



# Second Quarter 2009 Financial & Operating Results

August 6, 2009



# Legal Disclaimer

## ***Caution Regarding Forward-Looking Statements***

This document contains forward-looking statements within the meaning of the “safe harbour” provisions of Canadian provincial securities laws and the U.S. *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, but are not limited to, statements with respect to our estimated quarterly normalized earnings and the potential impact on income of our annual review of actuarial methods and assumptions. The forward-looking statements in this document also relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as “may”, “will”, “could”, “should”, “would”, “likely”, “suspect”, “outlook”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “forecast”, “objective”, “continue”, “embark” and “endeavour” (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements and they should not be interpreted as confirming market or analysts’ expectations in any way. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to performance of equity markets, interest rate fluctuations, currency rates, investment losses and defaults, movements in credit spreads, market liquidity and creditworthiness of guarantors and counterparties); Company liquidity, including the availability of financing to satisfy existing financial liabilities on their expected maturity dates when required; changes in laws and regulations; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of estimates used in applying accounting policies and actuarial methods used by the Company; the ability to maintain the Company’s reputation; the ability to implement effective hedging strategies; legal and regulatory proceedings; level of competition and consolidation; the ability to adapt products and services to the changing market; the ability to attract and retain key executives; acquisitions and the ability to complete acquisitions including the availability of equity and debt financing for this purpose; the ability to execute strategic plans and changes to strategic plans; the disruption of or changes to key elements of the Company’s or public infrastructure systems; and environmental concerns. Additional information about material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the body of this document as well as under “Risk Factors” in our most recent Annual Information Form, under “Risk Management” and “Critical Accounting and Actuarial Policies” in the Management’s Discussion and Analysis in our most recent annual and interim reports, in the “Risk Management” note to consolidated financial statements in our most recent annual and interim reports and elsewhere in our filings with Canadian and U.S. securities regulators. We do not undertake to update any forward-looking statements except as required by law.



*Scheduled Speakers:*

**Donald Guloien**

President & Chief Executive Officer

**Michael Bell**

Senior Executive Vice President &  
Chief Financial Officer

**John DesPrez III**

Chief Operating Officer



# CEO's Remarks

**Donald Guloien**  
**President & Chief Executive Officer**



# 2Q09 Highlights

- Reported strong Q2 earnings
- Solid performance reported across key business areas
- Additional progress in hedging and product de-risking
- Well positioned investment portfolio
- Capital ratios at satisfactory levels
- Building toward “Fortress” capital levels
- Reduced common dividend to retain more earnings
- Successfully raised ~\$3 billion in new capital since 1Q09
- Management succession



# 2Q09 Financial Highlights

| (C\$ millions, except per share data) | 2Q09    | Y/Y    |
|---------------------------------------|---------|--------|
| Shareholders' Earnings                | \$1,774 | +76%   |
| Fully Diluted Earnings per Share      | \$1.09  | +65%   |
| Return on Equity <sup>1</sup>         | 26.9%   | 990bps |
| Insurance Sales                       | \$597   | +2%    |
| Wealth Sales                          | \$9,785 | -11%   |

<sup>1</sup> ROE based on average common shareholders' equity excluding accumulated other comprehensive income on available-for-sale securities and on cash flow hedges.



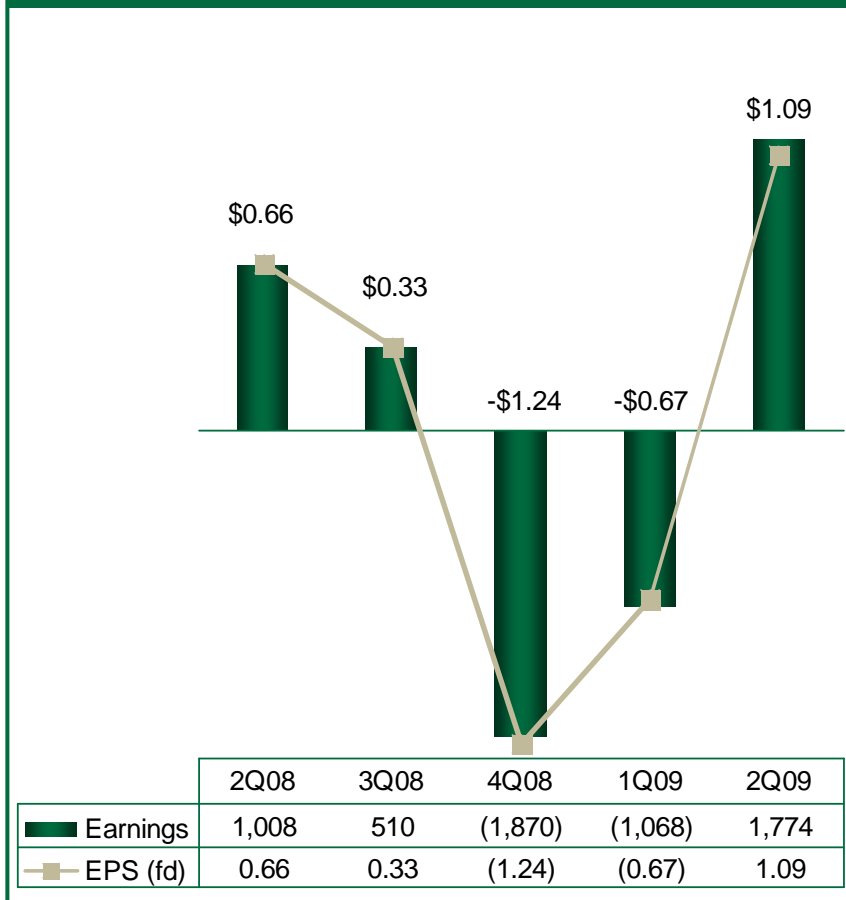
# CFO's Remarks

**Michael Bell**  
**Senior Executive Vice President &**  
**Chief Financial Officer**

# Shareholders' Earnings

## Shareholders' Earnings

(C\$ millions, except per share data)



Shareholders' earnings of \$1,774 million, and EPS of \$1.09

- + Significant increase in global equity markets
- Lower corporate bond rates



# Notable Items

**Reported Earnings** **\$1,774**

**Notable items impacting earnings:**

Segregated fund guarantees and other equity items \$2,569

Decline in interest rates and other investment related items (1,130)

Valuation Basis Change (including \$181 charge in Japan) (87)

Credit impairments and reserves for downgrades (215)

Tax related provisions for leveraged lease investments (139)

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**Net Impact** **\$998**

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**Earnings excluding items above** **\$776**

All items are on a post tax basis, in C\$ Millions

# Equity Market Impact on Earnings

| Equity Markets | 31-Mar-09 | 30-Jun-09 | Change |
|----------------|-----------|-----------|--------|
| S&P TSX        | 8,720     | 10,375    | +19%   |
| S&P 500        | 798       | 919       | +15%   |
| Hang Seng      | 13,576    | 18,379    | +35%   |
| Nikkei 225     | 8,110     | 9,958     | +23%   |

## Impact on 2Q09 Earnings (C\$ millions):

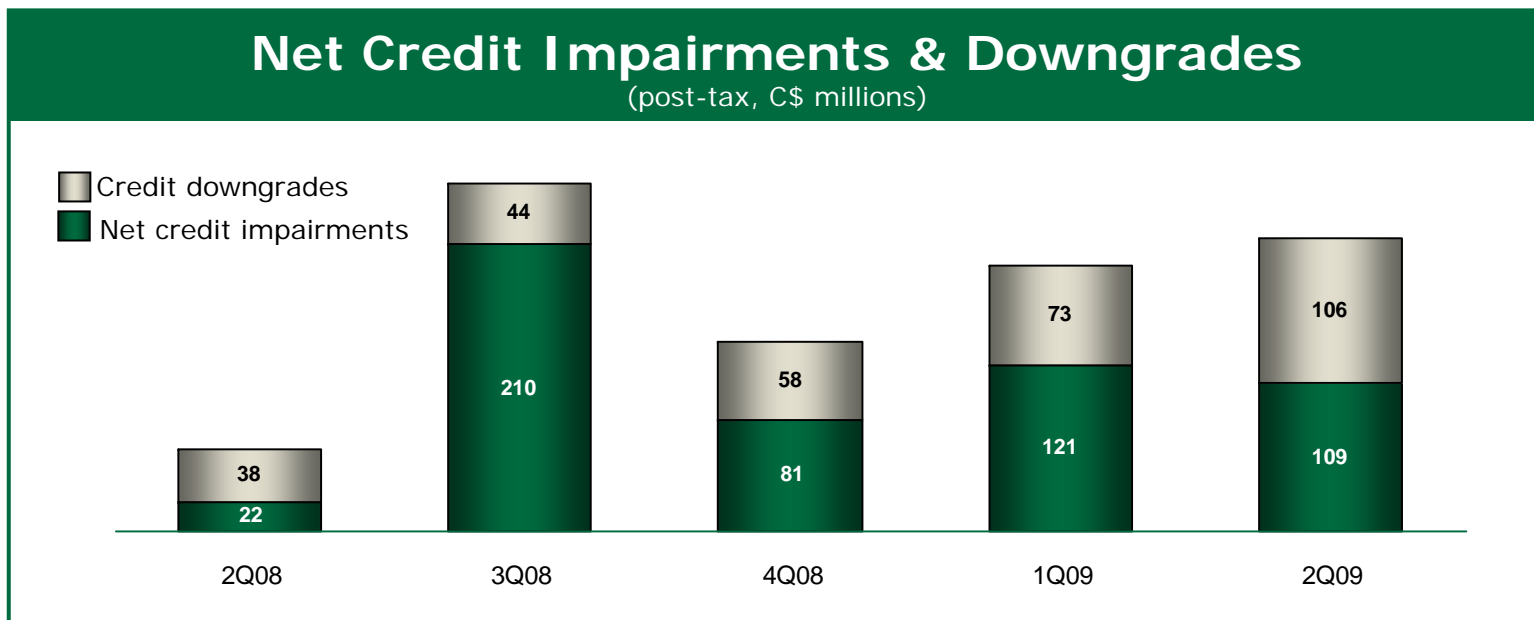
|  |                |
|--|----------------|
| Segregated Fund Guarantees                             | \$2,379        |
| Equities supporting general account liabilities        | 135            |
| Variable Life Reserves                                 | 75             |
| Fee Income   | 33             |
| Surplus segment equity impairments and realized losses | (53)           |
| <b>Net Impact</b>                                      | <b>\$2,569</b> |



# Interest Rate Impact on Earnings

- Decline in interest rates and other investment related items resulted in net charges of \$1.13 billion
- Non-cash charges as a result of net lower interest rates assumed in the valuation of policy liabilities
- Based on projected cash flows of current investment and derivative holdings combined with projected policyholder cash flows such as premiums and claims
- Decreases in market bond rates and spreads between swap and bond rates both result in an increase in policy liabilities and a resulting charge to earnings
- During the quarter, long-maturity corporate bond rates declined by approximately 80 basis points in both Canada and the U.S. and spreads also narrowed
- Earnings sensitivity to a 1% parallel decrease in interest rates is estimated to be a charge of ~ \$1.5 billion at 30Jun09 (31Dec08 ~ \$1.3 billion)

# Net Credit Experience



### Impact on 2Q09 Earnings (C\$ millions):

|                       | Pre-tax      | Post-tax     |
|-----------------------|--------------|--------------|
| Net credit impairment | \$168        | \$109        |
| Credit downgrades     | 162          | 106          |
| <b>Total Impact</b>   | <b>\$330</b> | <b>\$215</b> |

Net Credit Impairments and Downgrades on Non-Par holdings only

# Source of Earnings

| Source of Earnings                 | 2Q09         | 1Q09           | 4Q08           | 3Q08       | 2Q08         |
|------------------------------------|--------------|----------------|----------------|------------|--------------|
| Expected Profit on In-Force        | 948          | 943            | 804            | 826        | 805          |
| Impact on New Business             | (55)         | (107)          | (37)           | (70)       | (129)        |
| Experience Gains                   | 848          | (2,566)        | (3,747)        | (168)      | 431          |
| Mgmt Actions & Chgs in Assumptions | (46)         | (234)          | 480            | (28)       | 12           |
| Earnings on Surplus Funds          | (21)         | (146)          | (101)          | 111        | 248          |
| Other                              | 11           | (14)           | 4              | 9          | (12)         |
| <b>Income Before Taxes</b>         | <b>1,685</b> | <b>(2,124)</b> | <b>(2,597)</b> | <b>680</b> | <b>1,355</b> |
| Income Taxes                       | 89           | 1,056          | 727            | (170)      | (347)        |
| <b>Shareholder's Net Income</b>    | <b>1,774</b> | <b>(1,068)</b> | <b>(1,870)</b> | <b>510</b> | <b>1,008</b> |

C\$ Millions

# Segregated Fund Guarantees Reserves & Capital

(C\$ Millions)

## Guaranteed Value

\$100,915

Net of amounts reinsured

## Fund Value

81,460

Net of amounts reinsured

## Amount at Risk

21,416

Excess of guaranteed values over fund values, net of amounts reinsured

## Expected Profit (pre-tax)

980

PV of guarantee fees minus PV of guarantee costs based on average of all scenarios (CTE0)

## Balance Sheet Reserves

3,470

PV of guarantee costs minus PV of guarantee fees based on average of worst 30% of all scenarios (CTE70)

## Reserves plus 200% of Required Capital

9,314

Balance sheet reserves plus 200% of MCCR Required Capital

- Reserves plus 200% of Required Capital exceed expected result by over \$10 billion
- Entire balance sheet reserve is a margin (PfAD) given expected result
- \$14.5 billion of Guaranteed Value net of amounts reinsured currently being hedged



# Sensitivity of Capital & Earnings

## **Consolidated MLI MCCR Ratio:**

|                  |      |
|------------------|------|
| 2Q09 As Reported | 242% |
|------------------|------|

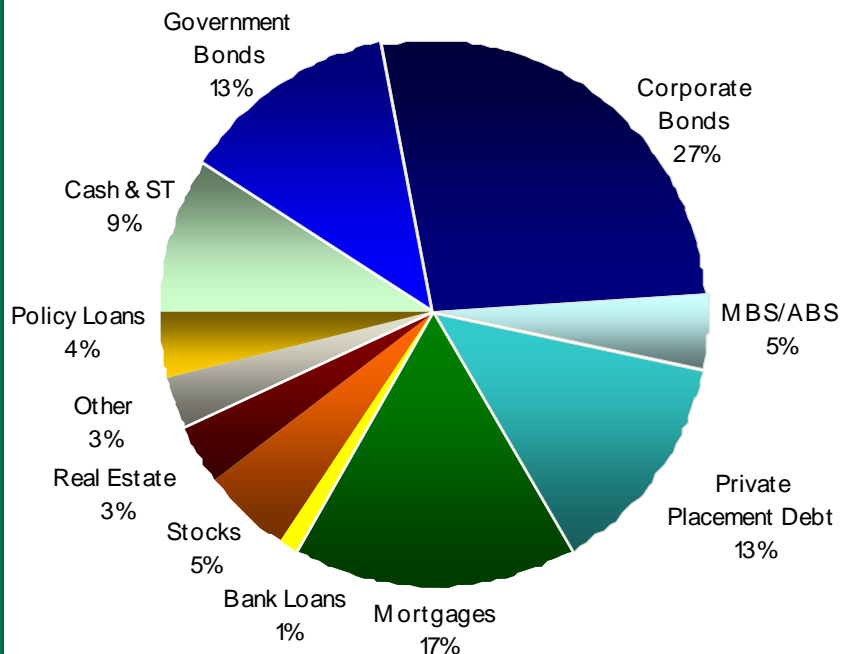
|   |            |
|---|------------|
| Impact of 10% equity market movement<br>from June 30, 2009 levels | +/- 20 Pts |
|---|------------|

## **MFC Earnings:**

|   |                   |
|---|-------------------|
| Impact of 10% equity market movement<br>from June 30, 2009 levels | +/- \$1.5 billion |
|---|-------------------|

# Diversified High Quality Asset Mix

## Total Invested Assets (C\$188.3 billion)



As at June 30, 2009, Carrying Value

### ▪ Diversified, high quality portfolio:

- 13% in Cash & Policy Loans
- 17% in high quality Mortgages
- 58% in high quality Public & Private Bonds

### ▪ Well positioned for current downturn:

- 94% of Bonds are Investment Grade and highly diversified by geography and sector
- 93% of CMBS rated AAA with 90% originated in 2005 or prior
- Commercial Mortgages have low Loan-to-Values ~ 62% and high Debt Service Coverage ~1.6x
- Unlevered Commercial Real Estate with 92% occupancy and 5.6 years average lease term

### ▪ Limited exposure to:

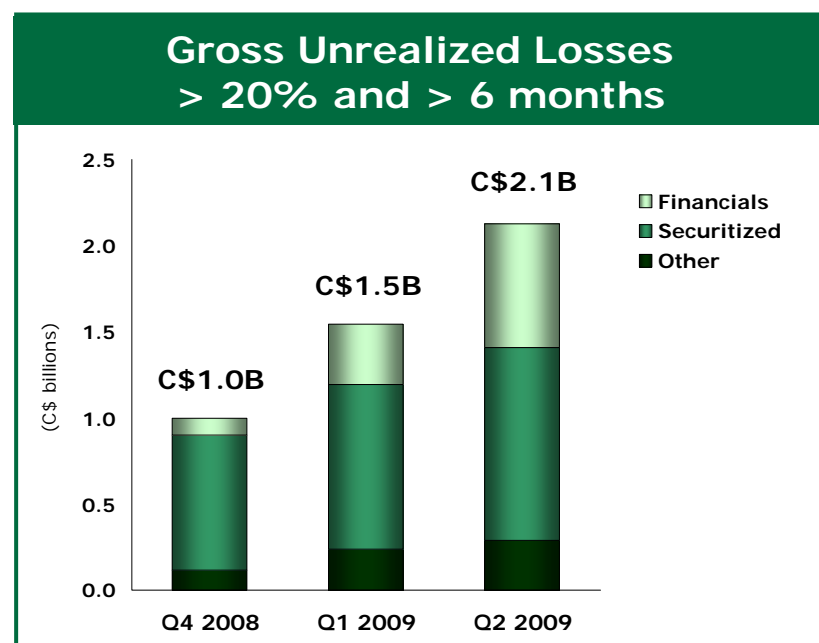
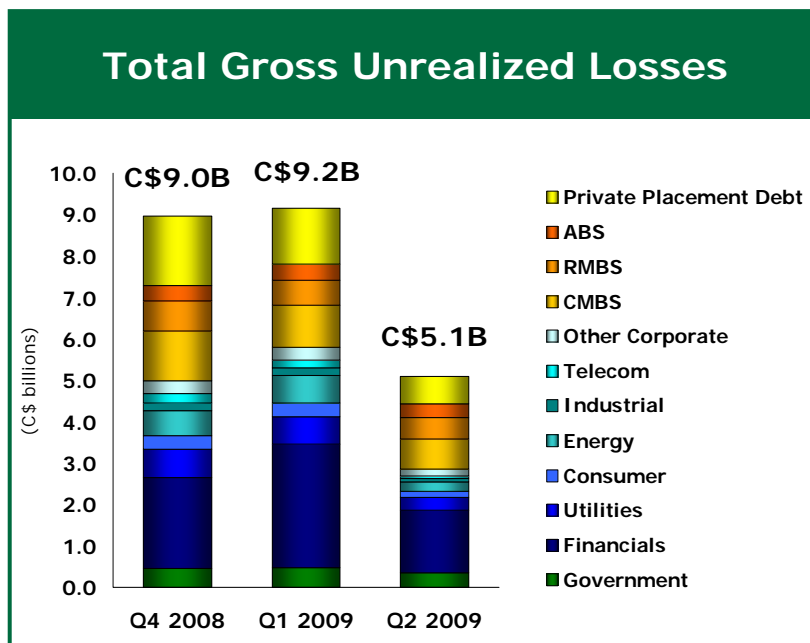
- RMBS [Cost of C\$1.1b]
- Monoline wrapped bonds [Cost of \$1.1b]
- European bank hybrids [Cost of C\$663m]

### ▪ No exposure to:

- Hedge funds
- Synthetic credit

# Improved Gross Unrealized Losses

- Total gross unrealized losses declined 45% sequentially to C\$5.1 billion
  - Improvement in gross unrealized losses due to general spread narrowing
  - Represent 5% of Fixed Income portfolio
- Unrealized losses for Fixed Income portfolio trading at less than 80% of cost for greater than 6 months are approximately C\$2.1 billion
  - Increase from 1Q09 primarily due to aging
  - Comprised of 53% securitized assets and 34% financials



As at June 30, 2009

# Divisional Earnings

| \$ millions                | 2Q09 vs.<br>2Q08<br><i>Differential*</i> |
|----------------------------|--|
| U.S. Insurance (US\$)      | (\$14)                                   |
| U.S. WM (US\$)             | (11)                                     |
| Canada (C\$)               | 37                                       |
| Asia & Japan (US\$)        | 45                                       |
| Reinsurance (US\$)         | 17                                       |
| Corporate & Other (C\$)    | (111)                                    |
| <i>Foreign Exchange</i>    | 68                                       |
| <b>Total Company (C\$)</b> | <b>\$31</b>                              |

- Earnings excluding notable items\* higher than prior year
  - + Favourable claims experience in Canada Group Benefits
  - + Additional income in Japan on higher segregated fund reserves and currency
  - Unfavourable policyholder behaviour, particularly lapse experience in the U.S.
  - Lower Corporate results due to absence of realized AFS gains and additional debt costs

*\* Divisional earnings differential excludes investment and market related experience, basis changes and significant non-recurring items from both periods*



# Normalized Earnings

## **Normalized earnings includes:**

- Expected earnings from operations, including new business strain
- Expected experience on surplus investments excluding credit and OTTI charges
- Based on current AUM and currency levels, 2% per quarter equity market appreciation

## **Normalized earnings excludes:**

- Market impact on segregated fund guarantees
- Non-recurring market and investment-related gains/losses
- Basis changes and other disclosed non-recurring items (primarily tax related)

## **Normalized earnings in 2009 and 2010:**

- Current estimated range of \$750-850 million after-tax per quarter or \$3 – 3.4 billion per year
- Implies estimated normalized ROE of approximately 12%



# Pursuing Fortress Capital Levels

- Companies with strong financial strength ratings and capital ratios will benefit in the long run
- Fortress capital levels will provide more flexibility to respond to both risks and opportunities from a continued position of strength
- The path to achieving fortress capital levels includes:
  - Delivering strong operating earnings
  - Managing company risks to reduce contingent capital requirements
  - Prudently managing capital ratios



# Capital Management Recent Developments

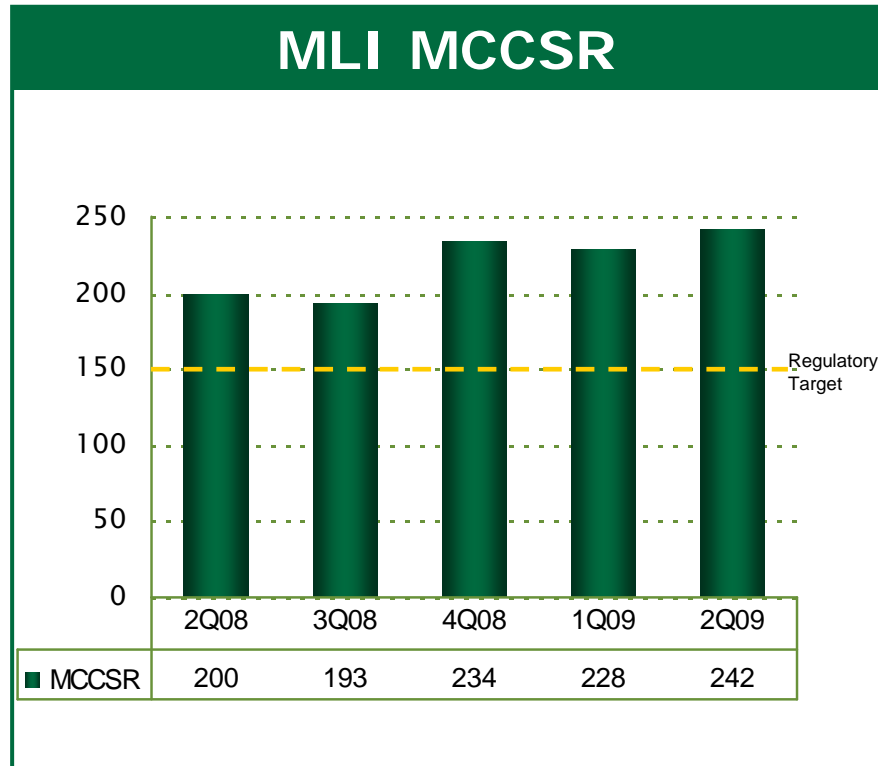
- **New Preferred Share Issue**
  - Issued \$350 million of new Class 1 Series 1 non-cumulative 5-year rate reset preferred shares, with an initial fixed dividend yield of 5.6%
  - The 5-year resets equal to 5-year GOC bonds plus 3.23%, or convertible to Class 1 Series 2 floating preferred shares, entitled to non-cumulative quarterly floating dividends based on 3-month GOC T-Bills plus 3.23%
  
- **New Medium Term Note Offerings**
  - Issued \$1.0 billion principal amount of medium term notes due 2014, with a fixed rate of 4.896% until maturity
  - Issued \$600 million principal amount of medium term notes due 2019, with fixed rate of 7.768% until maturity
  - Both notes constitute senior indebtedness, pursuant to medium term note program



# Capital Management Subsequent Developments

- New Innovative Tier 1 Notes
  - Issued \$1 billion principal amount of Innovative Tier I Notes, with an initial fixed rate of 7.405% until December 31, 2019
  - The 5-year resets thereafter will equal 5-year GOC bonds plus 5%
  - The notes may be redeemed in whole or in part on or after December 31, 2014, with regulatory (OSFI) approval

# Regulatory Capital Current Position



- Capital ratios of MLI remain above regulatory targets
- MLI increase in Q2 driven by strong reported earnings
  - + Significant increase in global equity markets
  - Lower corporate bond rates

MLI refers to Manufacturers Life Insurance Company  
JHLICO refers to John Hancock Life Insurance Company



# COO's Remarks

**John DesPrez III**  
**Chief Operating Officer**

# Divisional Insurance Sales

| \$ millions                | 2009         | Y/Y        |
|----------------------------|--------------|------------|
| U.S. Insurance (US\$)      |              |            |
| - Life                     | \$170        | -29%       |
| - Long Term Care           | 36           | -10%       |
| Canada (C\$)               |              |            |
| - Individual Life          | 62           | -13%       |
| - Group Benefits           | 96           | +8%        |
| Asia & Japan (US\$)        |              |            |
| - Hong Kong                | 34           | -3%        |
| - Japan                    | 79           | +98%       |
| - Other Asia               | 56           | -8%        |
| <b>Total Company (C\$)</b> | <b>\$597</b> | <b>+2%</b> |

Sales up 2% over prior year

- U.S. Life sales due to trend towards small case, lower cost products and some pricing increases
- Canada ILC sales down largely due to strong whole life sales in prior year
- + Canada Group Benefit sales up on growth in mid and large case accounts and distribution expansion
- + Japan growth driven by continued success of new insurance offerings

# Divisional Wealth Sales

| \$ millions                | 2009           | Y/Y         |
|----------------------------|----------------|-------------|
| U.S. Wealth (US\$)         |                |             |
| - Variable Annuities       | \$1,738        | -31%        |
| - Pensions                 | 885            | -13%        |
| - Mutual Funds             | 1,555          | -38%        |
| - Fixed Products           | 844            | +100%       |
| Canada (C\$)               |                |             |
| - Segregated Funds         | 805            | -28%        |
| - Mutual Funds             | 108            | -31%        |
| - Fixed Products           | 392            | +211%       |
| - Bank Loan Volumes        | 1,043          | -12%        |
| - Group Pensions           | 357            | +120%       |
| Asia & Japan (US\$)        |                |             |
| - Hong Kong                | 148            | -49%        |
| - Japan                    | 502            | -57%        |
| - Other Asia               | 397            | +109%       |
| <b>Total Company (C\$)</b> | <b>\$9,785</b> | <b>-11%</b> |

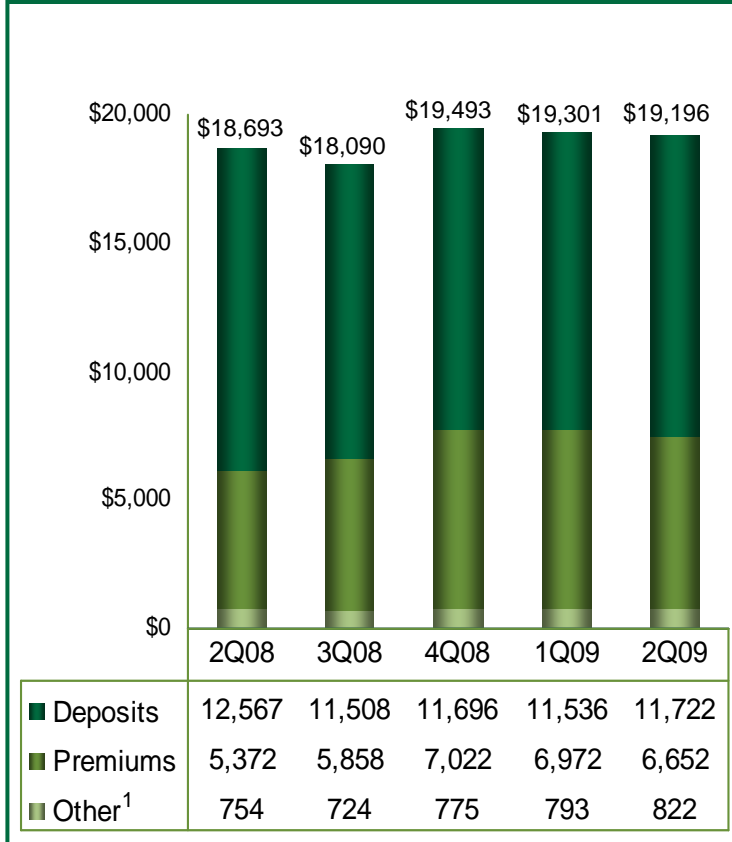
Sales down 11% vs. prior year

- Variable product sales down due to continued volatility but also as a result of Variable Annuity de-risking initiatives
- + Fixed products sales up significantly as equity market volatility prompted investors to seek fixed return products
- + Canada Group Pension sales increased significantly due to large case sales
- + Other Asia sales increased as a result of an acquisition in Taiwan in 2008

# Premiums & Deposits

## Premiums & Deposits

(C\$ millions)



P&D up 3% from prior year

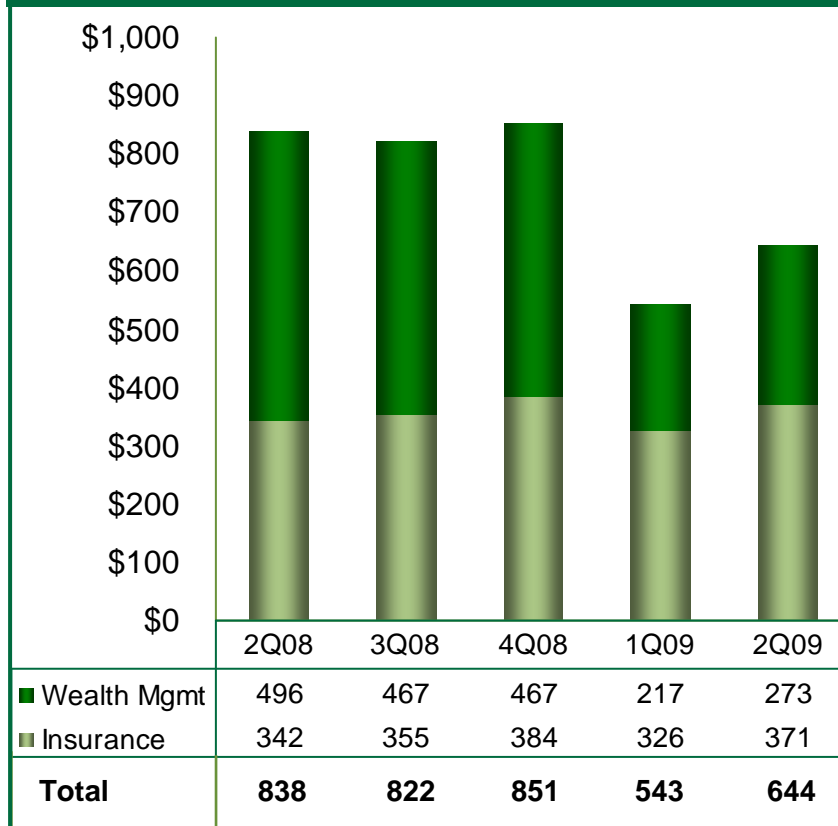
- + Fixed wealth products
- + In-force insurance business growth
- + Strong Japan insurance growth
- + New 3<sup>rd</sup> party investment mandate
- Variable annuity deposits

<sup>1</sup> Other includes ASO Premium Equivalents and Other

# New Business Embedded Value

## New Business Embedded Value

(C\$ millions)



NBEV of \$644 million, up 19% from prior quarter but down from prior year levels

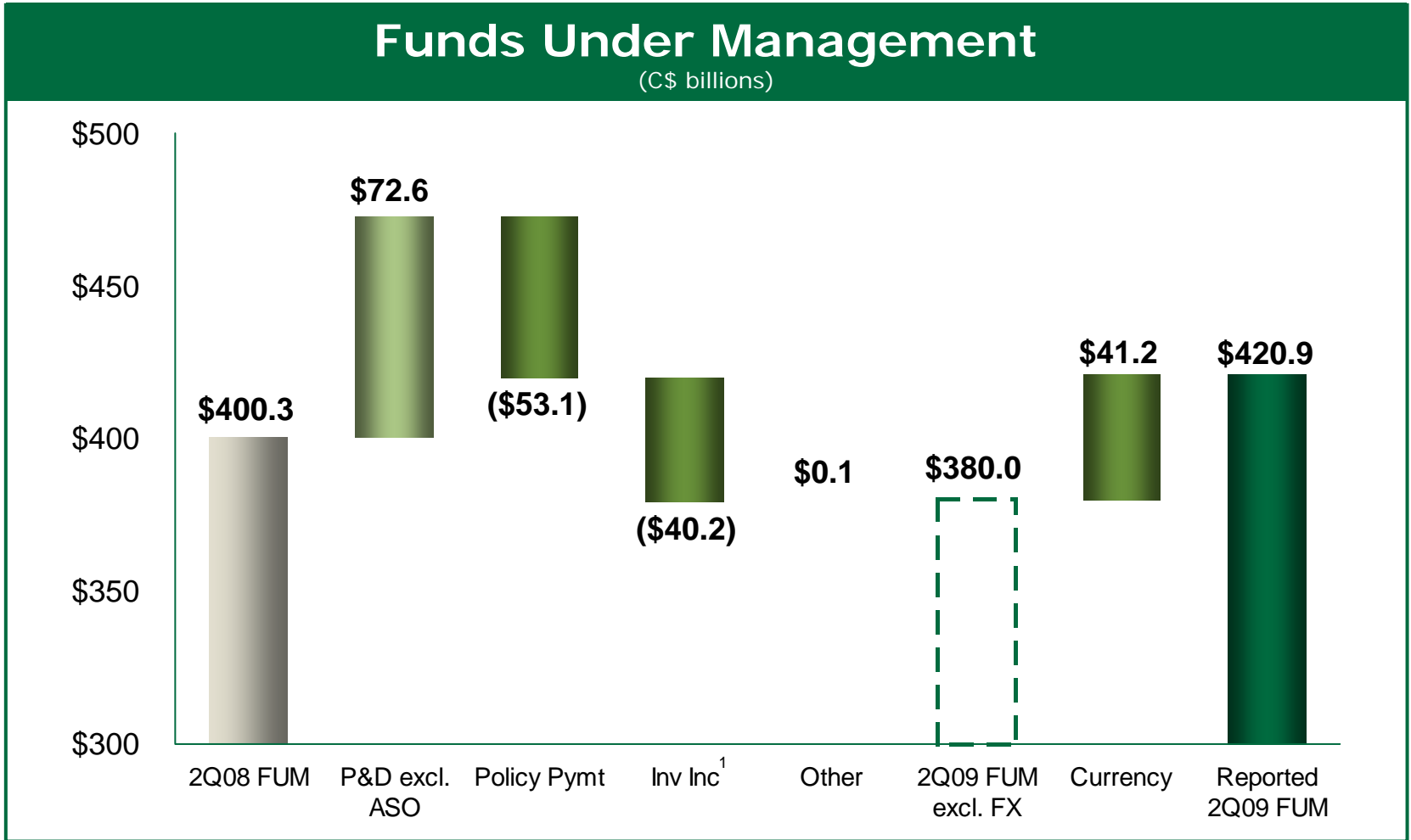
- + Insurance up 8% driven by growth in Japan and US Long Term Care
- Wealth down 45% due to lower variable wealth sales and new business hedging costs

All figures updated to reflect 2009 year start exchange rates and discount rates



# Funds Under Management

## *Year over Year Movement*



<sup>1</sup> Investment income includes OCI on AFS securities and cash flow hedges



# Managing Equity Risk Exposure

- Opportunistically hedging in-force block
  - Hedged US\$640 million of U.S. and C\$2.3 billion of Canadian in-force business in 2Q09 in addition to US\$1.8 billion and C\$0.7 billion of new business written in the quarter
  - In total, C\$14.5 billion of Guaranteed Value being hedged with corresponding C\$1.5 billion of Net Amount at Risk, which would have otherwise been amounts 'in-the-money'
- Changed product features and increased margins on new products to ensure business is profitable after hedging costs
  - Introduced new AnnuityNote product
    - Simplified design with less features
    - Indexed investment fund for efficient hedging



# Summary

- **Building toward “Fortress” capital levels**
  - Reduced common dividend to retain more earnings
  - Capital ratios at satisfactory levels
  - MFC continues to enjoy cost effective access to capital markets
  
- **Progress in managing equity risk exposure**
  - Re-balancing and de-risking of product portfolio
  - Increasing overall amount of variable annuity business hedged
  
- **Investment portfolio well positioned**
  - Credit quality well positioned for current downturn
  - Limited exposure to notable items
  
- **Global franchises remain strong despite market conditions**
  - Solid performance reported across key business areas
  - Benefitting as a result of “Flight to Quality”
  - Diversified product offerings meeting the changing needs of consumers
  - Market conditions are expected to provide new expansion and diversification opportunities



# Question & Answer Session



# Note to Users

## Performance and Non-GAAP Measures

We use a number of non-GAAP financial measures to measure overall performance and to assess each of our businesses. Non-GAAP financial measures are not defined terms under GAAP and, therefore, are unlikely to be comparable to similar terms used by other issuers. Non-GAAP measures include earnings excluding notable items impacting earnings, normalized earnings, return on common shareholders' equity, premiums and deposits, funds under management, capital and new business embedded value. Earnings excluding notable items impacting earnings (described in slide 9) is useful to investors to enable them to perform meaningful comparisons between periods. Normalized Earnings (described in slide 19), which constitutes forward-looking information, is useful to investors given the current economic conditions including the volatility of equity markets, interest rates and other factors (see "Caution Regarding Forward-Looking Statements"). Return on equity is a profitability measure that presents the net income available to common shareholders as a percentage of the capital deployed to earn the income. The Company calculates return on equity using average common shareholders' equity excluding accumulated other comprehensive income (loss) on AFS securities and on cash flow hedges. Premiums and deposits is a measure of the top line growth. Funds under Management is a measure of the size of the Company. It represents the total of the invested asset base that the Company and its customers invest in. The definition we use for the Capital serves as a foundation of our capital management activities at the MFC level. For regulatory reporting purposes, the numbers are further adjusted for various additions or deductions to capital as mandated by the guidelines used by OSFI. For further information about our use of non-GAAP financial measures, see "Performance and Non-GAAP Measures" in our Q2 2009 earnings release.

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