before taking any of your questions is that there are really -- if you are looking for one of the large companies in the world who have Asian strategy, there are basically five choices and we're one of those five. I guess my assertion to you is that while we're not the biggest of those five, I think we have the best future ahead of us. So, I hope you take a close look and analyze our story because I think you'll find it an attractive one.

Thank you very much and I'll turn it back over to Amir to moderate any questions you would have of me.

### **Asia – Robert Cook – Q&A**

**Amir Gorgi:** Okay, thanks, Bob. Sorry, can you speak up a bit?

**Unidentified Audience Member:** Is that better?

**Amir Gorgi:** Yes, go ahead.

**Unidentified Audience Member:** Okay. My question is, what kind of parameters do you put on your MGA business in Japan to maintain your underwriting standards?

**Amir Gorgi:** Bob, did you get that?

**Robert Cook:** Yes. The MGA business in Japan is targeted at the kind of small and medium-size enterprise, so it's kind of a corporate market. It's also -- the products that we sell there are very heavily savings-oriented products. So, while there are certainly underwriting elements to the nature of the risk we're taking there, it's not in anywhere equivalent, for example, to the large case protection business in the US where that is a key driver of bottom-line results. So, I don't view that as a significant measure of the results that we'll achieve in this business.

**Amir Gorgi:** Okay, do we have another question? Okay, one second, get you a mic. Over here. Give your name.

**Colin Devine:** Hi, Bob, Colin Devine, Citigroup. Is the disruption of Fortis or AIG in the specific countries they're operating in create any particularly attractive opportunities for you right now?

**Robert Cook:** Thanks, Colin. Well, I guess first of all, it's never good news when a big player in the industry is having problems. So, the short-term answer is that there are markets in Asia where AIG is currently the number one player. And the immediate reaction in some of the retail markets, the consumer is more of the sort of all insurance debt. Now, I think that will quickly wear off and I think from that perspective in those markets, the story of our financial strength will play very well and that we will be the recipient of some of the benefits of those companies' troubles.

I think where the reaction of the marketplace is a little more immediate is in more of what I'll call institutionally-oriented business, from two perspectives. One is to the extent that either one of those companies would distribute through banks or other financial institutions, some of that business has been disrupted by the headlines that they've been making and we would hope to benefit from that.

The other would be in some of our employer business such as the MPF business here in Hong Kong where, again, I think we're just a safer bet, for example, for an HR Director trying to decide what provider to use if they're selecting a new MPF provider. So, those are a couple of examples of the marketplace impact of those other companies' issues.

**Colin Devine:** Just following up, have you stepped up, then, your marketing of the AAA rating, since obviously you're one of the few companies in the world that has that? And does that give you any advantages with regulators in some of those jurisdictions when they're trying to find stability in terms of potential negotiations?

**Robert Cook:** Yes, it varies a little bit country by country, but certainly we tell the financial strength story everywhere. And where people understand the meaning of ratings, yes, we'll play the AAA card.

**Amir Gorgi:** Okay, any more questions?

**Michael Goldberg:** Thanks, Michael Goldberg, Desjardins Securities. You talked about health insurance as a potential fourth leg in Hong Kong and you've started selling it in Japan also. But do you want to talk about what particular expertise you have in that business and whether you think that it's adequate and whether there's possibilities for you to expand the expertise that you have in health insurance?

**Robert Cook:** Well, I guess, as I indicated, the government in Hong Kong has put forward a variety of options that it's considering and it has been gathering public feedback on those options. So, the exact direction they're going to take is difficult to predict. But to give you one example of one of the options being considered that would be kind of a home run for us would be an option that would piggy back medical reform on the MPF system and basically extend the MPF platform into something you might think of as like medical savings account.

If that were the case, that would be a tremendous opportunity for us to leverage both our distribution system and our administrative infrastructure. So other than that, as I say, there are many different scenarios how it might go forward, but that's an example of how we could possibly benefit from this reform.

**Amir Gorgi:** Okay, we've got time for one more question, so Jim, go ahead.

**Jim Bantis:** Thanks, Amir. Bob, it's Jim Bantis at Credit Suisse. And you talked about the strong recovery in VA sales in Japan coming from obviously the bank channel and security firms. Can you talk about the level of exclusivity that you have with some of these firms in terms of time horizons? Or is it open architecture on their part?

**Robert Cook:** Japan is a country where it's pretty much open architecture across-the-board. As you are aware, we have a special relationship with [MUFT], which is the biggest bank in Japan. And I think that's been a powerful and mutually rewarding relationship over the last five years. But even that one is not an exclusive relationship. So, we compete the same way we do in the US and Canada, we compete on a variety of things including our ability to innovate product, on our wholesaling strength and our marketing strength.

**Jim Bantis:** Thank you.

**Amir Gorgi:** Okay, thanks for that Bob, I guess we have to say good night to you, it's 10.00 Hong Kong time. So, thanks very much for that.

**Robert Cook:** All right, thanks everybody.

## **Actuarial Review – Simon Curtis – Presentation**

**Amir Gorgi:** Our next speaker is Simon Curtis, Executive Vice President and Chief Actuary, Simon?

**Simon Curtis:** Thanks, Amir. Okay. What I am going to cover today, this section is called Actuarial Review and there's a number of topics that we could cover in an actuarial review, but I'm only going to focus on our balance sheet and the valuation of the policy liabilities on our balance sheet. As we go through a turbulent financial, financial and economic times, one of the key questions is always the strength of any entity's balance sheet and what I hope I can do this morning is shed more light on how we value our policy liabilities and re-emphasize just how prudent we believe that work is.

I'm also going to really also cover briefly embedded value, how that balance sheet relates to the embedded value report and also spend a couple of minutes at the end talking about our hedging programs for variable annuities. I know a number of people have asked questions about that recently and since our Chief Fiscal Officer isn't speaking today, I thought -- we thought I would be the right person to cover that.

So, why valuation of the policy liabilities, why is that so important to Manulife and why am I up here talking about it? Well, you can see from this slide, the policy liabilities which are the insurance and annuity contracts that we write are really the key components of liabilities on our balance sheet. So, when you look at Manulife's balance sheet, the policy liabilities the valuation of which I oversee, really are the lion's share of what we show as the liabilities of the Company.

The other liabilities tend to be some of our commercial debt plus things like banking liabilities and such, but essentially all the insurance and annuity contracts that we write worldwide get valued by actuarial standards which is something that I oversee. So, in terms of positioning Manulife and making sure our balance sheet is strong, clearly having a prudent approach to value and those policy liabilities is important and that's why this should be an important topic for you and an important issue when you're looking at Manulife.

One of the interesting things as we'll get into is that the way we value policy liabilities for our Canadian GAAP balance sheet which is what we do for our consolidated reporting is in many ways very similar to what, over the next few years, you'll start to likely see emerge under the international GAAP standards. So, the Canadian GAAP that we use today in terms of value and policy liability is really quite similar to the way that the international valuation standard that will be adopted globally for international GAAP will evolve.

And in fact just last week, I was actually in Tokyo talking to what turned out to be a query of all the actuaries in Japan about Canadian GAAP because it does get a lot of interest because it's quite similar to how valuations will be conducted globally going forward a few years down the road.

So, how do we do this and I think some of you have seen the slide before, but it's always worth reemphasizing because I'm sure as soon as you leave the room it gets a bit fuzzy. The way we value the policy liabilities in Canada is that we really have a three-building block approach. We start by taking all of those liabilities that we've written, develop best estimate assumptions in terms of the cash flows that we expect on those liabilities.

We then add a margin for conservatism to all those cash flows and then discount them for the time/value of money. So conceptually, it's a pretty straightforward process. We look at all the obligations we've written, project out on a best estimate basis what we think they'll cost us in terms of cash flows, add a margin, and discount it.

Now, the key thing about this approach and what makes Canadian GAAP for instance different than US GAAP is that those assumptions must be continuously unlocked and kept current. So every year, we go through all of those assumptions that we're using to value our policy liabilities globally and review them and make sure they're consistent with the current emerging experience, the experience we expect to see in the future and any type of professional standards that come down to us.

And that is a very important aspect of why when you look at our balance sheet, you should feel very confident about how solid that valuation is and how solid that estimate of the policy liabilities is. Because we have to unlock and review our assumptions every year, there is no potential for holes to develop on the balance sheet. In other words, every year we have to come through, update the assumptions, update for what's gone on either in the investment markets or the liability assumptions, and experience and update -- and come up with policy liabilities which are appropriate in my current experience.

Now, in terms of doing those reviews, obviously there's a lot of judgment involved and a lot of potentially discretion. But one of the key strengths of the Canadian system is that there's also a very extensive review of the Company's work when we do that -- when we do a liability valuations. So, it starts with the businesses proposing assumptions. We review them centrally. I have to provide an opinion on those assumptions and sign off on them.

However, that's not where it ends. We have extensive external audit review. Our auditors have to provide independent opinions in Canada on those valuations. We have a second level of external review in that our regulator requires us to hire some type of actuarial independent reviewer to review those assumptions. In our case, we use [Tell & House] who are one of the major actuarial firms. And in addition, since this evaluation is also used by the regulator as the basis of our sovereignty valuation in Canada, the regulator reviewed those assumptions and methods. So, there's a tremendous amount of oversight over that valuation in Canada.

Now, these comments on this slide we've mentioned before but they are worth re-emphasizing. We try and maintain a prudent valuation basis at Manulife. What that means is that where we do have discretion, studying margins for adverse deviation, we consistently try and make sure that we use the middle of that range -- to above middle of that range.

In terms of when we set our best estimate assumptions, we ensure they're appropriate but they're not aggressive given experience trend. And what we do there is that we try and make sure that our assumptions will not start leading to experience losses. In other words, they're not getting ahead of our experience so that we're consistently setting ourselves up to get gains as opposed to setting ourselves up to get losses.

In addition, we have this annual review of our valuation bases that we have to go through every year to keep our assumptions prudent and up to date. And as I was mentioning just on a previous slide, it ensures that we don't really have unaddressed risks or uninventoried issues or experience emerging in our global businesses. So, when people ask me at these types of meetings do we have particular problem areas in our worldwide valuation, the answer tends to be no, because every year we go through and update our assumptions and methods so we don't have sort of systemic areas of weakness on our policy liability valuations.

What I wanted to do is really just take a few minutes to go through the trends on what we have done with our PfADs and our experience. Now, when we look at our PfADs, the absolute numbers tend to be difficult to interpret. When you're looking at numbers you say well it's a percent, what does it mean? But I really would like to get through this morning is that we have consistency of our practice. We have not been over the last few years as we've been generating stronger earnings with our growing businesses, we have not been, if you like going in and reducing the conservatism in our valuation or doing other, sort of balance sheet actions to sort of protect earnings and such.

Our practices have remained consistent over time and our balance sheet is as strong today as it has been for any of the past years. When you look at this first slide, you may actually get to the other conclusion which is actually that we've been building conservatism in our balance sheet. Because if you look at PfADs expressed as a percentage of liabilities, in fact they've been going up modestly over the last four years.

I started with 2004 because really that's -- the balance sheet at the end of 2004 was post-Hancock acquisition, so this is a relatively apples-to-apples comparison over the last four years. So, our PfADs levels tended to be over the last four years at the high end of where we have seen them historically if you went back further.

The fact that the ratios have been building does not reflect any change in our practice. As I'll get into in the next couple of slides, it's really reflecting three things. One, we're not changing our practices to be more aggressive, but we are seeing a slight mix change in our business, and the mix change we've sort of inherently lower PfADs as we're writing a bit more insurance business. And in addition, there's certain margins in some of our segregated fund contracts, which we effectively just build up conservatism on the balance sheet and good markets, and then, we'll actually reverse in bad markets because of certain flooring and maximums in terms of back assets that we can take.

Looking at our general account businesses, that number on the previous page was -- just to refresh people 18.4% of policy liabilities. That number tends to vary by the type of business that we write. On car insurance, you can see our PfADs tend to be about a third of the level of the PfADs that we put up on our non-par insurance businesses.

That's because on par insurances a lot of the risk is essentially passed onto policyholders through the policy-holding dividends, which leads to the need for lower [pars]. Our non-par insurances tend to have more guaranteed or fixed nature in the premium and benefit structure, which means that we set up prior PfADs because the Company, if you like, has got less ability to pass on this to policyholders. Non-par insurance businesses would really be things like universal life, would be our long-term care businesses, those sort of modern types of contracts would be what you would see there.

Our wealth businesses here are really just a general account deposit businesses, impaired annuities. The PfADs on those businesses are considerably lower. Part of that is the result of the way we've done the metric. Because when you write a wealth management business, you're effectively getting all the cash up front, so if you do your PfADs as a percentage of the reserve it would look lower than on an insurance business where your PfAD is a percentage of the reserve. The reserve is lower because you've got the future premium income as well to offset some of the benefits.

There's several ways to present these metrics. We're always struggling to find the best way. The key points I think from this slide are that those PfAD practices when you look at the different types of business have remained relatively constant. One of the reasons that the overall PfAD level has been going up is that the non-par insurance businesses are a bigger portion of the on-balance sheet businesses. Another reason that our PfAD levels effectively have gone up slightly is due to the segregated fund businesses. The segregated fund businesses are clearly, as you know, with variable annuities and then in Canada with the various seg fund businesses are a large and growing part of the Company's business.

On those businesses, we effectively have some limits in terms of how much capitalization of earnings that we can see because effectively we do not have -- allow our reserves to go negative on our segregated fund guarantees and we have sort of a maximum capitalization revenue issue in terms of we cannot exceed more than acquisition expenses.

So, effectively to the extent that products have more profitability than needed to recover their DAC and when we're doing the -- we're valuing the seg fund guarantees to the extent that the revenue we're expecting is bigger than the projected benefit costs, we end up getting sort of tapped out or floored out on the benefits we can reflect on our balance sheet to date.

What this means is that effectively there's a large inventory of additional margins there which build up on our balance sheet. So, you can see at the end of 2007 in fact, we had a very substantial margin in our DAC asset, and this non-capitalized margin, column three, is effectively the fact that we have zero floors in our seg fund guarantees. We can't actually let our reserves go negative when the revenue is expected to exceed the fee income.

And both of those numbers -- excuse me, the benefit costs, and both of those numbers have been increasing over 2004 to 2007 really reflects two things. We're quite prudent in terms of the level of DAC that we set up. We amortize it relatively quickly, which tends to lead to fairly strong margins in our DAC. In addition, the equity markets were generally quite favorable from 2004 to 2007, and that actually contributed to obviously setting up some margins in those businesses.

I guess to show that these numbers don't always go up, you can see, I did insert 2008 Q2 on this page because the equity markets were negative in the first half of the year, and you can see that that back margin came down and the non-capitalized margin on the segregated fund guarantees actually stayed relatively flat. We kept writing profitable business, but we were not seeing any growth from in-force margins. In fact there was a slight decrease in that area.

Our DAC position is very, very strong. We track it on an ongoing basis in terms of market corrections and what type of market correction could take place before we have to write down DAC. Basically, in all our key businesses at the end of the second quarter, we were still seeing recoverability margins that would allow us to hold the same DAC asset that even if markets went down 25% or 30%. So, we don't really see that we have any DAC problems on our balance sheet, which are really evidenced by that strong margin of recoverability. And as I said on our seg fund guarantees, we still have a number of guarantees that have negative potential reserves.

This next slide, the PfADs by component, this is something that we actually include in our MD&A now. Again, there's no material changes year-over-year, so there's nothing really interesting to comment on this slide. The thing I would point out is that where we set up our PfADs, the biggest components tend to be our insurance risks and our investment risks. The loan credit investment risk which is asset liability mismatched, non-fixed income return risk and such. And those are the two sort of dominant areas of PfADs that we set up.

If you look at 2006 to 2007, you might note that the credit type provision PfAD in our reserve went down. This really reflects two things. One, on a worldwide basis, proportionally more of our credit exposure tends to be in the US. The US dollar went down between 2006/2007. That reduced the sort of the size of that business, reduced the PfAD that we were effectively holding just because of the currency movement.

And in addition, we as a Company, we're not taking on significant credit risk over 2007 simply because we were not being paid to take on that risk and such. At that time, the spreads were quite low. So, you can see here that apart from that observation, the trends here are pretty consistent year-over-year and that again, I still emphasize that we have been following fairly consistent practices.

Now, I think when we talk about reserves and I've done it here even in this presentation, the emphasis tends to be on the margins -- the margins that we put in our reserves and how much of the margins. But if we think back, we have C\$124 billion of policy liabilities, values. The PfADs are on that C\$20 billion on the explicit on-balance sheet PfADs. That basically means the remaining 80% of the reserve is the expected reserve, the amount we're setting aside to pay the expected benefits.

And so, just as important as the PfADs are what is equally important is that we're using reasonable assumptions to set those best estimate reserves up. And the way that you can really look at Manulife's balance sheet and income statement and determine is the Company getting reasonable levels of experience relative to its reserve assumptions is to look at our source of earnings, and look at our experience gains and losses.

And you can see, these numbers at the bottom of the page are just taken straight from our source of earnings disclosure and they show the level of experience gains that we've reporting each of the last four years and the first half of this year. And you can see that the experience gains and losses, which are the difference between the actual experience that we have seen and the experience that is built into our valuation assumptions has consistently been very, very positive, a very, very strong source of pretax gains to the Company.

Now, we do not do any explicit breakdown of where those experience gains and losses are coming from, but I'll talk to it in contextual terms on this and the next couple of slides. The majority of our experience gains tend to come from our investment experience. We do also see positive experience on our insurance risks. We tend to see small to moderate gains on our expense risks and generally policy persistency has been a source of small losses to us over the last few years.

But when you add all the pieces together, we have been getting very consistent levels of experience gains and very large levels actually of experience gains over the last four to five years. The next couple of slides really talk to each of those assumptions. What I just put onto this slide is how we set the assumption, what the sensitivity of changing those assumptions would be and what our recent experience has been. So, I just thought I'd take you just quickly through each of the key assumptions that we set in a projection of policy liabilities and talk to how we set the assumption and what our sensitivities if we change it and what our experience has been.

Now, the three key insurance type cash flow elements that we have when we project out our benefits to do the valuation are the level of the insurance risk, the mortality or morbidity experience we expect. Morbidity would be things like long-term care, claims rates, claim rates on health benefits as opposed to mortality risk to do an insurance or annuities. What's our lapse and surrender experience expected to be because we do project out the lapse and surrender cash flows as well, and the level of expenses that we set aside to cover future sort of policy maintenance costs.

The assumption methodology for all three of these assumptions is basically to start by looking at our current experience and then adjusting that experience by a margin that will increase the reserves. Obviously, when you get to things like mortality and morbidity when you're projecting benefits out 30 to 50 years, the art is how you take current experience and project it out long term into the future tends to be relatively straightforward for some types of risk. Actually, insurance mortality is probably relatively straightforward. It's a bit more of an art for some other types of businesses such as some of the health benefits where there's still emerging data as opposed to long-term experience you can work with.

There are some restrictions in terms of the assumptions we make. We're not allowed to assume secular ongoing trends of mortality improvements, and of course, that tends to sell that in conservatism to the valuation. The sensitivity numbers are actually disclosed in our MD&A and we update them every year. They don't tend to change very much from quarter-to-quarter which is why we only disclose it once a year in the MD&A. And they're really just designed to get some sort of indicative level of what would happen if we actually changed our valuation assumption and capitalized the long-term trend in that assumption change into income.

So, what we've done here is we, for instance, on mortality we've said, if mortality rates worsened by 1% a year, how much would that impact our valuation overall? And that would be a C\$56 million increase in reserves or C\$56 million pretax reduction in earnings. Surprisingly low sensitivity when you think about the size of our balance sheet driven by two things, insurance risk. If a mortality worsened, what that would be increase our insurance reserves but it would reduce our payout annuity reserves. Because clearly, worsening mortality is not good for insurance risk but it would be better for annuity risks.

We tend to write a balance of those risks, so the two tend to naturally somewhat offset. In addition as a Company, we actually have used reinsurance fairly extensively in some businesses and that tends to reduce the level of mortality sensitivity as well. We're actually tend to be more sensitive to morbidity changes. Again, some of that is driven by the long-term care business where we have a very big long-term care franchise and that tends to have a fair degree of sensitivity to emerging experience.

One of the key questions that we are struggling with as a profession as actuaries is how do we get comparative sensitivities of these different assumptions? Because it's very hard to say that the 1% mortality variation have the same likelihood of a 10% change in lapse rates or a 10% change in expenses. So, it's a very hard kind of number to work with. Mortality, morbidity variations generally 1% would be -- 1% to 2% would be a normal deviation. We might be looking at a business and addressing anything that got up to 3%, 4%, 5% would be quite extreme experience change for mortality/morbidity assumption.

The 10% change in lapse or policyholder surrender experience would be probably more comparable to a 4% to 5% change in mortality or morbidity risk. You can see that we are quite sensitive to lapse and surrender assumption changes. And also, theoretically have a fair degree of sensitivity to expense. Expense levels are changes, but certainly there's nothing in our businesses that would suggest we're going to see significant increases in our maintenance expenses. So, that's more of a theoretical exposure in terms of expense increases.

In terms of recent experiences, I was mentioning our mortality experience has generally been consistently favorable. Our morbidity experience has been back and forth. The long-term care experience though trends have been much more favorable over the last year then they have been over the previous two to three years.

Lapse and surrenders tend to be the interesting ones from an actuarial angle that I guess I'm continually looking at in that I think one of the interesting things you see is around the world that you're just seeing a trend to more economic policyholder behavior. In other words, when it's in their interests they keep their policies. When it's not in their interests, they tend to be lapsing more selectively and such.

So, that tends to be the one experience assumption where we're continually kind of chasing and perhaps making reserve strengthenings. But generally, our mortality/morbidity expenses over the years would have been favorable changes and lapses and surrenders would have been unfavorable changes.

In terms of how do we set our discount rates, in Canada we base it on the expected return from the assets supporting the liabilities with some reinvestment scenario testing to ensure that the reserves are adequate under a number of investment scenarios. For our fixed interest investments, what we tend to do is we tend to start with current market rates and spreads. [We may have] a credit loss allowance and then we grade into some long-term valuation assumptions after five years.

Those long-term assumptions center on a risk-free rate for bonds in Canada and the US are 3.5% range -- 3.55% in Canada, 3.65% in the US, Now, to those long-term non-fixed income assumptions we will add some assumption of a spread being able to earn based on types of assets we would be investing in.

We have also disclosed these sensitivities in our valuation in terms of what would happen if interest rates go down or if we changed our ultimate reinvestment rates. Obviously, our sensitivities you can see here is that if rates go down, our reserves increase. That's I guess consistent with what you'd see for most insurers because liabilities tend to be very long-dated insurance liabilities, the asset portfolios tend to be a bit shorter. So obviously, the decreasing interest rates will increase reserves. Increasing interest rates will tend to reduce the reserves.

In addition, if we actually modify their ultimate reinvestment rates, that could be quite sensitive to changing that assumption. We've been quite careful to use what I think are very prudent, long-term reinvestment assumptions. So, we do not see any kind of outlook for having to decrease that rate. In fact, it may be the opposite as rates may be going into a secular trend that would allow us to reduce some of those reserves.

As I was saying, our investment experience has consistently been quite favorable over the last four to five years, both from credit and good management of the asset/liability position also producing gain. Generally, we're positioned to benefit from increasing interest rates.

Non-fixed interest investments, they're factored into the valuation based on a long-term total return applied to the current fair value. We then add a margin to the reserve by assuming that we would have to withstand an immediate market correction and then some ongoing under performance. The valuation sensitivities to changing those assumptions are shown below. Equity market movements would be for the sensitivity to the common market, common equities. The other non-fixed income would basically be mostly real estate-based but would be all our other basket of non-fixed income assets.

When you add really the fixed interest and non-fixed interest assets together, we're probably in the long term doing about the -- the valuation is probably assuming that in North America varies by business segment, but there's probably a 4.5% to 5% average long-term investment assumption assumed in all of our key North American businesses when you look across the spectrum of [greater assuming].

Again, we've had favorable recent experience on the non-fixed interest both on the equity market movements and real estate over a number of years. Obviously as we're going through 2008, we're seeing some of the investment experience on the equity side certainly reverse. But one of the key strategies in terms of managing non-fixed income risk is we use a much more diversified approach to the baskets of assets that we use than just investing in common equities. So, we've seen over a number of years that while one asset class may under perform, as a basket they tend to perform well as a group. And I'm sure Don will be talking about that this afternoon.

So, the main thing I really wanted to talk about today was the policy liabilities. I did have a couple of slides here on embedded value and I'll just talk to hedging briefly at the end. Embedded value is really a measure of our total shareholder economic value. We publish our embedded value again once a year in our annual report. The embedded value, I think, is a very useful metric. It's not been that widely used in the US, but it's very widely used in Europe and the Canadian companies tend to report embedded value.

Embedded value really starts with your GAAP equity, makes some adjustments to basically remove intangibles and then adds the value of in-force business, which for Canadian companies is relatively straightforward to quantify because what we do is we look at our explicit margin for adverse deviation, work out the value of those on an after-tax basis and adjust that for cost of capital to get a value of in-force business.

The key point is we don't actually ascribe any value in our embedded value chain even with those experienced gains that we saw. So, there's no assumption that those will keep going on an ongoing basis. So, embedded value for insurance companies is somewhat akin to EVA or economic value added. This disclosure is something that we've done for several years now.

This is just the numerical build up of our embedded value. It starts with our reported shareholder equity. It takes out the intangible elements to get the adjusted equity. And then we add in the value of the segregated fund margins and PfADs that you saw earlier in my disclosure. Take out some tax and the other adjustments, take out of cost of capital to get a net value in-force business, add the two together to get embedded value.

It's an interesting metric in terms of both theory, but also practically in terms of following the Company from year-to-year and understanding what's driving the Company sort of change in its balance sheet. You can see on this slide that our embedded value change over the last two years has been very, very strong in terms of an operational growth in embedded value. The interest on embedded value is really a natural thing that unwinds each year. The two lines that are most interest to look at on this page are the impact of new business and experience on the function changes, both of which have been very, very, very strong in 2006, 2007.

2008 as we'll get into, our new businesses are continuing to be strong. I think when we do our year-end disclosure unless the equity markets rebound, you'll certainly see a lower experience number because of the equity markets this year. The items below the line here, currency, capital movements, they tend to be interesting but they're really not exactly operational.

Capital movements reduce embedded value. Of course, that's paying out dividends and share repurchases so that's actually beneficial to shareholders. Currency, again this is entirely the perspective that you look at the balance sheet. We do our embedded value disclosure in terms of Canadian dollars, so that number is a relatively large hit because we're revaluing all the US assets at a lower exchange rate. If we were doing it in a US dollar framework, that actually would be a big positive number.

The next slide just looks at our embedded value growth. We took out the impact of the Hancock acquisition, the one-time impact in 2004. You can see that the operation embedded value has been growing very strongly every year at a sort of increasing rate, a very nice picture. The net embedded value growth is a bit more up and down because there's more impacted by level of share buybacks and currency exposure.

The one key metric and I saw that Peter had this in his slide, which I guess emphasizes the point I was going to make which is the one key embedded value metric that we actually do watch very carefully as a company and really use as a key management tools is our new business embedded value. I think this is perhaps one of the key success stories of the Company in recent years is that we've been seeing very strong levels of growth in new business, but also in the profitability of that new business at the same time.

And you can see that that new business embedded value has grown extremely strongly. And currently in the first half of this year has continued to grow strongly yet again. While the majority of the growth has been on the very -- on the wealth side, certainly on the insurance side the growth rates have been quite strong as well.

Just a quick comment that if you were looking at our embedded value and how would you extend that to some type of entity appraisal value, you tend to start -- this is sort of a common analytic technique that's used by both actuaries valuing acquisitions and probably for most of you in the analyst field.

You start with the embedded value. You would add something for new business, but in this we've also added something for the fact that we do have experience gains that we don't include in our embedded value. And then, you add those sort of three components together and I think we did -- I did this quite on a relatively conservative basis, certainly I would say you would get an entity appraisal value in the ranges that I've shown here, which would be somewhere in the C\$42 to C\$50 range.

Just going quickly here since I'm running out of time, hedging program. I just put two sides in here on the hedging program, because we have been getting a lot of interest in what we do with our variable annuity hedging. We started our hedging program about a year ago, November 2007. It's been run by or developed and run by an area under our Chief Risk Officer.

The program at the moment covers about \$3 billion of our US variable annuity account value. It's about 15 in terms of the new business we're writing it's really about 15% of our new business in the US. We are in the fourth quarter this year looking to ramp up that program. The intention would really be by the end of 2009 to effectively be hedging all of our US new business. We think the program has been quite successful this year.

It's been, if you like, interesting market conditions so it would be input the programs that implement it in a quite a stressed environment which is a good test as to how effective it's been. The program is quite straightforward. It focuses on equity and bond futures and over the counter interest rate swaps, and is really hedging the first order of risk of interest rate and fund performance.

In terms of just showing whether the program has been effective or not, this slide really tracks over the past year how the hedged program has performed in terms of comparing the economic profit and loss before hedging, and after hedging. The blue line is really the actual experienced gain or loss. The red line is what the performance would have been without the hedging in place. And you can see that the blue line has been quite effective in terms of mitigating exposure. This looks so -- so this is -- really doesn't pick any fund tracking here. This is really looking at the hedging program versus the straight market indices.

Okay, so in summary, I think as I said most of my time talking about the balance sheet. Hopefully, I gave you some comfort that we have a sort of prudent and appropriate practices for setting the policy liabilities. The embedded value picks up the fact that there's a lot of value on that balance sheet. Some of that's recognized in the past. Others is not recognized in some of the experience gains. And then finally, just on the hedging program that it's operational and effective, and could be expanded in the fourth quarter.

So, with that --.

**Amir Gorgi:** Are there any questions for Simon?

#### **Actuarial Review – Simon Curtis – Q&A**

**Simon Curtis:** Sure. I'll start over here, Tom. Yes. Oh, do you want a mic, or okay?

**Jukka Lipponen:** Jukka Lipponen, KBW. Two questions. Simon, you showed us that the PfAD levels by product category. If you looked at a particular product category, are there variations in the PfAD levels geographically?

**Simon Curtis:** Not significant. There would be some but generally, when we set our internal standards on PfADs, they tend to be by type of business not really geography specific. They may be proportionately higher in some of the Asian territories where we don't have good experience. But in Canada and the US, similar products would have similar levels of PfADs.

**Jukka Lipponen:** And my second question since the investment gains are a big portion of the experience gains, if we have less favorable investment markets over the next several years, should we expect on a relative basis the experience gains overall perhaps to be lower than what they have been in recent years?

**Simon Curtis:** Yes, I mean, I think it's fair to say that if the investment markets don't -- are not as strong in the next few years than in the past years, the level of experience gains will go down, yes.

**Tom MacKinnon:** Thanks, Tom MacKinnon, Scotia Capital. Simon, two questions here. On the one side, talked about a three-year, C\$1 billion pretax hit of the ultimate reinvestment rate was 100 basis points lower. I mean, would we kind of have to -- does that mean if we end up running the Company and under three and we stay there for awhile, are we going to be -- how are we ever going to get to something like that? And even if we take half of that then for a 50-point decrease or even a quarter of that, if we're running that around say a [C\$325 million], how many years would that be the case before we'd have to probably see that lowering the income statement?

**Simon Curtis:** Actually, that reminds me that I should mention as well that that's a symmetric. It's a symmetric number. Obviously, if the ultimate rates go up they release about the same magnitude. I haven't actually projected it all the way out. The ultimate weights are -- there's some prescription by the Canadian actuaries that I think as you know about, Tom, that basically you grow it into those rates based on five to 10 years of experience.

We projected out two to three years and we don't see any chance at current levels of interest rates or any outlook to reduce the ultimate rates. But I haven't really done a lot of complicated scenarios. But as far as we've seen, there's no potential in the next couple of years unless market rates were to take a material drop of us having to reduce our ultimate reinvestment rates.

**Tom MacKinnon:** And as well, you didn't say anything in terms of an assumption related to any kind of credit default. I presume you have assumptions based in for credit default? How is that? You haven't had anything like that, any defaults there?

**Simon Curtis:** Well, we have two -- credit defaults are allowed for two ways. We project out expected losses based on a matrix of default rates which are derived from sort of Moody's long-term average credit loss rates. So, we look at our entire asset portfolio and project out over the holding period of the assets, potential credit, expected credit losses based on those rates.

And then on top of that, there's a normal margin for average deviation. We update those credit loss matrices every year or frequently as Moody's comes out with updated numbers. And one of the key questions right now is over the next couple of years, where will credit go relative to those assumptions, and that's something we're sort of looking at with the reserving right now.

**Tom MacKinnon:** Okay, thanks.

**Doug Young:** Can you hear me now? So, it's Doug Young from TD Newcrest. Simon, just on page eight, you talk about the investment risks, non-credit which you talk about the ALM mismatch. I guess the first part is, is that -- are you still running a credit mismatch on your North American long-term care business? And if you were to match the duration of the assets and liabilities on that business, how much of that 9.9 would flow out of that reserve category?

**Simon Curtis:** Okay. Well, we still do have some structural mismatches on our long-term care business and our long duration life businesses in Canada and the US. I don't actually have a number for you, Doug, in terms of how much of that would release. It would come down. I would also emphasize though that that number may not come down that much where you might see a release of some our expected -- that's basically a straight gain from the fact that if we termed out, we'd basically be picking up spreads, and that might outweigh any release of that number.

But I don't actually know how much that would come down if we actually matched off the portfolio. It would come down, but I couldn't tell you how much. I suspect it would be -- that would be the secondary impact though. Most of it would just be the fact that you'd actually get a reserve release from basically buying longer bonds and capitalizing some spread that you would expect to earn.

**Amir Gorgi:** So, we're just running out of time, so I think we're going to have one more question. I think Deborah's up.

**Deborah Frame:** Deborah Frame, Empire Life Investment Management. Can you give us some sort of high level indication of the adjustment to your MCCR in the third quarter or since you last would have disclosed it in Q2?

**Simon Curtis:** Yes, I mean, our MCCR -- obviously, we're monitoring it quite carefully with all the activity in the investment markets. It was just over 200 at the end of the third, excuse me, the end of the second quarter. It's -- our target range was always set at the 180 to 200. It's still well within that target range, but it tends to move every day. It's obviously come down but it's still within that target range.

Can I just -- yes, I will be around at lunchtime. So, I think there's a number of you who looked like you had questions so feel free to sort of find me at lunch.

## **US Insurance – James Boyle - Presentation**

**Amir Gorgi:** Okay, thanks, Simon. Our next segment is the US Division where we're going to have two speakers today. DesPrez is actually on his honeymoon, so Jim Boyle, Executive Vice President and Head of Insurance, will start. And he'll be followed by Hugh McHaffie, Executive Vice President and Head of Wealth Management.

We're going to ask you to withhold any questions until both of these gentlemen conclude their presentations. So, Jim?

**James Boyle:** Good morning, everybody. Good morning, everybody.

**James Boyle:** Yes. Usually when the actuaries get up, the room fills up. But here, the business guy comes on and everyone leaves so maybe there's a lot of actuaries in the room. It's a pleasure to be here to talk to you about the US businesses. I obviously want to thank you for your continued interest and support of our businesses. Before I get into the prepared remarks, maybe I'll set the tone here.

Obviously, there's a lot happening in the financial markets around the world, and in the United States. And I'll spend a minute commenting on those. You know the United States economy obviously is in difficult shape. We're seeing a level of fear from our clients, end clients and producers that we haven't witnessed in my lifetime really.

I look at it as an opportunity. We are seeing people come to us as a safe haven, no question. There is a flight to quality in this marketplace and we sense that for a long time, we're feeling it and hearing it from our customers in the last few weeks. From a macroeconomic perspective, the challenges that we have in the States around deficit spending, our budgets, the actual loss of assets in people's 401(k) accounts again, create huge opportunities for us as a firm in the United States.

People need the products we sell more than ever before. The gaps that are being created by challenges with the economy, federal programs and companies reducing their post-retirement benefits again creates huge opportunities for us as a Company. We have a proven track record in these areas and as Hugh and I take you through the businesses, we'll get to that in a little bit more specificity.

We have an incredibly deep management team in the Company. You heard Bob Cook speak about it this morning. The US is no different. We grow our own people, people that have incredible financial talent and when you look at -- look through the ranks for the people that work for Hugh and I, you'll see people who have spent their whole careers here and have been brought up understanding the financial discipline of Manulife. So, you should feel very comforted in the teams we have.

And I guess the final thought I'd leave you with before I get into the prepared remarks -- we are a Company that has built our business very prudently. And certainly, the Hancock transaction was transformational for us in the United States. But in many ways for us that's a distant memory. We announced that deal in September of 2003. We closed it in April of 2004. For the last two years, that business has been completely integrated in really a seamless fashion, we've been able to grow the top line and bottom line.

And our businesses have been integrated and built in such a way that we've been ready for the last two years for the next acquisition opportunity. So, we are built as a scale player. We're built to acquire businesses. Our infrastructure and our people have the talent and proven experience to do it. And as you know, you'll probably direct most of these questions to Dominic at the end of the day, but he's a value buyer. And so, what we've been waiting for is the market. And obviously, a lot of market opportunities today.

So, let's move into some of the formal remarks. Obviously, our management team as Amir said -- we can congratulate John on his recent appointment as Chief Operating Officer, and we can congratulate him on his recent wedding of last week. So, we look forward to having John come back from his honeymoon and get involved in all the activities we have here in the States.

Hugh and I will present the two sides of our business, insurance and wealth. Just by way of background, it's in the bios, but I've been at the Company now for 16 years. I've run all the businesses in the United States. I used to run all the wealth businesses until about two years ago when Bob Cook went to Asia. I filled in for Bob on the life side and we brought Hugh up to run all the wealth businesses. Hugh started at the Company in '81, moved to the States in 1990, has run a variety of businesses for us and for MetLife, and if you go through our management team, you'll see that everyone has been in the Company on average more than 15 years. When you look at the business, that's where our Lifelong Term Care, VA business is, etc.

And the final point I would make on this slide is, back to the Hancock being a transformational deal, long term care was not part of the legacy Manulife businesses. That was additive and has certainly improved our franchise. Mutual funds were not part of the legacy Manulife companies, and it's been additive and adds to our franchise, as is fixed products. So, you have a good combination here. That was obviously an incredible transaction that helped us move forward in many ways.

This is a chart you're all pretty familiar with obviously. Peter showed it to you at a Company level. We're a Company that knows how to grow the top line and grow its profitability. We have the same goals and objectives that Peter states at a Company level, to return a 16% ROE and to grow our top line and bottom line at greater than 15% a year. We've had a great track record at doing that. Certainly when you look at the lines after 2004 with the Hancock transaction, you can see the bump. But doing an acquisition doesn't mean you're automatically going to get the bump. You need to execute appropriately. And we executed that transaction, we feel, quite well.

When you look at the bottom quadrant, recent successes, the story may get repetitive after you hear Bob Cook and then you hear myself, and later this afternoon you'll hear from Paul Rooney. We're a Company that is a growth Company and we know how to grow the top line. And this speaks to some recent successes we've had in the life insurance business and our ability to add more distribution. As Bob Cook said, distribution is the key to our franchises and we, I believe in the States, have the finest distribution of any company in the United States.

You certainly know that John Hancock is an important contributor to the Company results. 18% of the Company's results in total come from the two businesses that work for me now, insurance and long term care. And you can see 26% comes from the wealth management businesses that Hugh operates.

In the top right quadrant, we can't reiterate this enough. Product innovation and distribution excellence are what have driven our businesses historically, they're what continue to drive our businesses in the States. Again, growing the top line and growing it profitably. Our sales are up and down sometimes relative to the market. But execution is shown by market share gains. So even if the market is off, if we're gaining share, you know we're out-executing our competition. And I think you'll see that in all the computing slides, all the following slides we have today.

We are enhancing our franchise and growing share, and we're doing it profitably. We've had favorable pricing experience. Simon showed you some of the experience slides before. Our businesses in the US have very favorable numbers in this regard. We have positive cash flows which is pretty remarkable in this current environment today. And we have a big customer base, more than 8 million customers in the United States. And much like the story that Bob told this morning, we have diversity. We have geographic diversity as a Company certainly. And we have product diversity, and you can see the nice mix of businesses we have here.

So, the market characteristics certainly we compete in a competitive market in the United States. I think that tends to make us be better operators when you have good competitors. The regulatory environment has been difficult over the last few years. And I will predict that it'll continue to be difficult based on what we're seeing in the market place today.

This is causing a flight to quality and when you talk about our financial strength, when you talk about our ability to service our customers, about being there for our brokers, I think our track record is second to none. And so, certainly these difficult times are difficult for us as well, but on a net basis, we're confident that we will emerge from this market stronger than we entered it and we will pick up market share.

At a high level, Company benefits are being reduced. So, there's been a reduction in defined benefit plans to defined contribution plans and that's the focus of our businesses. As the baby-boomers age, there's a natural tendency to move from accumulation products to payout products. That's certainly a sweet spot for what we do as an insurance company. And so, thematically over the next 20 years, our companies like ourselves will tend to do better than the companies that were pure accumulation placed, like the standalone mutual fund companies over the last 20 years.

And this last bullet point I think is incredibly important and it speaks to our distribution competency in the United States. In difficult markets like these, customers don't know where to turn and they're turning to their financial advisors more and more. And our business has been built on the back of financial advisors. We sell in every major distribution system in the United States, with virtually no exceptions. And we tend to be in the top one, two, or three.

And those relationships have been nurtured through our wholesaling operations, we have arguably the largest wholesale operation in the United States. We have relationships, we have incredible tenure within those field forces. And so, in difficult times like this, as clients are turning to advisors, advisors are turning to companies that have been there and delivered and they can trust. And that's an equation that's very good for us as a company.

The demographics, we've all seen these. People are living longer obviously, the boomers are retiring. You know our insurance business certainly has always focused on the high net worth and the affluent clients. Many of our other businesses in the States do as well. So, in a sense we are, in our view, in the right businesses and in the right segments of the businesses.

So, again from a US perspective we'll delve into each of the businesses in a moment. We're a market leader in all the businesses we choose to compete in. We have, in my view, the best distribution of any Company in the United States. We have a proven track record of being a product innovator. We're doing a much better job of cross-selling and collaborating across businesses.

You think about the success we've had in Japan with the variable annuity product. The idea, the idea to bring variable annuities to Japan started in the United States. The product development happened in the United States. The systems development happened in the United States. And we were able to export that to our Japanese business. A good example of what we're able to do.

We're also able to take our withdrawal benefit product that we developed in the United States and move that to Canada. You've seen the success we've had with Income Plus for Life. You'll see more of that type of thing happen within the US businesses where we take expertise and distribution relationships from one business and cross pollinate to help the overall growth in the United States be excellent.

And at the end of the day, it is about execution. Great service, great distribution, excellent brand, good product, incredible underwriting with a lot of depth, and that's a great combination. It leads to industry-leading positions. I think you've seen this many times in the past. When we're in businesses, we try to be in the top three. We've always employed the rule that we don't dabble in businesses we don't understand. As I said before, we're in the businesses we like and we think we're in the right segments of those businesses. And we're executing quite well as you can tell by these market shares.

An example of our competitive edge around product, we put out a slide here that showed every product we have in the United States, but we chose just three. In life insurance, we have introduced 15 new products in the last two years. You'd be hard pressed to find any of our competitors who would have half of that number. Many times you have legacy systems issues in these life insurance companies as they've cobbled together old mainframes, they've put together companies through acquisitions, very difficult to work through the maze of product instructions. We have a very efficient operating model and it's helped us be innovative, but also it allows us to be very quick to the market.

We have great underwriting. We don't use standard manuals. Everything we have is proprietary. And as we mentioned before, large case expertise. We've been in the large case market in the legacy Manulife businesses for a long, long time and I would argue that we have more old-age mortality information than anyone probably in the world. And we use that as a competitive weapon.

Long term care as a business that we've loved the demographics. We were challenged when we bought this business to understand the financials. I think we've solidified our position there. We have over the last two years, put in almost a completely new management team, from general manager to CFO to pricing actuary. We like the economic fundamentals of this business today. We're able to innovate. We brought out a new product last year called Leading Edge.

As you know mostly, most of the products issued in the long term care space historically had a 5% compound feature to deal with inflation. We wanted to come with something different, frankly a product that was simpler to understand, less expensive, easier for us to hedge. We brought a CPI based benefit. That was a product that was simpler. It was less expensive. And in just about a year and a half, it's 20% of our sales and growing. And if you were to look at this on a standalone basis that product would be the number five leading carrier of LTC in the United States. So, innovation is certainly breeding success.

Last, we'll talk about Guaranteed Income for Life. Hugh will get more into this in his remarks. But again, as we talk about cross pollinating and cross-selling across our businesses, our ability to bring our guaranty expertise from our variable annuity business into the 401(k) business, in my view, will be transformational for the industry and for ourselves.

So life insurance, let's dig into a couple of the businesses now. Life insurance, page 18, we have been the number one writer of life insurance in the United States by most measures for the last two years. Pretty incredible accomplishment. If you think back to 2004 when the transaction with John Hancock and Manulife came together, both of those companies were about the tenth or 11th largest writer of life insurance in the United States. On a combined basis, they were fifth. In two short years, we were able to get to the number one position in the industry.

If you look at the top left quadrant, the synergies that came from the John Hancock deal were first and foremost the M Group. At Manulife, we didn't sell at the M Group. That's been additive to our sales. If you look at the next quadrant down, JHFN, that's our independent brokerage [ER] network. 13% of sales come through that network.

So, we've been able to take the best of both of these companies, we were able to take some unique features that were in John Hancock, blend them with the Manulife franchise and quickly get to the number one position. So, we have the best shelf space. If you look at the top 10 distributors of life insurance in the United States, you'll find us number one or two, usually number one in all of those systems.

You can see on the bottom left chart, we've able to grow faster than the marketplace. And when you look at operational highlights, I'll repeat a little of what I said before, we've launched five new products this year, 10 new products last year, 78% of our sales in the first half can be attributed to these new products. So, innovation and execution are represented in the numbers there. Five consecutive quarters of record growth, solid new business service, improved cycle times, great expense management, good experience gains, as I mentioned before. This is a franchise business. We operate from a position of strength. And clearly, we'll be a beneficiary of people in this marketplace that are nervous and are looking for a quality provider.

And so, our strategy is pretty simple and repeats much of what we said before. We have always been, first and foremost, a product and distribution company. That's been our trademark for many, many years. It continues to be. We have unique advantages on the underwriting side. And we're a good operator from an expense and service standpoint. We'll continue to grow. This market obviously doesn't grow as rapidly as many of our wealth businesses. But as we out-execute our competitors, we will gain market share. And our goal in the near term will be to grow this business to \$1 billion in sales.

Long term care, the second business we have. Again, if you look at the sales by segment, you can see that the sales have had a nice trajectory here, a good balance between our retail business, our group business and our federal business. On the lower quadrant, you can see that this business has now become profitable for us and we're putting on business that we believe will be quite profitable for us. And it's a business with huge upside. When you look at the operational highlights, we have more Fortune 500 companies than any other group carrier, approximately 70. But that creates a huge opportunity. That would be 430 companies that aren't covered there.

Leading edge in the bottom quadrant here, we've talked about. This was a new product we introduced. It's been sort of a category changer. Most of the competitors have followed. Product innovation has led to success. And as I said before, this product on a standalone basis would be the number five rider of long term care in the United States, pretty remarkable. So again, the core strategy, we're a product leader, we have distribution strength, we have outstanding service, we have great business partners, our goal here is to be the number one company and to do it profitably.

A slide quickly on our distribution partners, which I won't get into in a whole lot of detail. And let's talk about some things looking forward when we talk about strategy. We've talked about our brand and our ratings, innovations, shelf space, underwriting. We have the dominant insurance franchises in the United States. We're challenged by the current economy, but the current economy creates opportunities for us. We've had some negative press in LTC, we worked our way through those challenges. We've had to raise prices on our end force block for long term care. Financially, that was the right thing to do.

Genworth was before us, MetLife followed us. The reality of the long term care business was lapses were mispriced by the industry. The early version of products had 6% lapses. The reality is current products that are issued have less than 1% lapse rates. We had to get our house in order and raise prices. We've done that in a way that I think was quite responsible. It was received by the Street well and we move forward now on better financial footing with an ability to be a leading carrier in this space. That has not been negative for us in any sense. I think in some ways it gives you credibility that you owned up to the challenges.

I would say if you look back at all of the other experience-type metrics in the long term care business, back from original pricing 20 years ago, the reality is most every other assumption was pretty well in line, and so when we look at current pricing, our current pricing is not very different on every assumption except for lapses. So, the industry and ourselves, I think we got it right with that one exception and I think there are much better days ahead in this business. Simon mentioned in his remarks that for the last six months now, our experience in the LTC business has been favorable. I think the trends there are, in fact, trends and we will see continued favorable claims experience in that business.

On the insurance side, we fight a constant battle on a day-to-day basis with Investor Owned Life Insurance. In our view, this is bad business. And we've fought it in every way we can. We've fought it by throwing out producers, by having increased underwriting, it's a difficult challenge. I likened it to the subprime mortgage problem. In some ways, I call Investor Owned Life Insurance, subprime insurance. Many of the same dynamics are in play. You have a consumer that doesn't understand necessarily what they're buying, you have a broker in the middle that's making a lot of money on the transaction, and you have an institutional investor that owns an asset that they don't understand and don't know how to value.

It's our view that this is bad for the industry, it's bad for the consumer, and I'm hopeful that we will see the impact of this slow quite readily. The folks that provide the life expectancy determinations for the institutional buyers of this product have just recently in the last few weeks changed their assumptions. We always assumed that they had the pricing wrong. They've increased their longevity assumptions by about five years. That probably reduces the value of the end force blocks that people have thought by 50%.

Obviously, the institutional buyers of these products are having their other challenges with equity markets in the United States and around the world. So, as they're having liquidity issues, as they're probably now getting a sobering taste of what the real life expectancy is, hopefully we can continue to make an impact here and fight Investor Owned Life Insurance. We're hopeful that this is on a downward trend.

And so for us, we continue to really do what we do. Our businesses are not that complicated. We grow the top line and we grow it profitably. We do it by innovating on product and expanding our distribution channels. We've had great success doing that and that's what we'll continue to do until the next great acquisition opportunity is presented to us.

So with that now, I'll turn it over to Hugh. Hugh will take us through Variable Annuities Funds and RPS and then we'll be back for questions.

### **US Wealth Management - Hugh McHaffie - Presentation**

**Hugh McHaffie:** Good morning, everybody, I'm going to pick up the other half of the United States from Jim. We're going to go over our mutual fund business fixed products and retirement plan services, our 401(k) unit and variable annuities. Let's move on to funds.

In the mutual fund business which was picked up from John Hancock during the acquisition, we've taken the same page out of our playbook from variable annuities. We've increased our business consultants to our wholesalers in the mutual fund business from 30 to almost 80 in 2008. And you can see the results in sales success moving from \$3.9 billion in the first half of 2007 to \$5.1 billion in 2008.

It's great to have distribution capabilities, but you can see we've also worked hard on providing them product. MFC Global has come through bringing some very strong performance. But most importantly, we continue to adopt institutional money management capabilities where we can take a strong track record and then put that into our distribution engine and distribute that throughout the industry, quite frankly utilizing the distribution relationships we've had on the VA and retirement plan services front.

In the bottom quadrant, you can see that [all] success was built on our financial planning capabilities, primarily this has been a retail wirehouse distribution force. We've moved that significantly over to financial planning marketplace. I think we have 40 wholesalers on financial planners. Most importantly, our recently shift in Ameriprise is really coming through.

Now, if you study our performance in the mutual business, you know it does not contribute much to the bottom line. That's primarily a function of accounting. If you recall on this, in Canadian accounting, all the acquisition costs that put the mutual business on the books cannot be -- it has to be expensed in that year. So, our sales success coupled with our low asset base really provides right now minimal profits. However, I wanted to show you the [new bit] of embedded value, sort of a measurement of the profits that can emerge out of this business in the future once we get up to scale.

What's our strategy going forward? Quite frankly it's doing, as Jim said, doing the same things we've been doing over and over again. To maximize our products line, we need to continue to mature the distribution network that we have created and we need to continue to provide a consistent performance to our clients. We need this to drive productivity of our business consultants. We have 80 business consultants. We're going to need to keep sales growing significantly to support that.

And we will do that by securing additional distribution outlines, but most importantly, we need to be on the prowl for additional fund adoptions. We have -- we've just adopted Rainier Growth portfolio which we have a lot of excitement about. We have another large Cap Value fund that we've adopted. And we're continuing to look out for that. That would be the key for us growing this business in the future.

Moving on to fixed products, I wanted to break down our business cycle here in fixed products. Primarily, most of this business again is a legacy John Hancock businesses. Specifically, we have four product segments that we manage. Our Payout Annuities which are future structure settlements, Defined Benefits Plans and SPIAs, that's about \$14 billion of assets on our management, Fixed Deferred Annuities.

I guess here in Canada you would call it Guaranteed Investment Certificates, that's about \$7.5 billion, spread based products, these are the sig notes and GICs and funding agreements that were on the John Hancock books, and then finally some, I would say, more seasoned fee based products, in particular PenPar which is sort of a defined benefits business that John Hancock managed with \$6.8 billion.

Our focus has been over the last few years to really focus in on the payout and fixed deferred businesses. And as you know, we've been sort of shying away from the spread based products due to returns. And you can see the commensurate reduction in assets under management in the lower quadrant as we've not renewed the structured, the signature notes and GICs.

But our sales are doing well in the businesses that we want to focus in, specifically payout annuities and fixed deferred annuities. You can see the growth on 2007 over 2006 has been reasonably strong. We are -- we play in this game when we can get the returns that we want. In the payout annuity, we're primarily in the closeout pension business primarily in the small end of the market when we feel we can achieve reasonable returns on our investment.

In the FDAs, again we play again when the returns are reasonably strong for us and have goal over time to have about an 8 to 9 to 1 ratio of fixed deferred annuity sales relative to variable annuities. So, you can anticipate us to have about \$1 billion of fixed deferred annuities this year.

Net earnings on this business have been quite volatile over the years, primarily on the positive side and mostly specific because of the capital gains that we've realized as we brought down the credit worthiness, upped the credit worthiness of this business over the ensuing years. We've told you that we earn about \$75 million a quarter and you can see for the first half of this year we're right about there.

Going forward as we continue to work on growing the core earnings, we need to maintain our presence within John Hancock Financial Network. They are the number one seller of our FDA products. And if you recall, as the major managing general agency system that was acquired during the Hancock franchise. And to continue to capitalize on our pension [closeouts] on the small end of the market place, we are going to look to grow our structured settlement business and pension closeouts primarily as Jim mentioned earlier, a flight to quality, being a AAA rated company, it's extremely important in many of these court mandated settlements.

Also, we see opportunities for us in the banking distribution channel. We have recently expanded our banking distribution from seven to 10 wholesalers and created a product specific for the bank distribution. Again, we feel that flight to quality not only as insurance companies but also you've seen a deterioration of bank ratings. We think we have an opportunity to gain additional share here. And obviously leveraging our brand name will be key to that.

Moving on to Retirement Plan Services, you can see a very significant growth over the years, over the five-year growth of over 9% year-over-year. We've had a slight decline in the first half of '08 versus the first half of '07. We would consider this good results primarily because it has to be realized that a vast majority of our sales have significant rollover of assets and the market has obviously depreciated the valuing of assets. 80% of our sales are rollovers of existing balances and generally, the average size of about \$750,000. So, it's a pretty significant impact on your sales results.

That being said, our funds under management continue to grow nicely with a very slight deterrance in 2008 to the second quarter. We've not seen our assets on our management go down as significantly as the marketplace has primarily because of our concentration on lifestyle funds. As you may recall, that's the cornerstone of our business in the 401(k) unit of selling our very strong and popular risk tolerance asset allocation portfolios. And it has served us well in the recent market turbulence.

The other part I wanted to focus in on has been some significant conversation over the few years, with the strengthening Canadian dollar weakened the profitability of this business. And you can see that we've worked very hard over the years to continue to get our maintenance costs, become more efficient, and down. And this chart illustrates that although the Canadian dollar has strengthened, we've been able to year-over-year reduce our costs. We have recently started to complete a \$40 million operate in our service platform and that has enabled us to put, for example, such thing as optical imaging to allow us to push some of our processing to our Manila-based processing unit, and you can see the results of that. That's been very dramatic.

In addition, we've worked very hard on what we call [Easy K] our program to set retirement goals for our participants from the 401(k) plan. We find that people who have retirement goals and see those goals readily on their statements will try to realize those goals and we're pushing out the recurring premium from our participants year-over-year. This is a significant source of growth for us in the future.

Looking forward to our strategy, we need to continue to maintain our dominance of smaller in the marketplace. We are the dominant player. As I said, we've sold over 3,000 plans already this year and we look forward to selling another 3,000 or more in the second half of this year. It is very important for us to retain our clients. I previously mentioned we have, completing our brand new record keeping project that's been going on for three years. We need to continue to provide the services to our clients so that they want to stay with us. And staying with us is important as we continue those recur premiums coming in the future.

As Jim had mentioned we've entered into new innovative products called A Guaranteed Income for Life. We have pulled this product over from our variable annuity business. What this product provides is a guaranteed income stream for clients that deposit, elect an investment option or asset allocation portfolio. And it works very, very similar but in a much more simpler manner in the VA business as it works in the 401(k).

The idea of this product, this is the place that people should have a rider that can guarantee their income. They can get that income guarantee if they stayed within plan or if they rollover, we provided a very similar type rollover product, an individual retirement annuity that they can provide them when have a distribution from their employer. We need to go into the mid-market. We've introduced new pricing structures to get us up into the \$3 million and above marketplace and it's an area that we need to do some focus over the next year or two to increase the capacity of our operations in this business.

And then finally, we need to continue to build distribution and distribution breadth. We just announced a new relationship with Morgan Stanley, we're [liable] for the last two weeks. And we're also looking forward to announcing an additional major distribution allegiances in the next short while. We continue to be sought after in the small end of the 401(k) businesses, as a provider of product, enrollment services, and expertise in the 401(k) marketplace. So, we're very excited about this and believe we're going to have a significant growth in this business in the near future.

Moving on to one of our franchise businesses, variable annuities, as you can see from this slide we've outgrown the industry over the last several years since 2005 and that is primarily attributable to our adopting the Guaranty Resolve Benefits early and distributing it through all of the distribution that we've created over the years. We are a predominant player in the variable annuity business. We have a market share of 8.6% which puts us third in what we call the non-proprietary distribution market place, non-proprietary being that we don't own any distribution.

So, we're out there distributing it against the likes of Lincoln, ING, and Hartford and have been very successful at that. We have a very, very broad distribution, 53% of our business coming from financial planners, 25% from wirehouses, 6% from regionals and 16% from banks. In the regionals, that's where Edward Jones would be slotted and as we've said previously we have, just recently got into Edward Jones this past spring and we're very excited about how we're doing there. We have a very consistent flow of business already for them month-over-month and they're already in our top seven of distributors.

Next, in banks, we see being in the banks extremely important at 16% of our sales. Now, we see that will continue to grow. Three years ago, we didn't have any bank distribution at all. We've grown that to \$1.5 billion in 2007 and we anticipate that growing to over \$2 billion of sales in 2008. I think another important part about the banks, especially our recent relationships with Chase and Bank of America, is that they are acquiring many of the distribution partners that we have already, so it's extremely important for us to be on both sides of the balance sheet in those distribution mergers.

Going forward, Jim, Bob, and you'll hear from Paul Rooney, we're all about distribution excellence. Our variable annuity business when it was acquired by Manulife in 1996, secured it from a firm called Wood, Logan Associates which is the premier distribution entity in the United States for variable annuities, in my opinion. We have over 140 wholesalers strong going around calling on all of our distribution partners and you will see us continue to grow that as new opportunities present themselves, specifically you'll continue to see us grow in Edward Jones and in the banks.

Jim said it well, we need to be product innovators. We are in the space where retirement income solutions are needed by our clients. We have the depth and management skills and talent to understand what type of products need to be developed and we will do it successfully and implement them effectively.

Risk management, extremely important, we need to understand, and we do understand the risks that we're taking from our clients and putting on our balance sheets. We were the innovator in requiring that you have an asset allocation portfolio chosen if you wanted the income rider benefit for life. We have proven that this has been successful not only to us but to our clients.

Our clients have weathered the recent equity storms fairly well and it's assisted us in providing competitive retirement income products to them. Demographics are clearly favorable to us. There's 4 million Americans turning age 65 each and every single year. That's going to move up to 4.5 million by the year 2020, so we are in the right spot. And I think that if we continue to push hard in the banks and with our new acquired distribution with Edward Jones you'll see us continue to gain market share.

Most importantly, we really are turning over from a retirement accumulation company to a retirement income company. We need to be able to provide our clients access, understandability, what type of retirement income streams they can get, as we are now, beginning to cut checks for life, and providing this solution-based approach to retirement income will be key to our success.

Jim skipped over this slide a little bit quickly and I'm not going to be quite so quick. To me it shows how important it is to have distribution relationships. If you look at this slide quickly, some of these logos are going to be going away. And it's unfortunate for them but quite frankly, we'll be able to simply walk in and we know the person on the other side of the fence. That's why it's great to be on both sides of the balance sheet. We've worked hard on this over the years, and it's going to be key to our success.

Even though people are merging, we're there and they'll know who we are. Having that distribution excellence will be again, key to our success. Product and service excellence will be key to our success. But most importantly, in troubled times brand name recognition, knowing a company's name and a company you can trust will be key to us continuing to grow our sales.

We are not immune from the difficult economic environment by any stretch of the imagination. As you may have noticed our top line has been a little bit soft and our bottom line a little bit soft. We did recognize this at beginning, the end of last year as a management team. And we've worked very diligently at controlling our expenses and controlling our staff counts. In fact, Wealth Management is pretty well flat year-over-year in staff additions. But what we're not pulling back on is dedicating resources to our distribution capabilities. And if you can cross all of our franchises, we've actually added to it.

We do have a couple of businesses that do need to get up to scale, specifically our mutual fund businesses and our 401(k) businesses. We have strategies to get there and it will be a focus of mine and the management team in the ensuing year to really get those businesses, we'd like to see those businesses move up to about \$100 billion with assets under management each so we can compete effectively.

Opportunities, I think we've said it time and time again. We have a financial solution for people to secure their retirement income, desires and needs. The equity winds are at our back and we simply need to continue execute on product distribution and we will be successful.

With that, I'll hand it over to the Q&A session.

## **United States – James Boyle & Hugh McHaffie – Q&A**

**Amir Gorgi:** So, any questions?

**John Reucassel:** John Reucassel from BMO Capital Markets. Just a question for Jim, just one of the stories as I understand it at Manulife from the sales side was your ability to open new accounts and new distribution relationships. Now, you've said you've been in every major account and you talked about growing sales to \$1 billion. I guess it looks like you're kind of already there in Q2. Should we be, like it is just tougher to grow here from now or is [\$1 billion] steady in the States and, or is it should have gotten deeper into the existing accounts and what type of penetration level do you have within there?

**James Boyle:** Now, that's a good question. Once you become number one, how do you keep your rate of growth growing? That's the key question for this business. There's no question. So, life insurance is not a growing marketplace so you will see us expand our product lines, for sure. If you look at our sales first half of 2008 versus first half of 2007, you see some of that come through in the numbers. Our term sales were up

significantly. Our variable sales in a very difficult market were up significantly. Significantly means 30% to 40% in both of those cases. Our [cold-lead] sales expanded. So, you'll see beyond expanding distribution you will see expanding product line from us for sure.

**John Reucassel:** And is there a natural rate at which your penetration within a distribution channel, whether that's the 10% that you tend to max out in the market, or what is the number, or does it depend on the product?

**James Boyle:** You know that, it's less fluid on the life insurance side than it is on the wealth management side. On the wealth side those are all registered products that sell through registered broker deals, it's a very systemic way to do business. It's more fluid on the life insurance side for sure. And I think in these current markets you're going to see more consolidation on the life insurance side, whether that's through acquisition or whether it's on main street. People are gravitating to the quality companies. So, in a normal environment your question might be more on-point. In this current environment we feel, because we're already seeing it, more people are trying to consolidate their business with us.

**John Reucassel:** Last question, this is for Hugh. You say that you wanted the mutual fund business and the JHF to be \$100 billion each?

**Hugh McHaffie:** Yes, that's correct. We like to.

**John Reucassel:** So, I guess that timeframe, is it organical or at --?

**Hugh McHaffie:** I would like to do that within the next three years.

**John Reucassel:** And that's an organical?

**Hugh McHaffie:** That's an organical, but we'll have to have to add the option significant mutual fund capabilities on the mutual fund side. So, we're out hunting as many institutional shops as we can to bring our distribution strength to them.

**John Reucassel:** Okay. Thanks.

**Michael Goldberg:** Hello. It's Michael Goldberg, Desjardins Securities for both of you. Do you think that you've gotten the full benefit of the brand already or can you give us some examples of how the brand can be used to further develop growth? And aside from that, more generally, would you, are you investing in the brand to insure that it really becomes a top of mind financial service brand?

**James Boyle:** I'll start and then Hugh, you could add to that. Our latest statistics show that 99% of the people in the United States recognize the John Hancock brand. So that's up from 95% give or take, when the transaction happened. So, we have invested. If you were to look at our numbers we invest, that level's consistent with the top ten life insurance companies in the United States. So we continue to invest in the brand and we reap benefits.

It's sometimes difficult to measure how much brand means. But for those of us that are from the legacy Manulife side, it was an impediment to sell with the brand. We had pretty much everything we needed to compete with the exception of brand and we used to get the Manu-who? Or the Manu-what? And brokers tend to show two or three products to customers. And we know we lost in some ties. And we don't lose those ties anymore.

So we compete, it allows us to compete on a level playing field with the best in the business there's no question. I might take a little tangent off of the brand for a minute and speak to financial strength. There was a question earlier about ratings and financial strength and in many ways they do go hand in hand for us. And I think you're going to see very different results regionally. In the United States today, frankly, what we're hearing from our brokers and our customers to a certain extent, they love our financial strength but they have difficulty believing in the ratings.

The rating agencies have had their challenges. They were behind a lot of these mortgage, bad securities that have now been downgraded. They had AIG rated very highly before the last series of events and our customers are asking us, how do we know you're not the next AIG? What kind of comfort? How can you prove your financial strength without the ratings? And we're doing that and we're doing it quite effectively. But the brand and our track record are helping us do that significantly.

**Hugh McHaffie:** Just on the Wealth Management side, clearly in the structured settlement and pension closeout business, financial strength and I would say before the AAA ratings, it's very important. If a company's taking their -- a pension liability and handing it over to a company to manage for their employees, it's very beneficial for us being so financially strong.

In the structured settlement business was often quote, mandated settlements, you need to have strong financial ratings, strong financial strength, you need to be on the list to be considered as the company to take on that liability. So it's -- I think that it's helping us a lot on the fixed products side, but I will agree with Jim, the AAA rating is, in the US is not as powerful with marketing stories it once used to be.

**Jukka Lipponen:** Jukka Lipponen, KBW. Here, given your organic growth projects at a mutual fund business, does that mean that an acquisition is no longer part of your thinking or is that not the case?

**Hugh McHaffie:** There's one person who talks about acquisitions in this company so I'm going to leave it to him. Jim put it well. We're well positioned as an organization, the John Hancock acquisition is over. All of our businesses are working on a growth-oriented basis, all the integration is completed. So, we'll just have to wait and see.

**Amir Gorgi:** Any more questions?

**James Boyle:** Thank you very much.

### **Investments - Donald Guloien - Presentation**

**Amir Gorgi:** Okay. Welcome back. I hope you enjoyed lunch. Our next speaker is Donald Guloien, Senior Executive Vice President and Chief Investment Officer. Donald.

**Donald Guloien:** Good afternoon, ladies and gentlemen. It's an exciting day in the markets and I ordinarily would be upset if I saw people referring to their BlackBerries while I'm talking but today I assure you that I do understand and I'll take it as a sign that you guys are very engaged in the markets.

Dominic opened up this morning with the revelation of our exposure to Wachovia. I guess I want everybody to have that in the right kind of context. It's also been announced, of course, that Citibank will be taking over Wachovia, will be assuming its debt and therefore we would expect that the losses associated with that would be diminutive for Manulife. We do have a certain amount of equity so we'd be hurt a little bit by that. But expect for the most part to be unscathed by that. So to which I can say, phew!

A lot of people said, did you see this coming? Did you see what was going on? And many of you will know that we were very concerned about what had been going on in credit markets, around the world but particularly in the United States. But I will have to admit that we did not see the depth to which this would go and the degree to which institutions have loaded up and leveraged up on the underlying exposures that, in and of themselves, were deemed to be risky. That has been a revelation, I think for anyone who's been a participant in capital markets, and I think a great lesson for all of us as we go forward with our careers.

I'm going to start off as the other speakers have with an introduction of my team. I'm the Chief Investment Officer, at least currently. On the left of the slide, you see Warren Thomson who has worked with me for a long time, and worked with Manulife for a long time who runs MFC Global Investment Management, which is all our alternative assets and our off-balance sheet businesses, third-party asset management businesses, which are an important ingredient of Manulife's future success in terms of growing the third-party asset management business and the sea of revenue that comes from that.

But also providing very interesting alternatives for Manulife's general accounts. The other three gentlemen, Scott Hartz, Alex Macdonald, and John Shed run the general accounts of Manulife, respectively in the United States in Canada and Asia. We're supported by a great team of people in Finance, Operation, Middle Office, Information Systems, Risk Management Compliance, Legal, and Human Resources make the effort complete Investment Operation.

Our investment philosophy, we're constantly conscious of our two synergistic mandates. One is to source and manage assets for the company's general account and the other is to grow a vital and vigorous third-party asset management business, taking some of that experience and capability and offering it to third-party customers in a variety of businesses around the world.

In our general accounts, we're very proud of the fact that we have bought enough of development of asset mix to meet the needs of individual product segments. And I make some fairly important decisions as the Chief Investment Officer, but this is the most important element of our mix. That is, we take a look at individual liabilities, characteristics, optionality, duration, cash flows, the whole works and design asset strategies that compliment those liabilities very well. And it's something that I think we're remarkably good at, at Manulife. And then with that we derive superior return in risk reduction using a blend of assets. Diversification is the story that you want to take away from my presentation.

Another thing I'm very proud of Manulife is we have a very close dialogue between the asset and liability side. If I talk to some of my peers in the investment side of life insurance companies, they'll complain about the liability guys who seem motivated to generate assets regardless of whether or not there's an opportunity to invest those assets at appropriate spreads that make it profitable for the company. And by profitable I mean, of course, providing a satisfactory return on capital. At Manulife, we've never had that.

And you notice very soon after the John Hancock acquisition, John DesPrez and I had a good discussion about the true viability of the spread business, the institutional spread business, the GICs, funding agreements and so on, because my people in the asset side were saying, we can't intelligently invest those funds. And then John would then say, well then why would raise them? And we quickly put an end to that and curtailed that business significantly. That is a clear example of the asset side and the liability side working together for a unified whole here at Manulife.

We have a strong risk management culture. We like to think that we're conservative, but risk-taking at the same time. We have centralized control and monitoring of all our investment and ALM functions. If Manulife does a misstep anywhere in the world, this lands at my desk or with my team's desk. We don't allow small units to operate unsupervised anywhere in the world. I guess more and more that seems like it might be a novel concept.

We have corporate oversight by a credit committee. So that if my team decides to go a bit off the ranch, you'd be sure that either Peter Rubenovitch and Bev Margolian and the people in Risk Management would bring us back on side. So, we have a credit committee that reviews everything we do, all our important decisions, policies and procedures. But also large credits. And the majority of the people on the credit committee are people who do not work in the Investments Operations, so we're represented there.

But Peter chairs the committee, Bev sits on it, or various people [Cam McDougal] in credit sits there. And they're there to critique and provide a balance of opinions on credit matters. And we think that it's a very, very healthy dialogue that emerges from that. We have strong asset management skills including, but not limited to credit. And I'll talk more about those, particularly the alternative assets.

The next slide is the efficient frontier, and I'm going to go through this fairly quickly. I'm going to apologize to those that have seen this before, but it's a very important element of what we do here at Manulife. This is basically making use of the Markowitz Frontier, you know Markowitz won a Nobel Prize for the work he did in terms of combining different stocks into efficient portfolios.

We're applying it here to different asset classes. And what it depicts up the vertical axis is expected return. And along the horizontal axis affected risk. And you can see just what your grandmother told you, that with greater return comes more risk generally speaking. And you can see the way assets sort of distribute themselves across the page upwards to the right indicating that higher return is associated with, typically, with higher risks.

And of course, you'd like all your investments to be down in the, or up in the upper left quadrant. That is, high return with low risks. Or you could end up where my personal investments are, which are down on the bottom right quadrant. High risk and low return, things like boats fit that description. The, I'm glad you guys got that as a joke. But generally speaking the line moves upwards to the right.

Now, the beauty of the Markowitz Frontier is that you can combine asset classes. He talks about combining securities. You can combine asset classes. And with that you diversify the risk, and then as you diversify away some of the risks you can actually add a little bit of risk and end up with an awesome portfolio. So the brilliant thing that he discovered is that by combining individual securities, or in our case, types of securities, you can actually do what seems to be impossible and that is create portfolios that have less risk and higher return. It's a wonderful concept.

What you see here depicted are two efficient portfolios. And anywhere along that green line, or aqua marine line, the high one, and anywhere along the blue one, that's down a little lower, are efficient portfolios. The differences are, the blue one is restricted to fixed income alone. So if you're a company that for various reasons restricts itself investing in fixed incomes, you're basically restricted to that line. And if you open your mind a little bit to greater opportunities, you operate along the green line, the top line. And as you can see, we sort of depicted where typical US insurer sits and where Manulife sits.

And what we try and do, or are able to do, is by applying some of this technology, operate upwards to the left which means we add return, but we also reduce risk by employing the efficient frontier. And what that means is we have a portfolio that is spread across the bottom range of asset classes, some of which you might think is risky. Yes, we have oil and gas in the portfolio, very modest operational leverage, not heavily levered oil and gas companies. We have private equity, we have public equity, we have infrastructure, we have timber, agriculture, real estate, all of which can be deemed risky at various time. But because they're part of a blended portfolio and do not have perfect correlation with other asset classes, actually server to reduce risks.

Now, if we were pigs, in respect with this concept. Right? If we're real gluttons for risk and opportunity what we'd do is move up. And we choose somewhere along the line, you see where that little arrow from efficient frontier touches the frontier, where it says enhanced? If we went up there we could offer hundreds of basis points additional return for a very modest increase in risk.

And why wouldn't we go there? Right? It's equally efficient. Well, because we're basically conservative people. That's why [Star] was saying, we're conservative people but with an element of risk-taking. What we choose to do is use the power of this technology not to increase risk, increase return with the same amount of risk. Not to enhance return and risk, but to reduce a bit of risk and enhance return slightly which we think is a prudent exploitation of the opportunity.

So, a turn of assets provides Manulife a great competitive advantage. Strong historical returns, diversification benefits through low correlation with other assets that we have, and a good fit for our long duration liabilities which leads to higher risk adjusted returns. I think you've seen that method before. But what's not apparent before, one of the most powerful things it has done in this turn of the cycle, has enabled to do that and eliminate the need to pursue riskier fixed income strategies. So if I go back for a minute and I look at the typical US company, we've depicted high yields as the extreme in a fixed income opportunity that are available to someone who is restricted to investing in fixed income.

Obviously, CMBS, RMBS, CDOs of RMBS, CDO cubed and so on and so forth are even more creative applications of the far right-hand side of that fixed income frontier that is offering high levels of return relative to other fixed income investments. But obviously enormous, enormous levels of risk and we think is one of the worse place you can play because for 50 or 60 basis points of additional spread, you're exposing your company to a not diminimous risk of 100% loss of principal which we think is a lousy risk return especially when you can invest in other things. So, the big power of the efficient frontier in this part of the cycle has been eliminating the need to pursue some of those fixed income strategies in order to make our overall profitability level of worth.

Since our last meeting in June 2007, we've witnessed a lot of things and you can see the slide is not up-to-date, it does not include the European banks that have gone, been taken over, over the weekend or some of this mornings activities, or Wachovia. But the demise of the fifth largest investment bank, Bear Stearns, the bankruptcy of the world's, of the fourth largest investment bank of Lehman, the government rescue of AIG, Fannie Mae, Freddie Mac, the bailout proposal, downgrade of numerous FIs and monoline insurers, and downgrades of thousands and thousands of securitized instruments, right down to-date. And this is a dated number as well one-half trillion dollars job losses of C\$110,000 and so on and so forth. A lot has taken place and it continues to, unfortunately this week, and I believe it will keep on continuing.

Our investment approach at Manulife has served us well. We have not been totally unaffected by the events as our discussion this morning and as our exposure to Lehman indicated. But overall credit quality remains high despite the top market with 95% of our bond portfolio at BBB or higher. Minimal credit loses to-date. Lehman and AIG exposures represent less than 0.5% of our total invested assets.

Something we're not proud of having any exposure whatsoever, but as we went for higher ground and avoided the direct cause of some of the meltdown, as we avoided some of the racier RMBS and securitized instruments and credit default swaps, going for higher ground, little did we know that some of the finest banks in the country would have gorged on these instruments. We avoided sophisticated, complex instruments that have performed so poorly and we have invested in alternative assets, providing enhanced yields and risk reduction, allowing us to avoid those other things.

So, let's remind ourselves about some of things that we avoided. We didn't have any exposure to the non-based ABC peak crisis in Canada, not buying structured investment vehicles, we did not buy risky assets for our money market funds. So we did not buy low quality securitization of subprime residential mortgages, and we virtually ended those programs when we saw the underwriting quality deteriorating as rapidly as it did. We did not buy CDOs of subprime loans, we did not expose the company to monoline insurers. We did not add credit risks or security blending programs, I should highlight that. Peter made reference to it after a question this morning about security blending programs and we have the most conservative approach to security blending.

Some of you are familiar with what's called the Canadian Model. Some of you know the US Model, but basically what we follow is loosely called the Canadian Model, but that doesn't matter because we use it everywhere in the world that we operate. And that is, we do not take the responsibility for investing the collateral. We ask for over collateralization of our security blending, typically somewhere between 102% and 105%,depending on execution We manage it ourselves so we know where the securities are being lent to.

But the collateral sits there. We have full access to it. It is invested in the highest quality, most liquid instruments. So even if the company was exposed to financial difficulty we have the collateral sitting there and can replace the securities virtually on demand if they fail to deliver what we've lent to them. The returns in securities lending, they are so small that why would one prostitute oneself by taking greater risks in order to get a few basis points of extra returns?

Now, that's avoiding the, entirely the issue that is rumored to have happened at AIG, and you know there's nothing new in this investment business. I understand the City of New York had a securities lending issue some years ago. And that's what happened in the US Model where the person is doing the lending actually gets cash collateral. And the deal is you invest the cash collateral as you see fit. Well if you invest it in very safe instruments there's no problem with the US Model. The US Model works. But there's a great temptation to invest that cash collateral in more racy stuff. And if you decide to say, invest it in equity markets or pork belly futures, or whatever, obviously you expose yourself to the risk of that.

And if you have any lending equities, well it doesn't take a genius to figure if I have an equity portfolio, and then I lend the equities and I take back collateral equal to the value of those equities and then invest those equities in the equity market, well I've doubled up the risk, right, in a way that is not necessarily easily detectable. In the case of AIG, I guess it's reported that they invested in some very interesting, so-called fixed interest type of vehicle. That is not something would happen in Manulife under any form of securities lending. We offer the most conservative approaches to those. And it warrants it.

We did not write credit default swap protection. We did not engage in synthetic credit structures, we did not buy common stock or preferred stock or Fannie Mae or Freddie Mac, despite managing large equity portfolios, because we could see better value elsewhere. We've had minimal impact on the in the news items. I won't go through all these in a lot of detail, but RMBS, we've got a great quality portfolio that's burning off very rapidly, roughly one-half a billion of subprime. And as you know from other presentations we've done, the older vintage is higher quality.

We have a commercial mortgage backed securities portfolio of C\$5.8 billion. We've given indications that in terms of where it's trading, book-to-market, that these are the highest quality portfolios and they're seen that way. Now, I will not tell you that all CMBS is of high quality, underwriting standards, certainly diminished in more recent years. And we witnessed that in our whole loan business competing against conduits that would lend on just about anything with inflated appraisals. So we pulled back very substantially on that. We do underwriting on the individual loans that make up CMBSs that we buy.

CDOs, none have subprime mortgages. Again, very high quality in the small amount of CDOs that we have, one-half billion dollars. Other asset backed securities is a variety in there, extremely high quality. And not likely to suffer any significant exposure. Monoline insurers, we have close to C\$1 billion in bonds that are wrapped, but we do credit underwriting of the instruments pre-wrap. And we basically give very little credence to the quality of the wrap that's protecting us. So at the end of the day, if all the monoline insurers went bust tomorrow, not predicting that's going to happen, but if that were to happen, God forbid, the impact on us from a credit standpoint would hardly be material.

Securities lending, I've talked about that. There's nothing there. Constant proportion debt obligations, we don't even know what those are, but they affect some people. False downgrades of bonds backed by Alt-A mortgages, none. And US home equity lines of credit, none.

This is our track record since the time of the mergers represented by exposure to below investment grade and BBB. You can see the below investment grade diminished enormously and the BBB category also came down. Not because we're afraid of those categories, there are the appropriate times. But because we have the general view that credit spreads were not sufficient to take the risks inherent with those securities and you'll see that come down. It picked up a bit in Q2 of 2008 which is a function of two things. One is we are now getting paid for taking risks on BBB and below investment grade debt, as you well know. And secondly, we have had some slight credit deterioration in some sectors.

Our bond portfolio on a ratings adjustment basis is performing well relative to market. We compare ourselves here to the S&P universe, credit adjusted and we've done well relative to that benchmark. Credit provisions, track record over the last few years has been superb, too good in my opinion. I think we've been very conscious in warning people that we can't expect it to continue like this forever and it certainly isn't. The dotted line on the right-hand side of the graph shows you the long term expected level based on Moody's default studies applied to our level of credit risks and roughly 25 basis points of the portfolio, as one would expect over a long term period.

We also note here the history from the rating agencies shows that credit losses are typically double the long term averages during recession. So that gives you some idea of where credit exposure could go in a very tough credit market or a serious recession.

Our mortgage portfolio, and people talk about the mortgage business and say is this going to go the way it did in the late 1980s or the 1990s, we think not. We think the commercial real market in the United States is sound. There's a net absorption. Obviously, New York would not be a good place to have a lot of exposure and fortunately we do not have. So, we think the underlying macro view for the commercial real estate business is sound. There has not been, the real speculative over building that occurred in the 1980s and of course, none of the lending associated with the subprime universe.

There has been, as I mentioned before some degradation in lending standards in the CMBS universe and that has choked back very significantly and so we think that so long as the economy stays in reasonable shape, the mortgage market will continue to function, the commercial mortgage market, very well.

Having said that we have been exceptionally conservative in our lending in Canada and the United States. We enjoy now, and these are on our appraisals which are more conservative, significantly more conservative than external appraisals, [theoan]-to-value ratios of 60% in both Canada and the United States and debt service coverage ratios of close to 1.7 in Canada and 1.6 in the United States. So we feel very, very well protected from even the most significant downturn in the commercial real estate market.

We also have an exposure to the Manulife Bank to residential mortgages. We remind everyone that 78% of these are insured by the CMHC. So we have no exposure to subprime mortgages in that portfolio. And we have a non-performing statistic that is almost nonexistent.

Our commercial mortgage portfolio is diversified by sector. We avoided things like hotels and so on, we like multi-family exposure, especially in Canada where we can get CMHC insurance on multi-family and pick up say, 60 basis points above a paying government bond with basically the same level of credit risk. And as I mentioned before, we like the residential market in Canada for the same reasons that we can get CMHC insurance.

We have no appreciable increase in our watch list. We're actually active sellers of the portfolios in troubled regions, when the conduits were at the peak of lending activity. We were happy to help them reach their sales goals by providing them with mortgages in areas like Michigan and Indiana which we thought were going to be exposed to the deterioration in the automobile market, automobile manufacturing.

Our mortgage portfolio quality remains high. No significant deterioration there. And we basically re-underwrite those portfolios constantly. And I guess the next statistic is what's actually in arrears. And we actually have two loans in arrears in Canada, both of which are CMHC insured so we're not going to lose a penny there. And we have one loan in arrears in our entire US portfolio and it has since been brought current.

Our general fund, here we talk about exposure to, and there are different measures of exposure. In terms of credit impairments as a percentage of total bonds and we're comparing again the four top companies that we would consider to be our peers in the United States and two companies in Canada that we would be, considered as peers. And as you can see, Manulife's numbers compare very well there. In terms of subprime exposure as a percentage of total invested assets, Manulife is 0.3%. And as I've said before, rate quality in vintage much less than most of our competitors.

CMBS as a percentage of total assets, again reflecting the fact that we have been very, very selective in originating those assets, our numbers are considerably less also than most of our peers. CDOs as a percentage of assets, again, monoline exposure again, and below investment grade bond, again, considerably less exposure in the fixed income universe than most of our peers.

So, where do we get the juice in our portfolio? Well, one of the ways we do that is with alternative assets which represent about 13% of our portfolio. You'd think, well we had talked about it, we talked about the efficient frontier that it might be 50% or 60% like the university endowments, like Harvard would have or Ontario Teachers. It doesn't have to be. A very small addition to the portfolio, basically a little bit of salt in the stew makes a very delightful mix. And stocks and alternative assets represent 13% of our portfolio. Roughly 40% of the stock portfolio or 3% of the total are pass through to policy holders, so it should not be thought of as putting any risk to the shareholders again.

This slide depicts the growth in the alternative assets. Manulife was positively disposed toward this asset category having a predilection towards equity, public equity, private equity and oil and gas, and equity real estate. With the addition of the John Hancock, we got exposure to timber and agriculture and increased our prowess in private equity mezzanine, power and infrastructure. So, we've been able to add to that using the resources of John Hancock, one of the great synergies of the merger in my opinion, and in addition to all the stuff that Jim Boyle so ably talked about. And we've grown the portfolio both size and diversity of that portfolio.

The next set of slides deals with the other part of our business which is our growing investment business that is managed by Warren Thomson. We use the name MFC Global Investment Management to market that business. It represents over C\$96 billion in AUM for external clients. Those are people who buy Manulife mutual funds, those are people who invest in Manulife variable annuity, we have in each case an open architecture approach that has us competing with the best and the brightest in the industry. So you'll see Fidelity in there, you'll see T. Rowe Price in there, you'll see Mawer there in the Canadian portfolio, so we compete on a fair basis with the very best of external competition.

We also raise money institutionally by going directly to pension plans and endowments and in some cases, high net worth individuals, as well as have some of our products on wrap accounts, externally and closed end funds and in other instruments that are available to retail and institutional consumers.

We offer a very broad spectrum of investment management services equating Manulife's capability in this regard, equities, bonds, asset allocations, structured products, oil and gas, timber and farmland. The pie chart on the left shows you who our customer base is. Basically 26% coming in through retail mutual funds, which can be either Manulife mutual funds or in some cases, we are in other people's lineups.

Variable annuity insurance, closed end business and institutional accounts representing 43% of what we do. And the distribution on the right-hand side shows the distribution of asset class where we're investing the money on behalf of those clients, US equities and fixed income is the biggest piece followed by a range of other asset classes. Our asset allocation services put us at the pinnacle of what's being done in that field, being able to allocate across these wonderfully diverse asset classes for the benefit of our client.

We have 306 investment professionals located around the world. And we've grown the business. Manulife has been growing the business, we had since 2001, at a pretty good clip. At the time we merged with John Hancock, the John Hancock third-party asset management business were actually in significant decline and had been for a number of years. We made the bold statement that one of the synergies we thought would come out of the merger is that we'd be able to grow this business quite nicely. A lot of people laughed and said, there isn't a long track record of life insurance companies doing well in the third-party asset management business.

And I think that statement is actually true and verifiable. The fact of the matter is, we've been able to buck the trend and we're growing the entirety by 13% on exchange mutual basis. Obviously when we express it in Canadian dollars given that the bulk of our business is in the United States, it would be unfair to characterize it in Canadian dollar terms, reflecting the strength of the Canadian dollar. So it's grown at a 13% clip, including right up to June of this year and continues to this date. So we're very proud of the growth of this business.

And we've performed well in the business, Hugh was good enough to show some of the mutual fund statistics that had our four and five star rated funds, a number of them are Manulife funds, but of course, it represented other managers on the platform as well. These are some of the ones that we manage in terms of four and five star rated funds. We had two of our funds, I think, I think we're one of the, -- I thought the only ones, but there might have others that had two funds actually rated in the top 20 in Barron's recent survey. Our bull fund ranked first and our monthly high income won the top award for ten years of risk adjusted returns.

So in summary, we have a strong credit risk management culture, with centralized controls. We have diversification achieved through increasing use of alternative assets, including but not limited to, credit. High quality, high performing portfolio. Our balance stable general account asset mix, in 2008 represents another year where Manulife has avoided most, not all, but most of the major credit events. And we have a growing third party asset management business.

And with that, I will take any questions.

#### **Investments - Donald Guloien – Q&A**

**Donald Guloien:** Yes?

**Andre Hardy:** Thank you, Andre Hardy, RBC Capital Markets. I have two questions. On page 13 it is, where you showed downgrades in your portfolio or Manulife's portfolio versus the industry, I guess what matters a lot more is downgrades out of BBB into non-investment grade. Can you talk about the experience there? And then I have another question after.

**Donald Guloien:** Well, it's very small. If you actually looked at it, there's virtually no appreciable increase in our below-investment grade percentage. And it's not because we sold debt, we do not sell debt when it goes into a crisis. We think that's, that can optimize those statistics and some pension plans are obligated to do that, but that's not a good way to make money for your investors. So we do not try and lighten up the portfolio unless we're convinced that it's going to go down to zero when something tips over the below investment grade mark. So, I think that's the best evidence that one can draw, that we've had a terrific track record there.

**Andre Hardy:** So are most of the downgrades at the high end where really the increase in actuarial reserves is quite nominal?

**Donald Guloien:** Yes, that's right. That's it exactly.

**Andre Hardy:** Okay. The other question, I guess you kind of half answered, I was going to ask, you've disclosed exposures to four companies that have had issues since the quarter began, would your exposures at this closure be very different from when the quarter started?

**Donald Guloien:** No, no there'd be -- I should mention they improved. But not as a result of sales. A very good analyst implied that might be the case or could be the case on one credit. And no, I think he's very right to point out that could be case. But it wasn't the case. We don't do that. We don't try and sell to dress up the reporting. We have had, we do have fluidity in our exposures. For instance, we announced our exposure to AIG, that's reduced by C\$90 million since the time we issued the press release because of the unwinding of credit exposures in that company.

Obviously, we have the privilege of replace derivatives exposure and we choose to use the most secure counter-parties. So through the unwinding of the derivatives exposure, we've reduced the risk by C\$90 million. But that's not selling at a panic or anything of that nature. Thank you for allowing me to clarify that. But I did not take umbrage with that thoughtful remark that the gentleman made, that maybe there was some selling taking place. It's a fair comment.

**Michael Goldberg:** Thanks, Michael Goldberg, Desjardins Securities. Don, are there any types of alternative asset classes that are missing or may be light that you'd like to either add or expand?

**Donald Guloien:** Well, Michael I hate to disappoint, I couldn't tell you. I'd tell you privately and then I'd to kill you afterwards. We wouldn't want to announce just before we got into an asset class. We keep a watch and brief on a whole range of asset classes and our, we like to invest in things when we have a competency. We, most of it we manage ourselves.

There are occasions when we're attracted to something and determine that we don't have the competency to manage ourselves so we will hire it out to an outside manager and pay them fees. But we prefer to manage it ourselves. But there are examples of that. We look at a variety of things. But I'm sorry, I can't give you any leading thinking on the matter because that would drive up what we'd have to pay for those assets, I suspect.

**Unidentified Audience Member:** (Inaudible-microphone inaccessible)

**Donald Guloien:** Well, I'm not giving away any secret when you think of the infrastructure around the world. And you had significant disruption to some of the competitors who have been very prominent in the infrastructure space for reasons I don't need to go into. That's a pool of money that's big enough that it's hard to imagine anywhere where remarks of mine would drive up our cost. And when, if you look at Canada, Canada's ripe for significant investments to infrastructure. I think it's, where it's been exploited has worked out very well for the electorate as well as the investors. It's a great way to finance.

### **Canada – Paul Rooney - Presentation**

**Amir Gorgi:** Any more questions? Okay.. Thanks, Donald, our next speaker is Paul Rooney, Senior Executive Vice President and General Manager of our Canadian Operations. Paul?

**Paul Rooney:** Thank you and good afternoon everyone. I'm very pleased to be here. Donald, thank you for getting me a little extra time this afternoon. I appreciate that very much. I have a very good story to tell today. First and foremost, the Canadian division is performing very admirably. And the prospects for growth continue to be very strong within the division. Just looking historically at our solid track record you can see that we have significant growth in all of the areas that matter, both top line and bottom line. Compound annual growth rate of earnings of 24% over the last, since 2002. Premiums and deposits up 22% over that same period of time, and funds under management up 19%.

We've had some very exceptional growth in recent years fueled by IncomePlus which is our GMWB product in Canada which has had over C\$6 billion of sales and deposits in the first two years of its development. And funds under management are growing at 26% versus 2006 versus 2007. The other big story on the top line growth is continues to be Manulife's Bank and our real success with Manulife One, that's our all-in-one mortgage product, or all-in-one line of credit secured against your home. In the second quarter of this year, we did over C\$1 billion of sales in that area and the growth continues. So we're very pleased with both the top and bottom line historical performance of the Canadian division.

In terms of the division overall, we represent about 26%, 27% I should say in 2007 of Manulife's worldwide earnings. And it's split quite evenly between our Insurance businesses, our Wealth businesses and our Group businesses. Continued growth in earnings has led the way specifically in seg funds, Manulife's Bank. And very strong investment gains throughout this period helped fuel the growth in the Canadian division. So from a financial perspective and a contribution perspective, the Canadian division continues to be a material part of the worldwide earnings.

It's also important to recognize the contribution of some of the smaller businesses now. As you can see, Manulife Bank, GSRS and affinity markets while our smaller business units are now starting to represent a more significant part of our overall earnings, each generating about 6% of our earnings today. We don't disclose all of the details on those businesses but they are becoming much more significant for us.

So, moving to the Canadian division overall, we operate in a very mature and very consolidated market relative to other territories like the US. We have a good competitor base but a relatively limited competitor base. And a number of companies have significant market share. If you look at our Group businesses today in Canada, the three major group players, ourselves and our two major competitors, have just under 70% of the entire group market. So as you can see, you'd think that there'd be an oligopoly at work here and that everyone could do well, but quite the contrary. The Group business is more competitive than it's ever been in its past.

The other good thing about the Canadian operations and Canada in general is our strong regulatory regime. We have strong accounting and capital rules in Canada. I do take exception to some of the current accounting rules that have transformed our volatility of our results. But nonetheless, a strong capital regime that allows us to be sure that we're going to be the, making, and keeping the promises that we've delivered to our customers.

I always say this to our staff and to our advisors, that all we do is we sell promises. We sell promises to be there 20 and 30 and 40 years from now to insure that if you need to claim on a debt, we'll be there. That we're going to manage your pension assets or your segregated fund assets, fairly, honestly and deliver the kinds of -- deliver on the kinds of expectations that you have. And it's part of the sound regulatory regime that allows us to do that. It's the prudence with which we manage the organization that allows us to make and meet those commitments.

It's a fairly financially stable industry. We don't see some of the troubles that we've seen in the US and largely in Canada we've skated past many of the challenges, as John talked about just a few minutes ago. But the banks are becoming increasingly competitive in Canada to a varying degree. Some have a fairly benign attitude towards the insurance business, others have a fairly strong and aggressive attitude towards the insurance business. But they really see that as opportunities. And each one is in a different place in its formation of its insurance strategies. But all of our banking competitors do have robust insurance strategies.

The demographics of the organization in the country are largely similar to what you'd see in the US and not quite as dramatic as you'd see in an area like Japan. We have a large and growing baby boomer population. I'm going to spend a little time later on talking about that and how we plan on capitalizing on that market place. We also have a growing affluent high net worth market.

By 2016, I believe the statistic now is over 70% of all assets will be concentrated in excess of the age of 55. So all the wealth will be concentrated over the age of 55. And that demographic has very different needs, very different wants, very different philosophies about what they're going to be doing and how they're going to be utilizing financial advisors in the future. And we have to react and change to that phenomenon.

The other thing that we're facing now is increased longevity but not just increased longevity. Increased longevity in a much less healthy lifestyle than you might have expected when you were 20, 30, 40-years-old. People are going to live longer. Right now, if you have a couple who's aged 65, the probability of one of them living to age 90, just one of them is now over 50%.

And the question we continue to ask Canadians is are they prepared for that outcome? Have they built a nest egg necessary to deal with all the complexities of retirement? Have they built nest egg necessary to deal with all of the uncertainties and all of the ill health that comes from living into your 80s and 90s? And largely the answer is that they're not prepared. And we see it as our responsibility and our opportunity to step into that fray and bring some products and services that will help. And of course, the increased stress on our public institutions, both in terms of healthcare and retirement planning create huge opportunities for us to step into the fray again as we see more and more privatization coming in Canada.

In terms of our organization structure in the strategic overview area, we operate as we do elsewhere at Manulife in strategic business units. We fundamentally believe in strategic business units as a core strength of ours. Each general manager has everything they need to succeed. They have their own product and marketing areas, their own IT organization, their own financial officers, their own call centers, it's core to how we do business. And each one of them is led by a strong general manager. We could airlift any one of these organizations and sell it to someone else. That's how contiguous they are.

We have Michael Doughty who is an experienced insurance person who's worked throughout the organization leading our individual insurance business. Roy Firth is here with us today. Roy leads our Wealth Management business along with [Roman Fetishin] who runs the Bank and Rick Brunet who runs our Group businesses. And these individuals focus on their businesses. And we believe that we give something up in terms of having contiguous, strategic business units. We don't get the same synergies, we don't get the same cost savings as you might if you had one Canadian Division Call Center, for example. But we're willing to give up a few of those expense synergies to allow us to focus on our core businesses and be successful.

Our core strategy is quite simple. In the past it's been focused on a sound disciplined financial approach to everything we do and few core elements that are important to what we do. Distribution excellence, and I tell people all the time, the five most important things in our business are number one, distribution, number two, great product, number three, distribution, number four, great service and number five, distribution.

If you don't have distribution you're nowhere. You can have product and great service, but if you can't sell it, you can't succeed. So, distribution is very important to us. And we choose to operate only with independent advisors. We don't have career distribution in Canada. It's a conscious choice of ours. We believe in open architecture and believe that as financial advisors, we'll make the best choices for their clients and we choose to earn their business every day.

Innovative products and services is a core to where we're going. You might have seen that recently with IncomePlus or Manulife One or our new Performax Gold product. We're always striving to be first-to-market. We want to be a market maker, we want to lead the market in product innovations.

Our customer service is an area where we've been focusing more in recent years. I'd say we've had the history of being in a fairly mediocre pool, in the middle of that mediocre pool. Today I'd say we're at the, we're swimming in the deep end of the pool. We're doing very well on the service front. And we have an opportunity now to actually surpass all of our competitors and be known for services. It's first time I can remember where we're really positioned to take advantage of our service offerings and it can be a reason to do business with Manulife as opposed to just a core competency, or a core base that you need.

And of course, strategic acquisitions have always played a part in our growth in the Canadian division. And will do so. Although probably not to the same degree that it has in the past, simply because the market is much more consolidated and the opportunity through acquisitions in Canada are not as, are not as plentiful as they are around the world.

I'd like to talk a bit about our strategic approach to product introduction because I think it's very important that you understand how we think about the market place and the thought process that we go through when we're developing products and services. As with everyone, we start with the demographics. We have an aging population today in Canada. That's known to everyone else.

And we've talked about the transfer of wealth in the next generation. People are living longer, in deteriorating health and the markets, as you know are exceedingly volatile. So the opportunity, especially for the boomers is what do we do, and how do we bring products and services that will help them safeguard their income and transfer wealth tax effectively to the next generation?

At Manulife, we've invested more in tax and estate planning than any other company in Canada by a long shot. We have a cadre of financial experts, lawyers, accountants, and actuaries who work with advisors on a regular basis bringing our products and services to high net worth clients around Canada. That's why our average base amount in the Canadian market place is about three times the size of our competitors. We don't sell 100,000 policies or 200,000 policies a year. We sell a fewer number than our competitors, but we sell much larger policies, much more sophisticated sales, that allow us to generate higher margins on these sales.

And we're going to really focus more on optional retiree products. As the boomers age, you're going to see a lot more boomers retiring and they won't have post retiree benefits anymore. They're going to be faced with the challenge of how do I supplement health products, vision care products, dental products, that my employer provided and that I thought that I would get throughout retirement from my employer and those won't exist anymore? So we're spending a lot more time thinking about and developing products and services that cater to those needs.

So the outcome of course, is where we focus all of our innovations. It's on the products that are core to us, permanent insurance for the most effective way to transfer wealth to the next generation in Canada. IncomePlus that I think you've heard a lot about. Our Group IncomePlus, we're the first to launch IncomePlus or GMWB products into the group market. But our living benefits products, they haven't taken off yet in Canada, but the demographics are perfect for long term and critical illness in Canada.

We're well prepared to take advantage of that when consumers are ready to buy. And the Health Services Navigator is just another example of innovation, where we're building products and tools and services where Canadians can take advantage of these products that we can bring to the table to solve some of their challenges around the eroding healthcare system in Canada. A couple other areas I'm going to talk about later, more on the marketing side, but I'll leave it for a little bit later.

So some of our industry firsts, IncomePlus, I think we've talked a lot about that. We're over C\$6 billion in deposits already. It was rated the best new initiative in Canada. And we've also launched Group IncomePlus. Performax Gold is our newest non-par life product. It's going exceptionally well. We're very pleased with that. It's a much more flexible whole life product than Canadians are used to. And of course, Manulife One, our one of a kind home equity line of credit product. I think though what you're going to see from us from the branding perspective and you've probably seen some of our advertisements already around IncomePlus and around Manulife One, is our focus on product advertising.

What we want to do is we want to take the Canadian consumer the message that Manulife is innovative, that understands where they're going, understands what their needs are and brings products and innovative solutions to work for them. And we're going to have a call to action on all of these advertisements. Visit our website, contact your financial advisor. And we're seeing tremendous results from this advertising. This really reinforces our brand which is we're going to bring innovative solutions to Canadians. And by showing them what we have and asking them to respond, they're doing so in droves. And we're very pleased with the results. And this will be a continuing theme of our advertising campaigns, which is product innovation and how we're bringing solutions to Canadians that matter to them.

I'd like to now introduce a new concept, Don talked about asset allocation earlier and the importance of asset allocation in retirement planning. And that's been all the rage in our industry and the mutual fund industry for some time. But the next wave is going to be product allocation. Asset allocation is critically important when you're accumulating assets. But what's going to be more important is product allocation in retirement. Sequencing of returns in retirement is much more important than asset allocation where 95% of your ability to grow a nest egg in an asset base, is dependent on asset allocation and being on the efficient frontier.

The more important theme now is going to be product allocation. And this morning we launched and introduced Retirement Solution Strategy which is really a suite of tools for advisors and consumers to understand the changing needs into retirement and things you're going to need to think about. And needs calculators, and programs which they work with their advisors on to determine the right product allocation and mix for them.

We have an exclusive agreement with [Dr. Moysha Moleski] who's the leading expert from York University in this regard. And we're going to be road shows across Canada starting today or starting later this Fall I should say, to educate advisors on this important tool. It's going to be online so that not only advisors can have access to it, but eventually consumers as well.

We're very excited about this because we believe that this will be the next wave in financial planning. And having the right mix of mutual funds, and payout products, and health products and life products as you go through retirement, we believe will be the next wave and an important wave for financial advisors. And the important thing for us is to be ahead of the curve. We want to lead the market in this area, we want to be known as the company that made this market so that we can generate a disproportionate share of that success.

And lastly before I look about, to talk a bit about we're going an organization, I think we should definitely talk about distribution. As I said we only operate with independent financial advisors and we have three core channels that we operate in, our MGA channel, our national accounts channel, and our independent advisors. And just to make sure we understand the differences between these three channels, corporate MGA channel is simply advisors who choose to do business through an organization that contracts with insurance companies for them so that they can have access to a number of insurance companies. National accounts, that's simply the IDA firms that we do business with. And independent advisors are advisors who choose to do business directly with us.

Right now, we have top three market share on the MGA channel. We're the largest provider of services and products in the independent channel and we have over 55% share of the IDA channel. And these are the three channels we'll continue to focus on. The deepest and best opportunities are going to continue to be in the MGA channel and the IDA firms simply because they're less penetrated than the independent advisor channel.

If you go back a few years to 2000, you can see that we were largely an independent advisor firm. We had good penetration with the national accounts firm and minuscule penetration in the MGA channel. Today for both life and wealth products you can see that we've now flipped that around. Our largest channel is now the MGA channel, but yet we're not number one in that channel so there's still a significant opportunity to grow in that channel, both on the life and the wealth side.

And as you can see, the pie didn't stay the same size. It grew quite dramatically. 13% compound annual growth rate on our life products in a market that's growing at low single digits, and individual wealth products up 17%. These three channels will continue to be our focus as we move forward. Each one, just like our business unit structure, has a focused wholesaling organization and focused leadership on these channels.

We don't try to build one wholesaling channel that covers all of our distribution partners. We believe that they are different for a reason, and we cater our wholesaling efforts to each channel separately. Yes, it costs us a little more, but the benefits that we get from focus, far outweigh the additional costs of having multiple wholesaling channels.

So now, the final phase of looking forward is what we're really going to focus on beyond our core principals and core disciplines. And the two areas are the high net worth, the baby boomers, the affluent market and small business owners. And the small business owners represent one of the largest areas of growth in Canada in terms of employment, in terms of wealth creation, but the interesting part about these small business owners is they have exactly the same challenges that all Canadians do and that they are in the boomer years and they're going to be looking to retire. And they need to determine how they're going to transfer their business in a tax efficient manner to the next generation, tax effectively and without any challenges.

Insurance products and the solutions that we provide to these small business owners, be it in the group space, the banking base, are perfectly suited for them. And we have a great opportunity to leverage our relationships with small business owners across all of our boundaries. I've talked a lot about the affluent boomers, that will be our number one focus in terms of target marketing.

The other place we're going to spend a lot of time focusing is on our businesses that are under penetrated, mostly in the wealth space. We have dominate market share in the Group business and the Life business, but in the wealth space we still have a long way to go. The mutual fund franchise remains suboptimal. We've done a lot of things in the mutual fund space to increase our product shelf, increase wholesaling, and increase our branding, but it will take time to build that franchise. But we believe we have a number of opportunities to grow that organically.

Manulife Bank is probably our biggest and fastest growing success story in the Canadian Division. We continue to exploit that and we plan on continuing our focus on a virtual bank that really brings all the services the Canadians need from a bank in an all-in-one account. And GSRS, it's a little different phenomenon in Canada for the defined contribution business where we play.

Currently, 85% of all assets in Canada, pension assets are still in defined benefit plans. So we haven't had the same transition that other territories have had in terms of assets moving away from defined benefit plans to defined contribution plans. So while we have a reasonable market share in GSRS, the best opportunity is yet to come as we see that continuing shift away from defined benefit plans to defined contribution plans. And our goal and our plan, of course, is to get a disproportionate share as that shift happens.

And the other place that we're looking forward strategically which we see is very important is our customer base. Right now we serve over seven million Canadians. We touch over seven million Canadians on a regular basis across all of our businesses. And we have a tremendous opportunity to work across these boundaries while still maintaining our focus on strategic business units. There's a tremendous opportunity to capitalize on these relationship from a cross selling perspective.

And I'll give you a couple examples of some of the things we're doing today to do just that. If you look at our group benefits business, the one challenge that Rick Brunet has in the benefits business is he has three million Canadians that he serves everyday and they're boomers. And one million of them are going to retire in the next ten years. And they're going to retire without post retiree benefits many of them. So what we've developed is something called a Follow Me Program, that comes out of affinity markets.

And those are individual health products that we can offer to these retiring boomers coming out of their employment contract and say you can have the same products and services you had inside a group plan, you can now just buy them on an individual basis. And we try to get to those people at the moment of retirement. That magic moment when they're thinking about their pension assets, when they're thinking about payout products, when they're thinking about what they're going to be doing with their lives in retirement and how they're going to replace these group benefit plans.

So, we have a perfect opportunity. And we work with employers to make sure that we offer this on a very successful basis. In fact, some employers will pay the first year or two premiums on behalf of their retiring employees to get them used to this transition to individual products. It's much less expensive for the employer to have to deal with the long post retiree than if it's that some Canadians had been expecting.

Another area of great opportunity is the synergies between group benefits and GSRS. They have the same client base, yet we haven't yet capitalized on the opportunity to sell packaged products like you've seen in the property and casualty business where if you buy your home insurance it's this price, if you buy your car insurance it's this price, but if you buy both from us there's a discounted price with a much more effective way of doing business. We're going to take those same kinds of themes across our group businesses and leverage them quite well. So there's a number of programs going on throughout the Canadian Division to look at opportunities to capitalize on our customer base and those are a couple quick examples.

So in summary, we're going to continue to concentrate and focus on what got us here, our strategic business units will be core to what we do. Distribution product innovation and service excellence are what we're all about and we're going to maintain those core focuses. And where you're going to see us spending a lot more time and energy are in the wealth management areas, particularly high potential growth markets like the baby boomers and like small business owners. We're going to focus much more on areas of low market share, mutual funds, the bank, and GSRS and we're going to be working across the boundaries of our business to leverage those relationships and look for cross sell opportunities.

So the Canadian division has been a success story for Manulife and we've got the team, we've got the resources, we've got the capital and we've got the ingenuity that will allow us to continue to sell in the Canadian marketplace and win where it matters most, in consumers' minds and hearts.

And with that, I'll take some questions. Thank you very much.

**Amir Gorgi:** Are there any questions for Paul?

#### **Canada – Paul Rooney – Q&A**

**John Reucassel:** John Reucassel from BMO Capital Markets. Just a, Paul, just a quick question. In the past you've indicated frustration with your scale in Canadian mutual funds and talked a bit about here today. It also sounds like you've resigned yourself that maybe acquisition opportunities aren't there. Is that the case? Or do you think there's more opportunity there and if not, how is it that you, with the banks getting stronger in the mutual fund business, how do you grow that organically?

**Paul Rooney:** Well, John, I -- we've met a couple of times. So you know I don't resign myself to anything, ever. But no, the -- at this point, when we look at acquisition opportunities in that space, we find the multiples very high. And as you know, we're a very disciplined acquirer, and to this point, we haven't got our head around the multiples necessary to grow in that space.

I'd never say never to anything, because the world is unfolding in very strange ways today. And there could be huge opportunities for us. But our focus right now has always been on organic growth and supplementing that with strategic acquisitions when we can do it at a disciplined price and we believe we can integrate it expertly. So that will continue to be our focus.

In terms of how we're going to get there, it's going to take a long time. This is not a business that you enter into lightly. We have about C\$10 billion of assets in our -- I believe it's about C\$10 billion in our mutual fund franchise and we've been spending a lot more time and energy on that business in terms of growing our product portfolio, working very closely with Don and his team to add new fund offerings, to make us more attractive. You need a track record in that business and a consistent track record.

Our wholesaling capabilities have not been as robust as I would like to see them. We've added wholesaling. We've changed the focus of our compensation structure for our wholesalers to focus more on mutual funds. And you've seen a lot more advertising, if you've looked into 680 News, you'll see the business report brought to you by Manulife Mutual Funds.

So, there's a series of very simple things we're doing to raise awareness that Manulife is in the mutual fund business and that we're going to continue to succeed. And I think with Don growing third-party asset management, our opportunities will only grow faster because he's building a strong track record in the institutional world and generating a lot of excitement in the institutional world and gathering assets. And as that builds, we'll be able to leverage that on the retail side. But I could never tell you whether we're going to do any acquisitions or not, but to date we haven't found anything that we find attractive.

**Tom MacKinnon:** Tom MacKinnon, Scotia Capital. Paul, this Group Savings and Retirement business that you have, you've got a couple of guys that are at least twice your size, if not bigger. And do you think -- what do you need to do to be able to compete with them? Is there a certain market you're trying to go after that they're not getting to? Or do you think you need to double or triple up your size, either through an acquisition or some other need to be able to compete with them?

**Paul Rooney:** Well thanks, Tom. Just in case you didn't hear it, he's asking about our GSRS business, which is our defined contribution business. Actually, I'm quite proud of the success that we've had in the defined contribution business and the GSRS business. Its grown -- its probably more than doubled over the last five years. Its significantly grown.

We've put some of our best general management talent into that business. We've put everything on a single platform. We have one of the strongest back office systems now. We're invited to every finalist presentation, which didn't used to be the case. And we're winning significant market share. We're -- if you look at the sales market share, we're number one or two virtually every quarter. I can't remember one or two last year.

So the last several years have been really building the infrastructure necessary to capitalize on the success. And the infrastructure is there. And the products and services are there. And now it's really a question of getting out there and selling it and wholesaling it and growing it and we're having remarkable success there.

I don't know if there's a lot of acquisition opportunities in that space. I would suggest not. But the real opportunity to be prepared for the big shift, while we're maybe half some of our competitors' sizes, this market is going to grow three and four fold over the next 10 or 15 years. Simply because of the dynamic of the defined benefit plans versus defined contribution plans. And our goal isn't to try and get to our competitors.

Our goal is to generate a disproportionate share of the growth that has to happen in a defined contribution business, so that five and ten years from now we will be the largest player in the industry. It's always our goal to be the largest and most effective player in the industry and I can see that happening with our GSRS business, given the construct of the model today and the prospects for that part of the business going forward.

**Amir Gorgi:** Any more questions?

**Jukka Lipponen:** Jukka Lipponen at KBW. Paul, you talked about the opportunity to leapfrog some of your competitors in service. Could you give us a little bit more color on what exactly you're talking about? How exactly you think you can do that?

**Paul Rooney:** Sure. I'll give you a couple of examples. First, I'll talk about the front end of our life insurance business. Several years ago, we were -- our average cycle time, which is the amount of time that it takes to take a policy in the door, to complete an issued policy, was higher than our competitors. So it took longer.

Now many people said, well, that's expected. Manulife has an average policy size that's two or three sizes -- two or three kinds of competitors and therefore there's more medical evidence required, more EKGs, more pending physician statements. So the time line should take longer.

But I believe -- I know that it was causing some competitors or some advisors to say, You know, that's a reason not to do business with Manulife. Yes, I like their brand. Yes, I like their products. Yes, I like their innovation and their distribution, but I hear some rumbles about their service, so I'm comfortable where I am. And advisors are -- they need reasons to move. And the one big reason that we couldn't say, but we needed to say, there's no reason to stay where you are because Manulife is the best at everything, but service.

So in that particular case, we started a project called Make It Easy. And the goal wasn't to improve cycle time by 10%, because I felt staff could turn this dial and move this switch and do some very basic things in order to hit that goal. We decided to try to cut cycle time in half. So that we wanted to move from worse than industry average to significantly better than industry averages, by cutting our cycle time in half.

We've been at this for about two years now and we're about 80% of the way there. We've gone from one of the longer cycle times in the industry to consistency under industry average. Industry average is now, and cycle time, is 37 days. We're in the 31 to 32 range. Our goal is to get it down to 28 days. We've done everything we can in terms of changing the people, changing the processes and the last piece of the puzzle is technology.

So as we speak, we're building a whole new front end system on our insurance business from electronic applications to automated underwriting to tools that will allow managers to move work around between underwriters in Halifax and Montreal and Toronto and Kitchener-Waterloo, much more effectively to really manage the process and the flow of our business. Once this project is done, at the end of 2009, I believe we should be able to achieve our goal of 28 day cycle time. And that will put us significantly ahead of all of the competitors in the marketplace and remove that last reason why advisors won't do business with us.

The other area of service that I think is really important is across the retail space. If you think about what I said earlier about our strategic business units and how important it is for us to be focused, as business units, the one problem with that is that sometimes customers feel like they're wealth management customers or a Manulife Bank customer or a Manulife Life customer or a Manulife Group customer, but they don't feel like a Manulife customer. Because we haven't organized ourselves effectively to deal with them on a single customer basis across all of the products and services we have with them.

So, we have this retail services forum, which is the heads of operations from all of our business units and they're working together to build tools and products that they can take to the marketplace, so consumers feel like one customer. So if you have an address change, you can come to one place at Manulife now, make that address change and it will talk -- that website will talk to all the underlying systems in all of our different businesses.

Because remember, we're not just an individual business, we're an individual insurance business that's an amalgam of a number of acquisitions that we made, each with its own legacy systems. So we're really focused on the retail customer and building solutions that allow us to really immunize themselves from our business unit structure and some of our legacy systems so they truly feel like a Manulife customer, not a Manulife Life customer or a Manulife Wealth customer.

And this retail service forum currently has eight projects on the go, to move us in that direction. And those eight projects are all in various stages of completion. I think all eight will be done by the end of 2009 and that will simply be a recurring theme of the organization in terms of delivering service to our clients. It gives us a couple of chances.

**Amir Gorgi:** Any more questions?

**Paul Rooney:** Well, thank you and enjoy your afternoon.

**Amir Gorgi:** Thank you, Paul. During the lunch break, we handed out some surveys for today's event. Those of you joining us via webcast, you can find this -- similar surveys online as well. Please take the time to provide us with your feedback on the day and help us shape our future investor days. We encourage you to submit your completed surveys to any of our Manulife staff here today and/or online.

So that brings us to our final session. I'm going to ask Dominic to return to the stage to provide us with his closing remarks and address any final questions you might have.

### **Closing Remarks - Dominic D'Alessandro - Presentation**

**Dominic D'Alessandro:** Well, thank you very much. I just discovered that there's a few slides for me to review with you. I think you've had a very comprehensive look at our company and have been brought up to date as to where we are. Just to remind you, some years ago we established a vision for the company, as reproduced here on the screen. That vision hasn't changed over the last 14 or 15 years. And I think arguably, we're making very good progress. If we're not there, we're close.

You see some of our strengths. They've been talked about in the presentations today. I won't belabor the point. I think that our company has many strengths. The couple that I would mention here, I hope that you've gotten the knowledge that you need about this -- the quality of our balance sheet, both the review of the investments and their make up and to the review and analysis of our liabilities and how our reserves are established and the conservative assumptions that underlie the liabilities that are comparable to the conservatism we follow in our assets.

The -- probably the thing I'm proudest of is the quality of our management team. I think that over the years we've had ample opportunity to seed some of our leaders and I hope that you agree with me that they're probably -- not -- I think they're the best in the industry and I hope that you share that view as well.

The Company's very strong and diversified across all the businesses that you see here on the screen. I think there's ample opportunities to grow our business everywhere. People often ask me, do you have an idea that one of these units should be much bigger than the other? We've never approached it that way. We've approached it with the under -- the belief, the fundamental belief, that each of these businesses could grow.

That they were in countries and that enjoyed either demographics or economic development or that through a combination of innovation, good distribution, just good management, we would be able to grow at above industry levels and we'd be able to introduce things to the marketplace that people don't -- hadn't traditionally associated with insurance companies. I think that I could make that case and that we've done that in just about every geography.

So, I said to you this morning that Manulife was well positioned to weather any of the storms and certainly the storm that we're living through now, which is the worst in my working career. I hope you share my confidence about our capacity and our depth to navigate these difficult waters and indeed, if the opportunity presents itself, to benefit significantly.

One way or another, I know most of you are thinking what is Manulife going to buy? And is he going tell us today? I'm sorry to disappoint you. But one way or another, this turmoil, I think, will ultimately accrue to the benefit of the strong. And we are the strong. Some of the largest players in our industry have fallen by the wayside. Others, I think there's going to be an enhanced awareness on the part of many, many people. And as I said, in times of turmoil, the strong survive and there will be a flight to quality. And we are the quality that many will be looking for, to do business with.

## **Closing Remarks - Dominic D'Alessandro – Q&A**

**Dominic D'Alessandro:** So those are my remarks. If you have questions for me, I'd be delighted to attempt to answer your questions. I guess you need the microphone so that people on the --

**Colin Devine:** Colin Devine, Citigroup. Dominic, actually two things. First, this is your final Investor Day so you haven't at all really talked a little bit about succession. And Don and that's what's coming next, so I think it's appropriate to table that now. And then secondly, everybody we heard here today says you're the M&A guy. So I'll throw that out, what you might be looking at.

**Dominic D'Alessandro:** Succession has been resolved, I think, in our company in a very professional and mature way. I told our Board I was extraordinarily proud of the way that the two candidates to my position comported themselves throughout the process.

They collaborated very well together, and didn't allow the succession process to cause the Company to divide into camps. I think these are two individuals who are extraordinary leaders. And I think the choice has been made. And we've structured the Company in a way that is going to allow us to benefit from the presence of both these individuals going forward. I think they have strong, strong skills. And again, the success of the Company is a reflection of those skills.

So, I don't know that there's much more that I could add to the succession issue. It's a resolved issue. It's not an issue anymore. I do intend to retire in May of '07. I don't see anything of -- '09, sorry. I don't see -- gosh that maybe have been Freudian. I don't see anything on the horizon that would cause that to change. But one never knows. So if something were to happen in the financial markets that would cause us to participate in the restructuring or consolidation. Frankly, I have no doubt that Don is fully capable of leading our company through that eventuality.

So on succession, I don't have anything further to say. For me it's been a culmination of my life experience. I always wanted to run and have the opportunity to build a great company. And I think I've done that. And I've done it with -- I like to tell everybody, in an honorable way, without rolling the dice or taking risks that happen to work out.

And I've done it with a great team of people, both those present and those who are not with us anymore. We have a lot of people. I had a lot of help along the way. And at the end of the day, I feel very comforted that I'm leaving the company in a position of strength and respect and standing. This is a great organization. And I'm very proud of it.

What was your second question?

**Colin Devine:** M&A?

**Dominic D'Alessandro:** Well, M&A, I'm not going to -- I can't go into the specifics. I mean, you read -- I don't know much more than you do, to tell you the truth. It's a very fluid situation. Everybody's aware of what our interests are and what they aren't. And maybe we'll get lucky and we'll get a deal like is happening in the United States, where these people are being given these franchises for next to nothing. It's truly unbelievable.

Earlier, you were asking me what I would do in my retirement. I just got an idea. I'm going to go on a crusade to expose the fallacy of these accounting and reporting rules that we're subjecting our businesses to. It just absolutely makes no sense. One of the -- when the chapter on this decade or so of finance is written or when the book is written, and there'll be many chapters, but probably half the book will be about the financial reporting and accounting practices that have been -- the industry and the business generally has been saddled with.

One of -- there's many, many reasons for the behaviors that we've seen. And of course greed and human nature and, one would argue and I think it is a societal problem. Everybody wants instant gratification. No

one wants to make investments that are only going to pay out four or five years. But it's perverse that we've adopted accounting practices that exaggerates that tendency. It exposes people to a level of morale hazard that's just unprecedented.

Markets are very, very liquid, very, very volatile. Hell, if I was a trader, I don't know if I would be tempted -- if I had one of the deals they do, that if I can take a big, big risk and if it works out, I get hundreds of millions of dollars. And if I don't, well I'll move next door and start all over again. But it just makes no sense.

And when you look at the impact -- look I have no reason to tell you this other than I believe it profoundly in my bones. When you look at trying to measure the income accruing to a company on a product, on many products, that have lifecycles that go into years and you look at saying, how am I going to slice that into increments of three months? It is unbelievable vanity to believe that this is like mathematics. You know that it's exact. It's absolutely nuts.

One of the benefits that we've had here in Canada is we've been able to run our business constantly with the view as to what is the best economic decision. Not what is the best accounting decision? And we've been able to hold assets and invest our policyholder's money in a blend of assets which over the long term has delivered substantial value to them.

Well, under the new accounting rules that have been hoisted upon us, I'm not sure that's going to be possible going forward. And so what are the consequences of that? Well, the consequences are that ultimately, consumers will pay a lot more for their insurance. They'll be getting less value, because if insurance companies, which have 30 and 40-year liabilities, can't because of the accounting model, invest in equities or invest in long-term assets or assets whose value goes up and down, who can? Who can?

And it's just nuts. Now, I've no doubt that the subprime and all these other problems had to be flushed out. But did they need to be flushed out with quite the speed. And when you do something as mammoth as this, as complex as this in haste, you're going to throw out a lot of babies with the bath water. No one knows what the real value of some of those asset pools are.

But in our haste to try to get there, we've confused the market. People have no confidence in anything. And I'm not sure that in the end, we're going to be all the better for it. I think these kind of accounting practices are wrong theoretically. They're wrong operationally. They make no sense for anybody.

Some theorists who love them, the accounting fraternities, some of them love them. I mean obviously anything that makes it very complex so you can't strike your numbers without calling in 12 experts to consult is -- they passed the pension plan and they wrote the Sarbanes-Oxley. And now they've got a super pension plan with these other rules.

Anyway, so as you can tell, I feel very strongly about this. And I think it's very regrettable that all of these things have come together at one time to create the kind of turmoil that we have. Think of how monumental the changes in the last month have been. Think about it. And as I say, I think that the excess is needed to be wrung out. Did they need to be wrung out in quite this way with all of the collateral damages being done? I would argue not.

So, that's my little sermon on fair value accounting.

**Dominic D'Alessandro:** Any more questions?

**John Reucassel:** John Reucassel from BMO Capital Markets. Dom, just a lot of talk about M&A, lots of deals out there. We've also heard a day of good organic growth opportunities. How would be, you as a leader of the firm, keeping your senior managers from not being distracted by all the M&A activity? And focus on the organic?

**Dominic D'Alessandro:** Well, that's the thing I'm very proud of is the depth of leadership that we have in our company. We have built in capabilities for people at the senior level to be able to sit back and look at the

horizon, as opposed to being caught up in the minutia of day to day business. So I don't -- I guess that of course it would be challenged if we had to do something really massive. But it's not so challenged that it would paralyze us or cause us to be shallow in our review.

Remembering again, as much as what is happening in this -- we're constantly in our -- one of the things I demand of all the people that you saw here today is that they're constantly scanning the horizon. That they're coming to me and talking about, and we meet every week, and we discuss what's going on in the market place. So there's very few businesses where the prospect of getting together with somebody is -- would be totally new. So I think there's familiarity and there's depth. And these are very capable people, so they can multi-task.

**John Reucassel:** And last, have to ask, Canadian regulatory framework, it's been of the view that -- would it be unlikely to change unless there was financial difficulty at one of the large Canadian financial services firms? Is that still your view? Or has things changed --?

**Dominic D'Alessandro:** Yes, I think if anything, yes, that's still my view. I mean the fact is that there's -- it remains that the issue of consolidation of our sector is not popular with the public. And there's no reason for a politician to championing it -- to champion that cause in the absence of some emergency.

And as we're seeing in our financial institutions, by and large of weathering the storms, if anything we look very, very good. Don't we? I mean when you look at the financial systems in other jurisdictions. So I think the tendency will be to leave well enough alone. And so I don't see, in the near term, that there will be any encouragement for Manulife to buy an ABC company here in Canada.

**Jukka Lipponen:** Jukka Lipponen, KBW. Your interest in reentering South Korea and if you decide to enter India under the right circumstances is well know. But what is your current thinking with respect to Europe? Any decide to potentially go back to Europe?

**Dominic D'Alessandro:** Well our -- it hasn't been an area of focus for us. There's so many opportunities for us in the geographies where we now are that we've always preferred to exploit those fully, rather than just partially. And go somewhere else. We wouldn't likely go to Europe to start a de novo, greenfield operation.

If the opportunity to acquisition something there, and opportunity came alone in a manner that didn't distract us from developing our businesses in Asia more or in the United States more and Canada more, we might look at it. Yes, but it isn't -- if I had to list the top five markets where we would be desirous of going, not sure Europe -- maybe number five.

**Jukka Lipponen:** I also asked earlier, Hugh McHaffie, about the acquisition and mutual funds space and he deferred the question to you --.

**Dominic D'Alessandro:** I wasn't here when Hugh spoke, but I was here when Paul spoke. And I think you heard from Paul that we think value is in that space. And every time we've looked -- or you haven't been able to make them work. We've always had very ambitious plans to grow that business organically. Our plans, I will say, haven't come to fruition. We're disappointed that the initiatives we took didn't work out as we had hoped. But we haven't given up. We think that's a great business.

And it's a wonderful complement to the other things that we do. So hope springs eternal. Maybe the right opportunity will present itself. In the meantime as you've heard, we've got a number of initiatives that continue to grow our business organically.

Jim, yes.

**Jim Bantis:** Jim Bantis, Credit Suisse. It sounds like the House voted down the rescue package and more concerns about systemic risk and deeper US recession. A lot of us haven't been around in terms of an insurance company operating through that type of environment. And with 50% of your earnings coming from the US, Dominic, maybe you can talk about how this company can operate in this environment in the next couple of years?

**Dominic D'Alessandro:** Well, I haven't lived through an environment where we've had a systemic failure, if that's indeed what we're going to have. I just can't believe that some other resolution to this problem won't somehow emerge. But let's say for the sake of argument it doesn't and we go into a period of slowdown. I would recall -- remind you of the strength of our company.

We have a huge in force blocks of business that throw off fairly predictable amounts of earnings as those PfADs that you saw ensuring the many billions unwind. We don't have a funding issue where we've got to renew deposits every 30 days. Our Company's very, very liquid. The quality of our assets, I would remind you, is very, very high. So we would, I guess, try to manage our business in the most expedient way, in the most appropriate way rather, for the circumstance.

And if we assume that economic activity was going to be at a very reduced level, presumably that would cause us to look at how we operate, the level of expenditure, the type of assets that we invest in. A whole series of -- and whether there is opportunities to redeploy capital to other markets. So I suspect if the US market goes into the -- into a tail spin that it will be pretty difficult to find markets that are not somehow affected.

But you have to look at the totality of the picture. And is this a strong company that has capable leadership and good qualities. So I think it is. And we should -- no doubts that we would make the most of that situation. Now what does the most mean? Does it mean we'll earn 20%? I doubt it. But it could mean that we'd emerge after a period of time much stronger than we are today.

Michael?

**Michael Goldberg:** Thanks, Michael Goldberg, Desjardins Securities. Dominic, my understanding is that when you step down as the CEO of the company, you also intend to step down from the Board. Can you give us some of your thinking as to why you decided not to remain on the Board, both just in terms of your own personal interest and in terms of continuing to provide insight into the rest of the Board?

**Dominic D'Alessandro:** Well, when I step down as CEO, I'm moving next door here into a building. Part of my arrangements are that the company provides me office space for five years. And I hope I'm just a phone call away. I hope that whoever is -- that Don and whoever, the members of the Board are, that they, if they felt they needed my counsel, that they would not hesitate to pick up the phone.

I have as a -- going to have a very ongoing -- a very important ongoing investment in our company, so of course I'm interested in it doing well. As to why I didn't stay on the Board, our governance practices are that when you step down as CEO, you're also step off the Board. I don't have any problems with those governance practices. As some people have asked me about this and when I joined Manulife, it was a real plus not to have the former CEO sitting at the boardroom table.

I think it's not fair to the successor to have -- and in my case, I've been here for so long, it would be very, very difficult. So, I think that it's a very logical and proper arrangement. And I think you'll see more and more companies of our size adopt similar approaches. You look surprised or skeptical.

**Michael Goldberg:** No, no, I was just going to say that perhaps that maybe for everybody here the (Inaudible-microphone inaccessible).

**Dominic D'Alessandro:** Thank you very much. So if there are no -- are there any more questions? So there are none. Thank you all very much. I've enjoyed sparring with all of you. And we'll have a few more opportunities on the phone. But probably it's our last face-to-face meeting, so good luck to all of you.