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MFC Presentation at the National Bank Financial 2010 Canadian Financial Services Conference

**MANULIFE FINANCIAL CORPORATION
National Bank Financial
2010 Canadian Financial Services Conference
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Ihor Danyliuk, Head of Research, National Bank -

We are pleased to welcome our next presenter, Donald Guloien, President and Chief Executive Officer of Manulife Financial. Donald is a Manulife veteran, beginning his career with Manulife 29 years ago as a research analyst. He served as Senior Executive Vice President and Chief Investment Officer from 2001 until his appointment as President and CEO last year. Donald brings wide ranging international, operating, investment and acquisition experience. Please welcome Donald.

Donald Guloien, President and Chief Executive Officer –

Thank you, ladies and gentlemen. It's a great pleasure and honor to be here in Montreal. Earlier in my career, when I worked in our Canadian operations, I spent a lot of time in Montreal, and I was always regarded with a--received with a very warm reception and very much enjoyed the collegiality that I enjoyed in this community. I have to apologize. The last year has been a very tumultuous one and I found that more of my activities have been centered in Toronto than I would have liked. And I truly enjoyed the opportunity of getting out to meet all investors and our businesses around the world, but particularly the investor community in Montreal where we enjoy a very strong following. So, thank you and it's a pleasure to present to you today at the National Bank Conference.

I'm gonna start with some very broad positioning of Manulife, our vision and brand identity. This is the first, is the legal disclaimer that I hope you'll take an opportunity to read in the written materials.

The first is our new vision, which is a very slight but important modification of Manulife's former vision, which was to be the most professional life insurance organization in the world. We see our aspirations as greater. The products and benefits that we bring to our consumers in our businesses is a broader array, so we choose to define ourselves as the most professional financial services organization of the world, providing strong, reliable, trustworthy and forward thinking solutions for our clients' most significant financial decisions.

Again, we've defined ourselves more in terms of what we do for customers than what we prefer to do for ourselves. In other words, we help people with the big financial decisions in their lives. And the big financial decisions and the long term financial decisions, there's something important there for the shareholders, and that is we believe we offer a quality product at a premium offering and should be prepared to command a premium price for our offerings. So, this integrates very closely to what we're planning to do for shareholders, which is improving our ROE long term by pricing of products. You know, if you're buying a transactional service, something's gonna pay off in the next year and a half, a small amount of your income or wealth or your estate, you can afford to deal with just about anybody. But, if you're talking about the big decisions in your life, planning for retirement, planning for untimely death or estate planning of the family business, we feel that these are very, very important decisions that have a major impact on people. And the quality offering that Manulife provides should attract a premium price.

We have a new brand positioning statement or tag line "for your future" or "a votre avenir" en francais. And we think this captures what we are dedicated to do, focusing on our clients' future, parenthetically focused on our shareholders' future, as well. Our pride values remain unchanged - professionalism, real value to customers, integrity, demonstrated financial strength and employer of choice.

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So, let's get down to more shareholder focused activities and leave the brand positioning for a moment. Our priorities are to grow, to maintain strong capital and financial strength, to improve ROE, to manage risk and to continue to offer our customers a quality value proposition going forward. A lot of companies would make the same claims that these are the priorities. I think the test is in the execution. In the execution, we identified six major things - we want to balance our growth, we want to grow our businesses with priority on the highest return products and geographies, achieve diversification and balance. I think one of the frailties that Manulife experienced in the past very visibly is the over-dependence on the variable annuity business is such a significant driver of earnings, and of course, of risk. We want to balance our portfolio going forward. As I said, balance has achieved huge success for us in our investment portfolios. To talk to something that even a child can relate you, you know, fat's a good thing, protein's a good thing, carbohydrate's a good thing, fiber's a good thing, but they all need to be in a requisite balance, and that's what we're gonna try and achieve, not only in our investment portfolios, but in our business mix. So, diversification and balance is very key to that.

We want to focus on the highest return geographies and products. And this sounds like something that would be taken for granted, but when you inject new thinking in terms of interest rates, in terms of lapse rates, in terms of policyholder behavior, in terms of morbidity assumptions and so on, you get different impressions about what businesses are profitable and what businesses are not, which are high capital consumers and which are not. And we're on a program of moving capital very actively from areas of low return application to areas of high return application. Mike Bell, my CFO who's here today, I think described on our conference call--two conference calls ago, he was asked the question, "How do you plan to improve the ROE?" And he said, "Very simply, we want to move capital from low ROE applications, minimize that to high ROE applications." I think a lot of people probably sat back and sort of said, you know, he's hardly gonna get a Nobel Prize for that observation. What he meant was we're gonna actively do this in a very visceral and directive fashion, and Mike is in fact doing that.

We want a balance between markets and market share. You know, in the past, I think we've emphasized a lot of slides that focus on number one--being number one in a market or number two in a market. There's certain markets where I don't care how much growth we can achieve, we want to balance that growth. And, you know, variable annuities are a good example of that. You know, this business is likely to be a profitable business for Manulife through the fullness of time. We will be in the variable annuity business. We don't plan to withdraw. But, we never want it to dominate our business and we will manage growth in that business. We'll manage and we'll also manage risk and manage pricing at the same time with a view to having it represent a reasonable proportion, but not a dominant proportion of what we do. And we'll pivot to offering other things that address some of the same needs, but in a fashion that is either less expensive to the consumer or more conducive in terms of risk to our shareholders.

We want to reduce our equity exposure. There's a lot of ways of doing that--continue to reduce our equity exposure both through business mix and product design, pricing and hedging. And we're doing all of those things.

Going up the left hand side, starting with the purple circle, we want to maintain strong capital levels to provide a cushion for market risk. The reason we did the equity raise in November of 2009 was to give us the cushion to sustain a very severe drop in equity markets, but not be forced to hedge. As I said before, there's a lot of pressure on the company from some shareholders, also from, as you might expect, from rating agencies. Regulators obviously like less risk, so they've been encouraging it, too, to hedge what would have been at the bottom of equity markets. We felt that was a bad thing to do for our shareholders. Our shareholders had suffered a great deal by writing equity markets down and Manulife having an unhedged position. The worst thing to do would be to crystallize that loss at the bottom, lock it in, create then a capital shortfall that would need to be filled and to deny our shareholders the right to earn back some of what they had lost on the way down. Our approach was to fortify the balance sheet, to cut dividends, the first order of action, second order of action - raise equity, admittedly at rates--at a level that

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I believe is dilutive to Manulife's intrinsic value but which forestalls against the risk of having to do more dilutive issues if equity markets were to fall.

Now, I tend to be an optimist. I tend to believe equity markets will rise. And I certainly felt back in March that we were at or near the bottom. But, none of us can tell with any perfection what the future will hold. And we have to look at all types of scenarios, including one which would have a W shape to it, equity markets going down. And the last thing we'd want to do is have Manulife have to raise equity at levels approaching what we traded at back in March of '09. With the equity raise, we have erased, not entirely--I can't promise. You know, awful things have happened in global equity markets, but we have considerably reduced the risk of that ever having to happen and bought us the ability to hedge at a time most conducive to our shareholders, and we are in fact doing that.

We want to capitalize on opportunities for acquisitions and geographic expansion, leveraging our skills and competitive advantages, not going into businesses that we know nothing about. Businesses that we have a lot of confidence in, a lot of experience in, we want to basically pivot off those existing skills - so, leveraging those. We want to do that, however, in a highly disciplined fashion. I think, you know, Manulife has always been in the flow in terms of deal flow. We've executed three interesting deals, smallish deals last year. We looked at a lot larger than that. Manulife, I promise you, will always be executing deals in a highly disciplined fashion, and we'll talk more about that as we go on.

We want to extend our product reach by leveraging existing skills between all elements of savings and investment management and retirement services. These products--you know, I think it's unfortunate that the insurance industry focused on variable annuities because we had a unique competitive advantage. We were able to offer long term guarantees that banks, mutual funds and other providers did not and did not service as well other parts of the investment management business that are less guarantee intensive. Manulife is capable of growing in all aspects of investment management and we will do so.

So, how will we do that? Well, let's first categorize Manulife's competitive strengths, and they are formidable. We have a strong capital position. We have industry leading ratings. And there is, in fact, a flight to quality going on. We have significant scale in virtually all of our businesses around the world. We have superior asset quality and markedly superior to most of our competitors south of the border. And we will market position and growth opportunities in key markets, excellent brand recognition and reputation, largely unsullied by the financial crisis, although less so here in Canada where, of course, we've got a requisite share of newspaper headlines of an unfavorable direction.

Strong multi channel distribution, a quality team and a proven track record, a highly disciplined track record in M&A--you know, much is made of the mergers and acquisitions business, but I think we all know the statistic that 70 or 80 percent of them end in failure. The reason is that the CEOs tend to overpay and the discipline that we have had has kept us in very, very good stead.

Our capital position at 240 percent at year-end is amongst the highest Manulife's ever had. Now, admittedly, we have exposure to the equity markets. It suggests a strong capital position, but we feel very, very well fortified. And the question comes up, do I feel we have fortress capital--levels of capital? Absolutely. Relative to the current measures we enjoy, relative to the economic risk I see in the business, I feel very, very comfortable with the level of capital that we have. And total capital is \$33 billion.

In terms of reducing equity risk exposure, the movement has been very profound. What we've seen over the course of the year, the net amount at risk has diminished significantly down to just over 11 million--billion at year-end. And consistent with that, we've taken the opportunity to hedge at the most opportune times. Now, the opportunity to hedge is a function of two things. It is not just equity markets. It's a function of equity market levels, but it's also a function of swap rates. Higher swap rates make it more conducive to hedge as to higher equity markets. Generally, our approach has been to hedge when the account values are getting closer to the guaranteed values - that is less cost for our shareholders in terms of executing the hedging. And we've been very successful at doing that with the market movements that

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have occurred in both equity markets and swap rates more recently. We achieved--48 percent of our book is now hedged or reinsured. Manulife had reinsured prior to 2004, and that remains on the books, but we've added hedging to it. We also hedge all the new business. Virtually all of our new business is hedged at Manulife.

Industry leading ratings - I think you know this, that while the ratings agencies have a negative outlook for most insurance companies and for the insurance industry as a whole, Manulife enjoys amongst the highest ratings of any insurance company in the world. And significant scale - this is a measure of market capitalization. I'm sure I'll get questions about how the AIA deal or the Alico deal could affect competitive position. We feel very, very comfortable with or without those deals, the competitive position and our ability to compete in global markets.

Superior asset quality - I'm not gonna take you through this in any level of detail at all. You've seen it before. Sufficed to say that our blend of assets, which kept us out of the riskiest end of the fixed income spectrum, has served us extremely well, providing very good returns, but also mitigating risk very substantially. And we intend to maintain that posture.

Perhaps most relevant is a new slide, which shows our fixed income gross unrealized loss as a percentage of regulatory surplus compared with some of our US companies. And Manulife indeed has had its challenge with the VA business. Some of our competitors have, as well. But, what distinguishes Manulife is the quality of our balance sheet on the left hand side that is the asset portfolio. And as you can see from this slide, you know, the average of the five largest US public companies have something like 48 percent of their portfolio in gross unrealized loss position. That would represent--or 48 percent of their surplus in a gross unrealized loss position compared with something like 9 percent at Manulife. If you look at the portion that is, you know, trading over 20 percent discount for more than six months or more, which is what is more likely to be cause to be written off, it's 29 percent for the average of the five largest US public companies and 4 percent for Manulife.

In addition to that, as many of you would know, as ratings decrease on these instruments, Manulife would provide additional reserves--any Canadian company would provide additional reserves in a reserve formula, acknowledging that there's a heightened risk of default. US companies would not. Whichever way you look at it, you see that we're in a highly advantaged position, less likely to suffer diminution of capital as a result of asset problems remaining. You know, there's a time in say March of 2009 when you have gross realized losses on the balance sheet you could say that was a result of extreme capital markets and ridiculous spreads. I think you'd all agree that spreads have come into a level that anyone with gross unrealized losses at this stage of any sizeable amount probably has a real credit problem as opposed to an accounting phenomenon.

Significant presence in growth opportunity - and we've got a map of the world with three principle areas of operation of Manulife - Canada, the United States and Asia. And China is depicted there right in the middle. As you know, China is the engine of growth for Asia and--but, it's important to realize it's not a China story alone. China drives all boats in a positive direction throughout Asia including Japan.

Manulife operating in Canada, the United States and Asia--the first observation is we're not in Europe. There's a huge restructuring going on in Europe, some very significant problems, structural issues and so on. It's a great place not to be at the present time. I think over the fullness of time, it presents very interesting opportunities for people to enter the European market on an advantageous basis and we're taking a very serious look at that, not something to--for implementation in the next couple of years necessarily, but we want to have a watching brief on what opportunities do emerge in the European continent.

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In terms of the balance of the portfolio, you know, the question of how you get higher ROE - well, the first thing you do is you look at your geographic balance. And Manulife has the wonderful benefit of having the highest growth rates in Asia, the second highest growth rates in Canada and the third highest growth rates in the United States. Why is that a wonderful benefit? Because it happens to be that we get the highest return on capital in Asia, the second highest return on capital in Canada and the third highest returns on capital in the United States. So, we have the wonderful confluence of events where we have the greatest opportunity for growth - you know, 25, 30 percent plus growth - in Asia, where we get the highest return, double digit growth, very strong double digit growth in Canada where we get the second highest set of returns and low growth in the United States where, right now, the returns are not entirely satisfactory.

We don't expect that to be the situation for all time. We are not planning to withdraw from the US market or downsize significantly. What we're choosing to do is instead reprice products to a more acceptable level for our shareholders. And again, going right back to the beginning, if you offer a premium product in terms of a company that has not been under scrutiny in terms of the--its ability to perform to its' customers needs, you charge a premium price for so doing. The good news is that many of our competitors are also repricing, some for their own reasons, which I've alluded to on this gross unrealized loss slide, but for a whole host of reasons they're also repricing. So, I hope that that market will in fact produce acceptable returns going forward but can't guarantee that. In the meantime, we're allocating capital very vigorously to the Canadian market and to the Asian markets.

This is a little story on the Asian Markets that Bob Cook, our General Manager for Asia, has presented with great success. What it shows along the bottom is Asia's role in the global economy. And as you can, for something like 1,700 years, Asia represented something like 70 percent of the global economy--60 percent, I guess to be accurate, of the global economy. It's only in the few hundred years following the industrial revolution that Asia lost its way and it diminished to a much lower percentage. And as you can see on the right hand side, it's regaining its position. Now, I'm not up here today telling you that I think that Asia will with certainty represent 60 percent of the global economy, but I think we'd all agree the direction is clear that Asian growth is gonna outstrip that of the rest of the world. That is depicted on the upper left hand side, which is global GDP. And you can see the growth rates exhibited in various parts of the world and the fact the growth rate of 10 percent in Asia will outpace that of the Western industrialized world. And on the top right hand slide, the addressable population, 2.2 billion people. Addressable population in terms of people who would reasonably be expected to buy our products and services will grow to 2.2 billion people, almost double by year 2015. It's a tremendous opportunity, and one that we intend to exercise to its fullest.

Manulife is well represented in all major economies of Asia with the exception of India and Korea, and I've talked about those situations before. And I think we have a realistic prospect of entering those markets some time over the next 10 years. The compound average growth rate in terms of earnings of 31 percent in Asia, premiums of deposit 20 percent and funds under management 30 percent - outstanding growth rates. And we--you know, I can't promise those exact growth rates will continue into the future, but we expect the growth to be very, very robust.

Within the geographies, we also have massive opportunities for product repositioning to maximize ROE for the benefit of our shareholders and we're taking active decisions in investing less in products with the prospects of lower return or have greater risk associated with them and investing more in businesses that have fee base, less guarantees, better return on capital. What are some of the things that we're emphasizing? Group life and health, mutual funds in every business, institutional asset management, 401K programs, other retirement solutions and less of the products that have long term guarantee--or minimum guaranteed interest rates that leave companies in exposed position in low interest rate or low equity return environments.

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We have a proven track record in delivering on new product and market introductions. Here's four examples. You know, the question is can you really turn on the tap that fast, and I think Manulife has the capability of doing that when it's focused on it.

The Manulife Bank - 44 percent compound annual growth rate, you know, a small bank by Canadian standards, but 16 billion in assets, which is a significant achievement.

You know, in Manulife Sinochem in China, 30 percent compound annual growth rate, today represented in 11 provinces and 41 cities across China, serving over 500,000 clients. We've now bought an asset management company in China, and I don't need to be a marketing professor to talk about the potential synergies between 10,000 agents selling life insurance who haven't sold a stick of mutual funds and 500,000 in force customers who are quite satisfied with the products that we're providing and the service they're getting from their agents. And now, we have an asset management company that can offer asset management services in China, as well. There's some natural marketing synergies that we plan to optimize.

Mandatory provident fund in Hong Kong - again, a brand new entry for us into the mandatory provident fund, but leveraging off our existing skill and distribution base in Hong Kong, 32 percent compound annual growth rate and second only to Hong Kong Shanghai Bank in the Hong Kong market.

And last but not least, something I'm very familiar with, MFC Global Investment Management, which is where we manage money for third parties. This is not the company's general account, but this is managing money for third parties where they get the returns on the investment - a 30 percent compound annual growth rate since 2001, and today represents from almost a--I can't remember how small it was, but it was virtually a zero start back in 2001 - 110 billion in assets under management today from MFC Global. I think you'd agree that's a pretty good track record.

We have excellent brand reputation and recognition. Manulife Financial has received accolades in Canada. I don't know if you can read the print. It's pretty small. But, you know, fourth largest most--or fourth most valuable brand in Canada according to Brand Finance 2009 survey. John Hancock, 96 percent brand awareness in the United States - consistently ranks in the 10 most popular brands in the United States and one of the--rated one of the most--100 most powerful brands of the 20th century by the New York Times. You know, our distributors in terms of the wire houses and banks have said you can slap the John Hancock name on virtually any product, any financial product and sell it here. We're not about to do that, but, you know, recognize that the John Hancock's name has not been sullied by any, any of the exigencies created by the financial crisis. And Manulife in Asia with a tremendous brand recognition, particularly in Hong Kong, the most trusted brand for the sixth year running according to the Readers Digest trusted brand awards - very, very strong powerful brands in each of our major locuses of operation.

We have strong multichannel distribution, everything from advisors to in house agents, banks, wire houses, dealers to brokers and independent agents and financial planners. And I guess what we are more successful in distinguishing ourselves is we were able to very successfully avoid channel conflicts between those channels because all of our distributors understand we have a multi channel approach.

We have a proven track record of high disciplined mergers and acquisition - over 25 acquisitions in 15 years. I mean, varying degrees of success with all of them, but I think you'd have to agree that all of them have been successful for Manulife, some more than others, but all of them a threshold level of success. And we haven't come anywhere near the statistic of the 70 percent that end in failure. These have been highly successful. Why? Because they're highly disciplined. They're discipline in terms of the quality of due diligence we do, in terms of assessing the business going forward, in terms of understanding the risks inherent in the propositions, and most importantly, pricing for it appropriately. I said that in my beginning remarks and I say that, you know, close to the closing remarks. The--most acquisitions fail as a result of overpaying in the beginning, and it's easy for the CEO and the Board to then offload the

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responsibility to the operating management to kind of overcome what they overpaid in terms of operating synergies, and that's usually what produces the failure.

Risks - you know, I used to, you know, play an important investment role, and I guess I always liked it when people were straight with me about risk, and I will be straight with you about risk. We do have risks inherent in Manulife's business. Some of them are obvious, others less obvious. I'll quickly categorize or catalog them.

Equity market risk, I think, is pretty obvious to anyone in this room. You know, equity market risk works both ways - to the positive side and to the negative side. I think, as you've seen, we have been very, very careful about how we approach hedging because we want to retain the positive side of the risk, the appreciation potential for our shareholders on the upside as equity markets improve.

Interest rates - the Canadian accounting basis basically telescopes the--today's interest rates into today's environment on a quarterly basis and requires companies to recognize that lower interest rates are very difficult for life insurance companies who offer long term guarantees. That has been reflected in the strengthening of our reserves. And I think if you believe as I do that there is upside in terms of long term interest rates going back to more normal levels, there'll be upside for the shareholders there. I can't promise that. Now, the corollary is also true that if rates were to--if we had to double dip and rates were to drop further, that would be a negative impact.

Foreign exchange - we derive a very significant portion of our income outside of Canada and usually denominated in US dollars as the US dollar depreciates the translation risk. Manulife does not intend to take unhedged bets on asset liability matching with respect to currency, but the translation risk is there - \$100 of earnings, US dollar earnings is worth less in Canadian dollars when the Canadian dollar is strong.

Credit commercial real estate - I'm not trying to suggest that I see anything untoward, but there certainly is a lot of talk about credit markets and particularly commercial real estate being a problem. I think I've been very open in the fact that I would expect that there's risks associated with certainly structured product and securitized product. I think the mortgage origination business got out of hand in terms of what was put into conduits and various vehicles. But, in terms of whole loan business and certainly Manulife, business has been very, very prudently and carefully managed, and I don't predict any great cataclysm in the commercial real estate market or the knock on impact in the mortgage market.

Regulatory capital and accounting changes - Solvency II and IFRS. There's a lot of uncertainty out there in where it could go. I guess I'm very comforted that in Canada, we have one of the best capital regimes in the world and one of the best accounting regimes and I don't see any evidence that the Canadian regulators or the Canadian financial authorities and the Finance Minister are about to adopt systems from other countries that are promulgated by the ISB unless they make good sense in Canada. After all, Canadians have done better in the financial crisis, Canadian financial institutions, Canadian regulators than virtually any other country in the Western world, and I would expect that would continue.

Long term care - you know, there's issues there - lapse, morbidity, guaranteed rates. We'll be addressing those, you know, over the coming years. No lapse guarantee and other long term products - we get a lot of concerns about that. Principally, the concern is with the no lapse guarantee as companies assumed extremely low--extremely generous lapse rates relative to what is reasonable to expect and they're having to deal with that with the--if it turns out that policyholder behavior is such that they don't lapse. We have had a very conservative approach to expecting lapse rates on these products and don't anticipate a very negative benefit. It is true to say, though, that anything of a very long term guarantee nature, when you've got accounting and regulation moving in more of a mark to market phenomena, offering very, very long term guarantees exposes earnings and capital to volatility.

And my last slide--I'm getting the message to sum up. Our investment these - Manulife is very well positioned to take advantage of the global need for investment and protection, skills to diversify our offering. We've demonstrated that before. Our success in the mandatory provident fund in Hong Kong is directly through our success in the defined contribution market here in Canada and the 401K business in the United States. Benefit from the financial crisis in terms the flight to quality - Manulife and John Hancock are seen as reputable names, companies that will do the right thing for the policyholders in the most difficult of times, and last but not least, great asset quality.

Thank you, and happy to take any questions.

Q & A

Ihor Danyliuk -

We have a 10 minute break starting now, so we do have time before our next speaker to ask any questions.

If not, I'll ask the first question, then.

Donald, you've gone to lengths to educate the market on your core earnings capability. How should we think of growth for those earnings over time?

Donald Guloien -

Well, I think for all the reasons I specified, I'd hope for the growth in earnings to be positive. I try to be very brutal and honest with people that in the near term, the biggest determinants of earnings, total earnings, you know, are to some degree out of our control - have to do with equity markets and interest rates. But, I believe both are certainly trending in a positive direction. If you look at the direction of the economy, I think it bodes well for that.

In terms of business growth, we're trying to, as I said, reposition the business so that we will improve the core earnings outlook over time from all the things that I mentioned. And, you know, I'm pretty optimistic.

Ihor Danyliuk -

Don, so there was some confusion in the marketplace over the adjustments to normalize earnings guidance. Could you--or I shouldn't call it guidance really, but could you touch on whether the core earnings part of the business was indeed overestimated? And more broadly speaking, are you happy with Manulife being able to generate 10 percent ROE at its core or do you think it's actually higher than that?

Donald Guloien -

The adjustment we made--we recognized I guess what'd be called an error or a modeling refinement, whatever you call it, in our Japanese VA business that led to a categorization--or not a GAAP reporting restatement but a categorization. When we show source of earnings as an analytical tool, it showed up as expected gain from in force businesses as opposed to what it properly should have been categorized as, which is an experience gain. It was a result of equity markets going up so abundantly in Japan. And what started as a small classification error grew into a bigger one.

It didn't require any restatement of earnings and so on. And in the overall realm of things, we're talking 50 million a quarter. I think most people remember where that our earnings can buffet by, you know, 1.5 billion a quarter, depending on equity markets and interest rates. So, 50 million is not exactly a big number. But, having reflected that in our estimate of normalized earnings or adjusted earnings from operations, the sort of look ahead that we provided to markets back in August, we felt compelled to update that. And, you know, some people said, wow, what an overreaction on your part. We're trying to err on the side of transparency. And even though it was a \$50 million adjustment, it was a number that shouldn't have shown up there.

That should not be interpreted as guidance for the quarter or--you know, the fact of the matter is all the factors that I've mentioned - you know, growth of the business, the assets under management, the equity market, the interest rates - all of those things will overwhelm any outlook on earnings expectations. And--but, we felt compelled because, you know, we had--you know, if you sum up a set of numbers and sum them up wrong, even though, you know, they may be estimations when you come to the end, if you've made a mistake in the addition process, I think there's a compulsion to basically explain the gap has occurred. So, we tried to explain that in the most forthright fashion. We--our statements were going to print, so we didn't have much time to deliberate on the right course. I mean, some people have identified aren't there a whole number of factors that would have gone in the opposite direction that would overwhelm that in your favor. And the answer to that - of course, there's positive things, negative. But, we weren't trying to do a reforecast of earnings expectations. What we were simply trying to do was explain to the market that we made a mistake, our source of earnings was off by that amount of money and that was reflected on our go forward earnings expectations.

You talk about a 10 percent ROE expectation. I think that's your own calculus. Am I proud of that? No. I don't think--you know, I can't promise you what we'll deliver, but I look at it, I think, more from your perspective and say what would attract me to invest capital in a life insurance company. And, you know, if a CEO of a life insurance company could tell you that they can guarantee the earnings outcome, 10 percent might be adequate. I don't think anybody can say that with a straight face. I think with the volatility that insurance companies exhibit, something on the order of 14 percent might be a reasonable number for them to produce. If our industry and our company can't produce that, we won't attract the capital that we need to grow our business, and we have a capital intensive business.

You know, you guys have the opportunity of investing in Kraft Foods, Microsoft, Rim. You know, why would you put it away in an insurance company that delivers a 10 percent return? Unfortunately, I think the history of, you know, some of our competitors, particularly south of the border, is to deliver a 10, 11, you know, 12 percent return with variability and volatility associated with it, which I don't think is a very good deal for investors. So, that's why I am quite happy to reprice, to suffer possibly in the short term some degradation of market share to get a better deal for our shareholders long term. We also have the benefit of having choices. We can invest that money in Asia, invest it in Canada, as I said before, and product choices within that. You know, the mutual fund business is not capital intensive - very, very large returns on the business if you put your attention to it. So, I can't promise what'll be. But, no, I would not feel very proud being up here four years from now delivering a 10 percent return.

Unidentified Man 1 -

Hi. With Prudential and MetLife essentially picking up former AIG units over the past few months, do you still believe that there are possible transactions at a very attractive price?

Donald Guloien -

Yeah, there's--you know, I don't know--it's a good question. First is--I guess I should deal with is do we see any terrible competitive threat to AIA's purchase or PRU's purchase of AIA in Asia.

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You know, it'll be a formidable company. And the reality of it - AIA was a formidable company. We competed against them very successful for many years. You know, they're a very well managed company. The only problem with AIA is they had a parent that did a few things in terms of credit default swaps in some of their trading operation that exposed the company to a great deal of risk, and that's what brought the downfall. But, down at the market level, they were intelligent competitors, they priced products appropriately, they didn't take ridiculous risks. We were used to competing with them and have competed with them for 20 odd years and are very comfortable with that.

You get worried when the company is effectively owned by the US government. And that, you know, was a worry for us. And, you know, we're happy to find it in private hands. And at the price that PRU is paying for it--I mean, I'm not gonna criticize the deal, but let's just agree that it's a very full price. I would think that with the leverage inherent in that deal, in both the--you know, in terms of the rights issue, you know, what that does to shareholders, and in terms of the inherent leverage of the deal, in terms of the other obligations, that they will have to be very financially disciplined going forward. That gives me a great deal of comfort.

You know, have they set the price expectation high? Yes, they have. I think they should--you know, if you say that thing are worth 1.7 times embedded value, well, put that on Manulife, and what price do you get? You know, I'm not sure everybody is gonna take that as a benchmark price, though. And, you know, sufficed to say that there's still enough assets out there that have problematic underpinnings - mainly because they're supported directly or indirectly by government support - to have to find a way to market. And we've seen attractive opportunities and I expect to see more. But, I do agree that, you know, that's at the high water mark that everybody says I need 1.7 times embedded value before I'll sell something. You know, there won't be a lot of M&A transactions.

Unidentified Man 2 -

Yes, hello. What could be the range of impact on the new OSFI rules on the seg. funds?

Donald Guloien -

I can't tell you because we don't know. OSFI is looking at seg fund capital requirements. They're looking at hold/go capital requirements. They're looking at solo capital. They're looking at a variety of things. I expect that they will be producing, you know, suggestions or proposals that the industry can react to. I think, you know, for all that's said about the regulatory, OSFI's an intelligent regulator and I don't think they have any desire to, you know, devastate our insurance industry or banking industry that has performed extremely well under the most difficult circumstances. I mean, it's a fantastic track record that we've gone through. I would expect if they do want to constrain the growth of seg funds--you know, and I don't think they like the products much, to be frank. If they want to constrain the growth, I would suggest that they would probably impose tougher rules going forward that, you know, impact existing business. I mean, you structure around--yourself around an existing set of capital rules, which we've done. You know, when OSFI made some changes to the capital rules as it relates to seg funds, they were very clever about it.

You know, I think they agreed with us and others that the rules were perhaps too draconian in the depths of the crisis. But, what they wanted to ensure was that when things went back to a better day, that companies would not release all that capital and pay it out in share buybacks and dividends. And what they did is they built in some measures that would recapture that. So, today, you know, the changes that were made when you take account interest rates and so on, I think was in fact more robust--or reserving and capital for seg funds than there was before. So, they've applied some of that back already. I honestly can't tell you what the outcome of the new seg fund rules will be.

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The other thing I think that OSFI will be conditioned with long term is looking at what happened to Solvency II and IFRS, you know, mainly being developed in Europe and how that pertains to the Canadian market. Again, I'm very comforted by the fact that our superintendent has said on more than one occasion that they think the Canadian capital rules are pretty good and they will not adopt new rules without ensuring that they are appropriate for the Canadian market.

Ihor Danyliuk –

Well, let's end the questions here. Thank you very much, Donald.

Donald Guloien –

Thank you.
