

## HOST

**John Reucassel**  
*Managing Director*  
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## MANULIFE PARTICIPANTS

**Donald Guolien**  
*President and Chief Executive Officer*

**Michael Bell**  
*Senior Executive Vice President and Incoming Chief Financial Officer*

**Peter Rubenovitch**  
*Senior Executive Vice President and Current Chief Financial Officer*

**Amir Gorgi**  
*Vice President Investor Relations*

## PRESENTATION

### Operator

Please go ahead Mr. Reucassel.

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**Mr. John Reucassel,**  
**Managing Director, BMO Capital Markets**

Thank you Matthew and thank you everyone in the room. For those of you on the line, this is John Reucassel from BMO Capital Markets, we are absolutely delighted to have Manulife Financial here today. From Manulife is the new President and CEO, Donald Guolien. As well as the incoming CFO, Michael Bell. Also, a name and voice—face and voice you'll all recognize Peter Rubenovitch who is the CFO and Senior Executive VP. And last but not least Amir Gorgi is here who is VP of Investor Relations.

Just before we get started, a couple of housekeeping issues. First, there are people on the line listening so if you have a blackberry and you're in the room here could you please take it off the table just it might run some interference, and just leave it in a pocket or something. Also there are microphones in front of you so try to keep paper shuffling and fork playing to a minimum if you

could. I apologize for the etiquette commentary but it would help it just dawned on me—on listening on the call.

So the format for today is that Don Guolien and management is going to make a brief presentation and then we're going to open up for Q&A.

So with that I'm going to turn it over to Donald Guolien.

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**Donald Guolien,**  
**President and Chief Executive Officer**

Thank you ladies and gentlemen it's a great opportunity to address you here and people on the line and talk about Manulife a Company about which I am very proud. It's a great company with a fantastic future. And that's the message that we're going to deliver here today. You know, we're dealing in challenging capital markets and Manulife obviously has a lot of exposure on the variable annuity business, and that is a significant determinant of our earnings on a quarterly basis. We'll talk a little bit about that. And we're going to talk about our announcement that we made on June 19 which gathered a lot of attention and stimulated a lot of discussion and frankly that was our intention to do that. To talk to people openly about some of the things that Manulife is dealing with. One of those items is a new CFO and I'm going to introduce Michael Bell in a minute to all of you. But in the middle of crafting that announcement you know during the week that ended up with Friday, June 19, we had a little surprise from the OSC and so we intended to talk about the new CFO. We intended to talk about earnings. We intended to talk about capital. We had to add to that agenda by discussion about an—something we received from the OSC and of course that has received a lot of attention as well. I want to stress to you at the opening and through the presentation that that was unplanned you know some people I think would incorrectly connect the new CFO with that announcement from the OSC and that would be absolutely incorrect and unfair to all parties to do that. But we were dealing with it in real time at the time we made that announcement. The legal disclaimers there and those of you who have the book and have the slides can read it at your leisure; that's the standard cautionary notes around forward looking statements.

So the first item I'm going to deal with is the OSC notice. We received an Enforcement Notice and disclosed this the week of June 15. It relates to disclosure of risks related to the variable annuity guarantee and segregated funds business prior to March 9<sup>th</sup>. The OSC by clearing our most recent prospectus related to our Innovative Tier One is totally satisfied with the quality of disclosure. What they are doing is asking questions about was the

quality of disclosure adequate prior to that and looking back through a period of time. They have not drawn a conclusion that it is inadequate but they're asking a question and giving Manulife the opportunity to defend ourselves and to basically present information which has caused the OSC not to proceed with the next phase of this investigation. So we are doing that. We are obviously vigorously defending our firm. You know, this speaks for our reputation. At the end of the day the most important thing will be how we deal with this matter and the first question was do we release this immediately to the market? And the answer to that was a resounding yes. And we ultimately be judged not by what the findings of the OSC are—positive or negative or otherwise, but by how we deal with this challenge and what I intend to do is deal with it in a very open and honest way with the market. We are very respectful of the OSC's position and respectful of the questions they are asking and they way they are asking it. Our first obligation is to disclose to the market at the first reasonable opportunity. The preliminary conclusion is that Manulife failed to meet continuous disclosure obligation related to exposure to market price risk in segregated funds and variable annuity, but again, before they draw that conclusion affirmatively they are giving us an opportunity to defend ourselves before it becomes an official proceeding.

We intend to cooperate with the OSC staff. We believe that our disclosure satisfied applicable disclosure requirements. I must say I've been comforted by the comments from the analyst community as well as public commentary. There's a great BNN interview with four reporters on it where they talked about the quality of disclosure and actually said some pretty favourable things about our company so that is deeply appreciated. We think we have a fine record of disclosure and certainly intend to maintain that.

Now separately and unrelated and I'm going to run the risk of you know protesting too much but I—Peter Rubenovitch is a man of great integrity and I think it would do a great disservice to have people link the two events in any way, shape or form. I've obviously been working for some time trying to deal with the succession of Peter Rubenovitch and you know chose Michael Bell. And Michael why don't you stand up and meet the group? Michael is a former lifer with the CIGNA Corporation. He was CFO there for six almost seven years. He's also had a whole wide variety of experience both in the financial area as well as running the operating businesses. CIGNA is a health care company but has a history of being much more diversified in terms of their product mix and Michael was a big part of that both as a financial guy and as an operating business leader. He also has

exposure to the variable annuities business being the reinsurer of variable annuities. So he is quite conversant with a number of the product lines that Manulife has in its table. He's also a very smart, distinguished CFO. I do my due diligence well. I think a lot of you know me as the person who headed the M&A Group for Manulife and headed the Investment Group and I think I can stand on my record that the M&A transactions were good and kept the asset side of Manulife out of a certain amount of trouble. You know that impacted other companies. And that is doing due diligence well is the reason for that. And I did the same due diligence in hiring a new CFO. It's obviously an incredibly important position to a company like Manulife. And I was comforted by one of the—a director who knows Michael very well who said you know he sat on the board of six or seven public companies—very large public companies and across any industry Michael is the best CFO that he knows across any of those industries. I was very comforted to hear that.

One of Michael's first priorities will be to review and recommend our comprehensive capital plan for Manulife going forward. And I've been very clear from the time that I've been speaking to you as a successor CEO that I want Manulife to have robust capital levels going forward. There's a bunch of reasons for that. Some defensive and some offensive and I'll talk about those at length. We have been working on a comprehensive capital plan. I mean those of you who saw me speak at a Scotia McLeod Conference—and that was also on our web site made publicly available—to talk about the range of capital raising alternatives that Manulife could pursue and we've successfully pursued a number of those. You know everything from prefs—it was kind of interesting we actually did a pref issue that day. Someone at the meeting said why don't you do a pref issue and it was kind of awkward to answer it because it hadn't become public then but we did one later that day. So we moved very quickly on that person's advice. You know we've done pref issue; we've done reinsurance; we've done the Innovative Tier One; we've done public debt. And we've been able to access the market very successfully throughout the most challenging you know financial circumstances that any of us has seen in capital markets. It is Michael's job to complete that analysis to determine what the appropriate level of capital is for Manulife to withstand the most difficult contingencies as well as position us for where we want to go going forward. And also to—how to do that. Now of course if we were to get into any of the more controversial discussions whether it be around dividends or equity raising these are matters for the board to decide (unintelligible) to decide. But obviously I would like Michael to (unintelligible) on any discussions of those natures.

This is the senior management team to be clear to you what is reporting to Michael. Simon Curtis our Executive Vice President and Chief Actuary; Lynda Sullivan our Executive Vice President and Corporate Controller; Amir Gorgi that you know from Investor Relations reports into Lynda; Peter Levett our Senior Vice President and Treasurer who has been a very busy guy of late; Peter Hutchison our Senior Vice President of Corporate Tax; and Stephen MacArthur who runs reinsurance. Bev Margolian our Chief Risk Officer used to report in to Michael's organization, but in keeping with more current best practices the Chief Risk Officer now reports to me directly.

In our release on the 19<sup>th</sup> you know we talked about positives and negatives associated with earnings in the second quarter and the message that is communicated is that there is more volatility in Manulife's earnings than before, both from the positive side and the negative side. In terms of the positive, we've enjoyed great benefit from strengthening equity markets in the second quarter. In terms of negatives, a significant portion of the earnings benefit could be offset by actuarial reserve increases reflecting a number of factors. The first is lower corporate bonds. And Manulife is continually—will continue to be subject to the vagaries of what happens with treasuries and spreads. And at a higher degree of sensitivity I think than we've been in the past you know to some degree because of the large reserves associated with the variable annuity business and essentially you know we—in setting those reserves project out what the ultimate claims might be but we have to discount those back by certain rates. We're using corporate bond rates to discount those back. Now to some degree that we've got them all covered with a corporate bond portfolio there is less volatility there but to the degree that there's cash flow coming in and reinvestment assumptions taking place current bond rates are reflected as indicative of the future in those assumptions. So when you determine the present value of the ultimate obligation both the treasury rates and spread—in other words the all-in corporate bond rate—it determines the discount rate and therefore the present value of that liability. So you will see some volatility there you know that is greater, because the amount of that reserve is bigger than it ever was before. But it's perhaps not as well appreciated at the discount rate in addition to the level of the equity market is something that has to be taken into account.

The other thing that you know affects us is we have products like long-term care—where we take in premium stability today and tomorrow to back long-term obligation to people. And we basically promise them a fixed sum of money somewhere down the road and—but we have the

vagaries of how much we're investing that at each premium as it comes in. We try and hedge some of that by buying forward starting swaps. Take some of that risk off the table. We've had that philosophy with our long-term care business but ultimately you unwind the forward starting swap and replace it with a corporate bond. When you look at the underlying economics of that, when treasury rates are going up that means you're unwinding it at a cost and when corporate spreads are going down you're assuming—if you assume today's corporate spreads are going to be there down the road that will diminish your investment returns so in fact what we've had in the last quarter with interest rates going up and spreads coming down has a negative impact on that business. We're not trying to quantify it at this stage but we're simply trying to tell you that there is a sensitivity there that we want everyone to appreciate. And this is a sensitivity that is common to people that are in our business of guaranteeing long term liabilities in markets that have more volatility—capital market volatility than ever before. I mean this is not something of Manulife's construction but what you—we're all dealing with much greater volatility in the accounting process that insurance companies use. You're present valuing all of these changes into one quarter and that might lead you to say you know how much do you read into quarterly earnings. The answer is, if I were in your shoes as an analyst of life insurance companies I would not read a lot into quarterly earnings whether they're good or bad. You'd have to look at the long-term prognosis for the business. Are the underlying assumptions reasonable for the long term and you know because the quarterly earnings will for the foreseeable future be heavily influenced by what's going on in equity markets and capital markets can have greater volatility I think than ever before—certainly in our experience.

The second factor that we wanted to talk about is more conservative assessment of policy holder behaviour. And this primarily relates to what people do who have these variable annuity contracts in the tail events of what we're dealing with. And you know we have what are called dynamic lapse assumptions for instance that determine how many of our policy holders will lapse under some condition. If a person has a guaranteed value of \$100,000 and they have an account value of \$50,000 it is very disadvantageous for them to lapse their contract. So we naturally assume that in a tail event where such a thing occurs will they have a guarantee that's say twice their account value, but the lapse rate will go down. Simply—similar to what US banks do when they're anticipating refinancing of residential mortgages. We make an assumption there. Well we're getting some evidence that some of this behaviour in the tail event is not occurring according to plan and now it's not

something that is catastrophic in its impact but something that we're becoming aware of. And we will reflect that one way or another through our reserving process. I say one way or another which is a somewhat vague term because it depends on how much confidence we have in our findings. If we have incontrovertible evidence that you know there is you know disadvantageous behaviour taking place we will take action in the quarter and reflect that in a quarterly basis change. If on the other hand it's something that we need more information on we should talk to you about it openly as a factor that is going to influence our long-term results, but—and it will be taken account of—but will be reflected in an accounting basis over a longer period of time as we get more evidence and more reliability.

The third way we could deal with it is somewhere in between which is say drive CTE levels up to a higher level - conditional tail expectations - associated with VA risk up to higher levels in anticipation of having to make basis changes down the road. You know which is giving some indication of what might happen in the future but acknowledging that there isn't perfect certainty around those assumptions.

So we have a menu of choices of how to proceed there, fundamentally determined not by what we want to do but how much confidence we have in the information that we're receiving. Now I want to underline an important factor around this and it goes back to the quarterly earnings. This could have an impact on a quarterly earnings period. So the question you want to ask again is what is the long run condition of the firm? And if you take the view as I do that most of these reserves held for this risk are redundant due to the fact that equity markets will return to normal, that we will see growth in equity markets. It doesn't matter by and large—I mean not 100 percent but for the most part it doesn't matter what happens in the tail event. Whether the policy holders lapse today or not is not relevant if at the end of the day their account value is equal to their guaranteed value or their account value is greater than the guaranteed value. All of these reserves become superfluous and you know would be released into earnings. Now I'm not saying that that's going to be the case. I obviously have no better prediction of what stock markets are going to do over the next 20 years than you do. But I will remind you of the conservative nature which these reserves are established. The whole process of how we look at the market which is not only where the market is today, but where the market would be with declines in the market you know flat returns for a period of time and then very modestly increasing equity markets after that. We test them to some very conservative circumstances.

The third thing is lower investment returns and you know I'm very proud of the record of Manulife in terms of our investment portfolio. I think I've been conditioning you consistently that this can't go on forever. I mean when we're getting gains from releasing provisions that were established in more difficult times. When you no longer have the provisions because you've got a stellar investment portfolio there's nothing to release. We've been experiencing terrific gains in terms of real estate appraisals and you know equity gains; private equity gains. You know we used to be criticized by the analysts that we couldn't predict which segment these gains would occur in and that led us to you know the approach we took with pooled investment gains. Obviously now we're not experiencing real estate gains. We're experiencing stability in values or decreasing—slightly decreasing values in real estate. You know private equity gains this is not a good time to be harvesting private equities. And you know we're no longer releasing provisions taken for credit events. We're actually taking you know some degree of provisions reflecting downgrades and so on. You've seen the quality of our investment portfolio. We did extensive disclosure in the first quarter. You can draw your own conclusion as to how much risk we bear. I'm very proud of our investment portfolio and think that anything we would be taking here is likely to be modest judged by the experience of the general financial services community, but it's not going to be as positive as it was the last three or four years. Those are the plain facts and we want to remind people of that and other factors which is our catch all for other things.

So the bottom line is yes we will be expecting a very positive release from you know the improvement in equity markets in the second quarter but that will be offset by some other factors. And when I say offset I'm not giving any degree of offset. I'm not telling you 100 percent offset; 15 percent offset. I'm telling you that there's things that are going in the opposite direction and you know people come away—it's funny—it's been an interesting little time. People come away from a talk like this with totally different views. You know one walks away and says you know earnings are going to be zero in the quarter because they're going to be 100 percent offset. And another person reads the same you know press release and comes away and says oh he's telling you that there's some minor head winds here. And the answer is I'm not telling you anything. I'm telling you that there are some things that will be taken into account in the quarter. And trying to deal realistically and honestly with a view to the future of what might transpire down the road.

The next point is capital. And you know we had a great quarter for equity markets obviously tailed off a little

towards the end and as a result our consolidated MCCR levels as at June 30 were near historic highs. However, these will continue to be impacted by equity market and interest rate volatility. And when it comes to capital it doesn't matter what I think my most realistic outlook is for equity markets. I mean I was pretty open with views in March that I thought equity markets had swung too far and that we were—you know people seemed to have baked it in their analysis that it was the end of the world was coming in a matter of days and I went public with that statement. You know it was kind of amazing that within a few short weeks and I'm not connecting at all with my comments obviously—in a few short weeks people started talking about you know there's rays of hope, there's little green shoots appearing in the economy. Well a couple weeks after that those green shoots became full green lawns—absolutely ridiculous. I mean nothing turns around that fast and the market got a little bit of reckless exuberance if you will and we're giving some of that back. It doesn't matter what I think about the most likely case for equity markets.

We—when we do our capital planning we have to plan for the most conservative scenarios and that is in shareholders interest. You know there are a lot of things said about Guolien is a conservative guy and I appreciate people taking that perspective it's very nice, but the fact is when capital planning the last thing we want to do is subject our investors to a down round equity financing. You know it was a very difficult time for us back in December when we went to the markets and raised equity at \$19.60. You know that was amongst one of the most humbling things that Peter, Dominic and I went through and you know investors responded in kind. They obviously love our company and we were able to raise a phenomenal amount of capital in a very short period of time with a great deal of support but it was a very difficult and humbling process doing that. When our stock was trading in the \$9 range in March, if we had had to raise equity you know we can only guess at what the cost of that equity would have been. It's my job looking after shareholders' interests and of course policy holder's interests—it goes without saying. But looking at the shareholders' interests to ensure that we are as far from that event as possible even in the most dire circumstances. You know and a couple of weeks ago when we're talking about capital people are saying why would you be worried about capital, the equity markets have just run up phenomenally. Well today there's slightly different perspective right if you read the Globe and Mail or the Financial Post there's all kinds of stories about whether financial institutions are adequately capitalized; whether the—you know stimulus is having the intended effect; and whether in fact we're getting out of this economic slump or we're in it for another couple of

years. Again our capital levels I mean you know Michael's going to have a lot of freedom to interpret the work that's been done and put his own stamp on it. But he has to ensure that our capital levels are—and our capital plan—is dealing with the most (inaudible) circumstances.

Now, you know we're not alone in this. I mean you know I may be the first in talking about it in a very aggressive way but we're talking about a phenomenon that is international and across all financial institutions. Regulators, rating agencies and the investing public are going to expect higher levels of capital going forward. We made our release on you know June 19<sup>th</sup> and then you know Rick Law (phon) and Bob Kelly (phon) were speaking at the invitation of Jerry McGahee (phon) at the Woodrow Wilson (phon) breakfast sponsored by CIBC and you know Rick talked very openly about his expectation that banks would have lower returns and higher levels of capital going forward. You know a somewhat similar message on the capital side to what I'm saying. And that appeared on the Monday after—you know after our release. So we're not talking about anything unique to Manulife but any intelligent thinking person is going to anticipate that having been through this crisis, regulators everywhere are going to be requiring higher levels of capital. You know our regulator in Canada has talked about procyclicality (phon) and some of the issues with that. But let's recognize that if you try and remedy procyclicality it means you make it lighter capital standards in bad times but in good times higher capital standards.

In the United States it used to be talked about that 300 percent RBC was a well capitalised level—400 is the new 300. Sounds like the fashion business, you know black is the new white. I have been reading my wife's fashion magazines. You know 400 is now the new 300 in the United States. And for those of us who are very large you've got Obama's re-regulation plan—Mr. Obama's re-regulation plan that is looking at systemic risk. And you know certainly in a Canadian context Manulife is obviously in the category that would be considered systemic risk. In the United States we are as well in all likelihood, although it's not determined, but we would fall into that category that would subject us to an additional layer of scrutiny, regulation and obviously expectation that we have highest level of capital that it would enable us to deal with the most serious deficiencies (phon). So I think it's only reasonable to expect that this trend is going to take place and I would like us to be ahead of the curve building for that as opposed to reacting to it when it happens because the cost of capital is likely to go up—you know, when the rules are invoked.

So building our capital strength at both the consolidated and subsidiary level remains a continuing focus. You know there's a lot of focus on the MCCSR and it's a very good indicator of our consolidated company but we want it to be strong in every subsidiary because we anticipate that every regulator is going to be protective of the capital in their jurisdiction. And again, this is not a Manulife thing, this is predicting what's going to happen across the financial services marketplace.

So Manulife will embark on a comprehensive capital plan to consider alternatives for building capital to fortress levels in order to be in a position to provide the highest practical degree of security to our policyholders which is our number one obligation; to withstand continuing economic volatility and to be able to take advantage of strategic opportunities. Now I could wrap all of this discussion and say you know we're building fortress level of capital to take advantage of strategic opportunities. I've been open about the fact that there are more opportunities available today than I have ever seen in my working life time. But it isn't just about that, it's about that and the defensive posture which is we need to fortify capital for you know the most difficult contingencies. It's a combination of all these things. We want to fortify capital (phon) (unintelligible) strength and certainly avoid highly dilutive common equity issues.

When I talk about highly dilutive, again that is subject—some people say highly dilutive well I know what that means, that means anything below book value. Well that's not my definition of highly dilutive. Now I'm not going to answer the question of what do you mean by highly dilutive and get into some speculation you know I think most people would agree if our stock was at \$100 it might be you know a smart thing to raise equity you know but you know where do you draw the line? And I think I've also said pretty publicly that raising at \$19.60 I think is what we did in—back in December was a very humbling event. So somewhere in between there would you know not be highly dilutive—certainly not highly dilutive when we're talking about the specter (phon) of an acquisition. And I would anticipate that you know if we do end up in a position—which I would fully expect, down the road where we have excess capital that we would be able to make use of that. Normally I would think raising capital—excess capital or what you might perceive as excess capital, is a bad thing from a shareholder perspective because you're carrying around that extra weight, you know of the equity dilutive to ROE. But I have a very strong degree of confidence that if we do end up in the position 12, 18, 24 or 36 months down the road with surplus capital that we will be able to deploy that very effectively. Now that doesn't mean we're going to be tempted to do deals we would otherwise not do. I

think I stand on a record of discipline about doing a deal. You know one could infer from that oh I know what he's trying to do, he's trying to raise—he's trying to raise capital to do deals so he doesn't have to go to the equity markets and justify his deal. I mean any—that would be a hugely insulting thing to say so I want to deal with it up front. We will justify any deal that we do and I think that we stand on our record which is awfully good in terms of (inaudible) of our transactions have been dilutive to shareholders interest. They've always added to it. And that is true whether we deployed excess capital or had to raise capital associated with the transaction.

And I guess I also want to you know stress that we are you know and you might challenge me on this you know amongst the highest rated financial institutions in our class in the world. You know with the AA plus rating and (inaudible) levels of capital. So we're doing it from a position of strength as opposed to a position of weakness.

Manulife will endure and posture. I talked openly about some of the headwinds, some of the challenges you know if you're not getting the message and thinking that capital levels are going to go up—not just for Manulife but for our peers. You know if you look at US companies, the extremes that they have been driven to you know people have had to sell businesses. People have had to raise equity at ridiculous prices. People have had to accept TARP money. People have had to do convertible deals. People have resorted to very extreme measures. We are in a position of strength and not had to do that. And as a result, we're going to get stronger. We're benefiting from that the fight to quality that's occurring. You know there's a lot of people that are now recognizing that there's substantial quality differences between financial institutions. It's being recognized at the consumer level. It's being recognized at the distributor level and perhaps most significantly is being recognized at the level of gatekeepers (phon) that exist in various institutions versus stock brokerage firms that take a look at the quality of the institutions that are providing product to their client and don't want the reputational risk of dealing with companies that have an uncertain strategic future or instability in their capital base. We are seeing market share gains that can be directly attributed to the flight to quality that is occurring.

We also expect to benefit from anticipated industry consolidation. I mean it's clear it's not going to happen in the short term. I think people get a little bit ahead of themselves. I mean there's a couple reports back in September you know about seem to be creating the expectation that we would be doing deals you know in the fall within minutes. And certainly we're actively involved

as anyone in you know possible consolidation, but we will benefit whether or not we are the consolidator or whether it's just general industry consolidations. There has basically been too much capital chasing too few opportunities in the financial services business which led people to more aggressive forms of behaviour which has led to some of the difficulties that the industries are facing. Obviously now there's been a huge flight of capital from the industry—a lot of destruction. And you know I would predict that that leads in a very positive direction. Whether you're the consolidator or whether you're not the consolidator, we will benefit from that being a participant in it. Obviously Manulife is very skilled at the consolidation business and I would anticipate that we would benefit quite directly.

Companies will adjust their product to generate higher profit margin with lower risk. I mean when everybody has to rebuild their capital base, what they do. They charge more for the product. I mean you're all familiar with the Hog cycle. We're at the good side of the Hog cycle as far as that goes. The price of pigs is going to go up.

Anticipate regulators will require higher levels of capital. And you know this is not something again unique to Manulife. I think if I was on a podium with you know one of the largest mutual companies in the United States and another stock company and everybody was talking the same thing. It's kind of interesting hearing mutuals even talking about the fact that the products we're offering today are unaffordable given the level of capital that we have to hold, and prices will go up. I think it was as close to a direct quote as I can offer.

We anticipate regulators require higher levels of capital and this will favour stronger more conservative companies. I mean those with access to it can attract it and keep it. Stock markets and interest rates will return to more normal levels. I mean I believe that. That's my belief system and you guys are—mainly in the room are equity analysts—I suspect you have an optimistic view of the stock markets longer term. And you know at the end of the day we've shown you add-nauseum graphs depicting how long dated these VA liabilities are. I mean—I again—I can't promise it. But I—it's certainly my belief system that most of the reserves that we hold beside that risk will become redundant one day. But they will not be redundant for a very long period of time and that will probably be released over a longer period of time. Because of the fact that there's obviously risk that markets could go down.

The stock markets and interest rates will return to more normal levels and Manulife will continue to address customer needs, rekindling growth in both absolute terms

and market share. We have a very creative team of people and you know our focus right now is on growth. We have a small arm of the company occupied; Michael and his people in treasury and so on, Amir and myself, you know focused on this issue of fortifying capital. But the vast majority of Manulife's 30,000 employees are focused on growing the business in their territories.

The leadership transition is something I wanted to address, and you know this is a direct take from my usual meeting speech which is not (unintelligible) when we cover some of the same things. You know things that will not change with my leadership as apposed to Dominic's , the first is we remain committed to our core values—the PRIDE values. And we've had a chance to test that with this OSC matter, right? It tests how we approach integrity. You know, there's no obligation on Manulife to disclose that notice as quickly as we did and I'm led to believe that other companies might take a different view of how to deal with that at that early stage. We chose to disclose that to the marketplace you know virtually as soon as we heard about it and deal with the intended consequences of that. I think at the end of the day this OSC matter will be like the Tylenol story and you know I won't compare it to Portis because at Portis there are things that we did that we we're obviously not proud of but at the end of the day we did the right thing for our customers. I won't use that comparison to the OSC matter because I don't believe that we did anything wrong. I believe our disclosure was adequate. While I compare it with Tylenol was you know the people at I guess it was McNeil at the time—you know we chose to deal with it whether it was something planted in their product or whether it was a problem in the manufacturer or whether it was a made up issue by a couple of you know disgruntled consumers or—could have been a hedge fund—you know, that's a joke. The—for the people on the line that's a joke. (Unintelligible). But anyway, they—the way they conducted themselves you know (unintelligible) the brand and that's what I want Manulife to do. At the end of the day whatever happens on this matter people will trust the Manulife brand.

So continue to be hard driven, ambitious, and aggressive. Now I have a different style than Dominic, but those who work with me would say there's not much difference in the end product in terms of setting the bar high and expecting people to deliver it.

Continue to pursue a healthy balance of organic and strategic growth alternatives. You know, the I have spoken about our M&A prowess, and you know, but I want to be clear about it. The success at Manulife has experienced on the M&A side is not so much because we had a crack (phon) M&A team, although I'm very proud of

our M&A team, it's not because of the financial people and we engineering that they did the, delivered the deals in the capital markets work and so on, it's because we had a very strong base of organic growth and only pursued deals when they were incontrovertibly in the shareholders' interest. We were never required to do deals because we weren't meeting growth expectations of the Street or because we wanted to fill up the platter or extend the geography or get the business up to scale. You noticed we didn't do those things. There are other people who paid huge, huge prices for so-called strategic deals, and you know, it's the easiest thing in the world for someone in my position to overpay to do a deal, and then hand it over to John DesPrez and say, "you know, here's a deal. By the way you've got to service this thing at 16 percent (inaudible), John, and it's got \$30 billion of goodwill associated with it. Go do it." And you know he'll be destined for fail; he'll have to make changes that will be ultimately negative for the business and will not be (inaudible) the results. The greatest strength that Manulife brought to M&A's transactions, and I say this not out of false humility but out of reality, is the fact that we had a very strong base of organic growth that never required us to do M&A to fill a hole or to meet an earnings expectation, and that will continue. So we intend to continue to be very opportunistic. The best way of growing the company is through organic growth, bar none, but we will obviously take advantage of strategic alternatives that are presented to us that are suitable for our shareholders.

In terms of changes, there's obviously changes between Dominic and myself, and I want to be fair to him and to me, they have less to do with differences in style or vision but that of a different phase of the company and more to do with today's different circumstances. I want to diversify our product offerings in areas where we have shown great capability. I'm saying two things there, one is diversify the mix. I'm a great believer in diversification. You know you never get it right, and those of us in the asset management business understand that innately. You never totally get it right. Diversification is your friend, and as long as you're not diversified into too many things, you're not diversified into things you simply don't understand, which is a huge risk. If you diversify intelligently amongst things that you understand that is a very good thing. That's good from a marketing perspective, as well; you know, any good marketer knows not to have all his eggs in one basket in terms of, you know, one customer or one product line or market segment. I think it's very true of our product offerings.

VAs became a very, very big part of our growth and we have to – we're not getting out of the business, we think that in the fullness of time these will be very profitable

products. But they will take a less-important role in terms of the dominance of the product mix in the future. So I'd like to see us diversify our product offering.

The second part of that statement is where we have shown great capability. You will not expect me -- and we have lots of interstitial space, if you will, to exploit -- you will not see us going into the credit-card business, retail stock brokerage, getting into businesses that we know nothing about. What I'd like us to do is transfer knowledge across our businesses, for instance 401K business or group RRSPs or whatever we do extremely well in North America. We have a great base in Hong Kong with the Mandatory Providence Fund. It's a similar concept around the world. You can call it different things. Make that a global concept and have it exploited in virtually every company – every geography where we do business.

The similar can be said of the asset-management business where, you know, not a lot of people paid attention to it but there's a huge amount of savings in Taiwan. We bought a small asset-management company last year in Taiwan. We intend to grow that and, you know, get us a footing in terms of asset management business in that market. So there's a lot of things that we can do in terms of taking a product idea or capability from one geography and successfully transmitting them to another geography, within the sphere business that we know and have confidence in, and knowledge in.

I want to long term, and this is long term, broaden our geographic reach, whether through acquisitions or aggressive market entry. I mean, I talked about three examples of that in my annual meeting speech where I talked about Korea, I talked about India, and talked about Europe. You know, Europe is perhaps the most controversial of the three. I mean, a lot of people talk about India and it's a wonderful market opportunity long term. It's certainly a wonderful market opportunity for selling, you know, consumer disposables, where every head, you know, whether you're an Indian or a Canadian or an American, you need the same goods. You know, you brush your teeth the same way. You drink the same Coca-Cola. You know, it's a fantastic market, given the population there.

For financial services it's a lot earlier than that. It's more at the embryonic stage and, as people well, now, you know, there are severe restrictions on foreign ownership in India and the last thing I want to do is have us be a minority partner in what I consider to be a core business. So we are thinking of India in a different way, have a couple of different ideas how to approach the market. What I don't want to do is ignore the market long term,

but I also don't want to be in the market as a minority partner. You know, I won't say anything more than that, but we have some ideas of how we could approach the market.

Korea is a market that, you know, we operated in some years ago with a very small company, which we sold, and that was a good call to sell the company, but it's a very large insurance market and there's a limited number of licences there and intelligent competition, which wasn't necessarily present at the time we exited, and that is something that we will take a look at around the other Asian presence.

Then, last but not least, there is obviously this European one that I raised. A lot of people would say, well why would you consider Europe, you know, it's a crowded market, a lot of very large companies, entrenched forms of distribution, you know, a lot of negatives one could associate with the market. Well, you know, I'm not going to go into too much detail, but a say couple of things.

Number one is a lot of capital has been eroded and I don't think the end of the story has come yet in Europe. The second thing is one can enter as a new entrant strategy, kind of like the ING Bank entered North America, and use the, you know, your inexperience to your advantage by creating a new mode of doing business. You know, to take a look at what one of my competitors has done, you know, Great West Life, in the payout annuity business in Europe, it had built up a very significant (phon) franchise there, packing a fairly narrow piece of the business but a piece of the business that is significant enough in size that it adds materially to their earnings. So there are opportunities there.

The other way you can look at Europe is simply say, it may look as inquisitive (phon) as most of you expect we will be, if you look at the rank ordering of companies where we're running neck and neck, we're third-largest in the world, with respect to – with the exception of China Life, which is a domestic company, everybody above us in the pecking order has an operation in Europe. If you look at the next 25 companies down the pecking order in terms of market cap, then many of them have a presence in Europe.

If you just do the math, if Manulife was to do a sizeable acquisition we're going to end up with a presence in Europe whether we like it or not. You know, there's an old saying that luck is when preparedness meets opportunity. I believe that we prepare for that opportunity so that we understand the markets well, we have a small group of people dedicated to understanding the market, understanding what we like, what we dislike, the basis of

regulation, the basis of accounting, the basis of competition, product, and so on, understand it well, because the last time you want to be figuring out a market is when you've got 30 days to deliver a non-binding indicative offer. You want to do your preparation well in advance.

You know, what is the likelihood, I ask you, that a company with the growth prospects of Manulife will operate in Europe say five years from now. Either through finding some unique market entry strategy or through an acquisition that has a European presence associated with it. I think it is very, very hot. That's a five year statement, that's not a next 12-months statement, that's a five-year statement, so, you know, my way of thinking is you start to do your homework on that very seriously now, anticipating that that is a very realistic prospect five years down the road.

The last thing I want to do is spend a lot of time building our brand. I mean, we are a reliable, strong, trustworthy company with a lot of creativity, how we design product around customer needs. I want to make sure that that brand is recognized everywhere we do business. When I talk about brand I don't mean, you know, the logo, I don't mean a tagline, and I don't mean an advertising program necessarily, although it can include that. What I mean by brand simply is when you say the same Manulife, or in the United States if you say the name John Hancock, what comes to mind? I'd like people to think of strong, reliable, trustworthy, and creative around adapting product, anticipating the future and adapting products to meet (inaudible).

Growth opportunity; we've got a map of the world. I'm not going to spend a lot of time on this. I mean, John DesPrez has commented this. Green space you know, indicates obviously where Manulife does business. I'll be honest with you there's a lot of white space that we don't plan to do business. I hope (inaudible) very narrow geographies that even if you did all of them on the same day it would add just a little bit of green. But what John's broader point is, there's a lot of white space in terms of moving products around, ideas around, in various jurisdictions within that, as well as exploiting some different markets within that.

Again, if you talked about size of the markets, again I'll go back to the Europe thing. You know, Willy Sutton (phon) was once asked, you know, why do you rob banks; and he said, because that's where the money is. I mean, if you look at the size of the European insurance market relative to any of the other geography, some people would say, why wouldn't you do Latin America, you know, Eastern Europe. You know, Western Europe is a

precursor of going Eastern Europe, but, you know, you just have to look at the size of the markets. Whether you're talking about wealth management, which has increasing emphasis at Manulife, or the core insurance business, you know, it's hardly a question to be asked. So again, it makes sense to (inaudible).

I also said, you know, a year ago, and I'm happy to admit that I'm wrong about things, you know, I actually said to our board when they were, you know, reviewing my credentials, you know, what would you do and so on. I said, you know, I think there's going to be limited opportunity for expansion within North America through acquisitions, and within Asia, because you know, companies are all doing well and everything is in such robust shape that, you know, we're probably going to have to be more expansive in terms of our geographic focus in pursuing some of these opportunities. You know, within four months I was proven to be dead wrong, and you know, again there's more opportunities within North America and Asia than I would ever have dreamed possible. Again, you know, you can't (inaudible) again.

So I'm very optimistic about the future. You know, we should prepare for the down side, we should prepare for the risk that, you know, markets go back to 670 again, and have enough capital that we can withstand that, you know, with ease, without resorting to dilutive equity offerings. I can't promise that. Obviously if the market goes to 300, you know, all bets are off in terms of Michael's (inaudible) capital plan, but I want us to be very conservatively capitalized for the next little while because I do believe that there is an unprecedented degree of volatility in our markets, and as much as we might think the most likely case is way more optimistic than that, we have to be prepared for the down side risk in our capital planning.

On the other hand, I firmly believe that with the fullness of time that any, you know, capital we raise or retain will become surplus capital somewhere down the road and we will have more than ample opportunity to intelligently deploy that. So, again, if I was sitting in your shoes I'd be very concerned, saying, gee this is going to have a dilutive effect on ROE, all other things being equal, but I don't anticipate that that will be the case, if at all, for long, because of the opportunities we face.

I also want to stress that when I talk about capital I'm not talking about the full equation of ROE. I mean, I plan to give some guidance to the street around core earnings and, you know, ROE levels that I would, you know, hope to aspire to and so on, along with our second-quarter release, but what remains to be determined is how much the E will enhance as a result of some of those

competitive activities, you know, that have occurred, and that is, the diminishment of capital, the fact that companies everywhere are having to re-price their products, the fact that we see growth opportunities coming from the flight to quality. All of this is going to have a very salutary impact on long-term earnings potential, you know, but I would be lying to you if I told you I could quantify how much that is going to be and the speed at which it's going to occur. But the fact that it is going to occur is undeniable, that this will be a very profitable business and all participants in it will be profitable, and Manulife is uniquely positioned to be a very active and successful participant in that.

So thank you, I'm happy to take questions.

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**John Reucassel**

Thanks, Donald. Maybe I'll just kick it off with a question and then we'll go through the room.

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## QUESTION AND ANSWER SESSION

**John Reucassel, Managing Director,  
BMO Capital Markets**

You talked about the earnings guidance, Donald, on the Q2. Are you also going to talk about your comprehensive capital plans at Q2, and just within that, you gave us some colour on the equity offering; could you talk a bit about dividends? Maybe the pros and cons of what you presented to the Board of maintaining or adjusting the current dividend level?

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**Donald Guolien, President and Chief Executive Officer**

Well, we're going to look at the – I don't want to focus on one thing, we're going to talk to the Board about a range of alternatives. When you talk about, you know, the (inaudible) comprehensive capital plan, I mean, I'm not going to give you the whole plan, we'll have a more detailed plan to the Board, you know. We'll talk to the street about what we intend to do, you know, in sort of the short and medium term, to the degree that we can but we're not going to, obviously going to talk – when we look at capital plans we look at scenarios that would curl your hair, the upside end of that, you know, and balanced view, but that will be the discussion with the Board. It will look at a full range of alternatives, you know, and we'll

reveal what's appropriate to the street. We're not going to lay the full plan out.

You talked about dividends.

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**John Reucassel,**  
**Managing Director, BMO Capital Markets**

Sorry, just when you're talking about the Board, about pros and cons of adjusting the dividend, could you talk to us a bit about the pros and cons of looking at the dividend and –

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**Donald Guolien,**  
**President and Chief Executive Officer**

Well, the cons, as I say – let's start with the cons. The cons are many. I mean, there's this notion that no Canadian financial institution has ever dropped their dividend and it's the banks, and obviously one of them has dropped the dividend as recently as (inaudible), and some time before that, and obviously others dropped back in the thirties, which is the closest comparison one can have to today's circumstances.

Now, it's been a long time, I would acknowledge, and the worst thing I think associated with dividends is the perception it has that you're weak, you know. You know, some of the banks are quite comfortable raising equity to pay it out in the form of dividends whether they've got it in earnings or not. I think as capital market people you have to ask, is that the right thing to do. On the other hand, when you, you know, if you're going to talk about a cut in dividends sometimes that signals, you know, uncomfortableness with the future, and you know, that's not something that is a very positive thing. You know, one of the things I say, you know, our competitors globally, you know, virtually all of them have dropped their dividend, by substantial amounts, because they have no alternatives. They can't raise capital.

I'm not drawing a comparison with that because it would be the right thing for Manulife to do, but one has to certainly look at that and, you know, for all the same reasons that they're seeing capital ratios, you know, higher levels being required. You know, we don't have, we started off ten years ago paying no dividend. You know, Manulife's shareholder base isn't quite like that of the banks. You know, many of the banks – many of us know people who have, I don't know, say a half a million, \$200,000 with each of the five banks and that's the basic retirement plan. They are retired people and they live off that dividend flow. I think the banks are, you know, retail

people obviously, I think the banks are very cognizant of those people because they're customers of the bank and, you know, none of them want to do that.

So I totally understand the Canadian banks' perspective on, you know, not dropping dividends. You know, we're in a somewhat different position and I don't say that to condition the market. I mean, we obviously, you know, understand that a lot of people would view a dividend drop as some sign of weakness on the part of Manulife. You know, in the capital markets view, the more sort of analytical view is irrelevant, it's the emotional view. We're very, very conscious of that. So this would be, you know, if we were to get close to that, would be a very tough decision for our board to make. It's certainly not management's decision. You know, it would be the board decision on that, but those are some of the pros and cons.

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**Unidentified Male Speaker**

You have obviously mentioned that capital ratios are likely to increase, so to John's question, part of the vein is probably, you know, maybe you cut the dividend but the dividend is more of a long-term issue. How does that fixed capital, your concern of capital is probably in the short term than anything.

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**Donald Guolien,**  
**President and Chief Executive Officer**

Yeah, you're right. No, that is a fair comment. If one were, if a company were, and it doesn't do much in the very short term, and you know, whereas other forms like the IT1 or equity raising and so on, does do it for the short term. You're quite right. Yes?

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**Unidentified Male Speaker**

If you emphasize the dividend reinvestment program and say 25, 30 percent of dividends are reinvested in stocks, would that achieve your, you know, in terms of capital generation targets?

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**Donald Guolien,**  
**President and Chief Executive Officer**

Well, obviously a dividend reinvestment program does help in terms of retaining capital and, you know, I don't think I'm at liberty to talk about the usage ratio but people obviously like it, especially institutional investors that are aware of the advantages of (inaudible). I think the retail

investor, it's a more foreign concept and – it's a more foreign concept in the United States. We have a substantial base of shareholders in the United States and elsewhere around the world but certainly, you know, big Canadian institutional investors I think have a strong predisposition to making use of the dividend reinvestment program and it's a very positive development for us.

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**Unidentified Male Speaker**

Another question; what kind of a payout ratio would you be comfortable with going forward.

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**Donald Guolien, President and Chief Executive Officer**

Well, we have published a range of payout ratio but what you have to look at, obviously, is long-term, you know, earnings. And I think you also have to look at – what I want to talk to the street about when we release our second quarter is the notion of core earnings; not necessarily sustainable earnings but talk about the level of earnings that we would make in normal equity market, you know, return levels, and then talk about the adds or subtract to that. You know, obviously if markets performed better than long-term expectations you'd expect a much-improved result. If you get, you know, long-term returns from private equity, real estate appreciation, things like that, you'd expect normal, more than that, you know, if we're able to reposition assets do we get better ALM strategies to meet our long-term liabilities, you'd expect benefits from that.

If you have credit provision reversals you would get better for that. On the other hand you could have negatives. If you have real estate going down, if you have equity markets flat, you know, just reverse every one of those positives I gave you, you know, that would lead to something less than core earnings. But I'd like to talk about a concept of core earnings so that we have some notion of what that is, and then, you know, and this isn't anything akin to doing the operating earnings scheme that plays in various jurisdictions, you know, this is sort of what core you could expect a normal quarter to look like, if there is such a thing.

And then I think you (inaudible) you know, dividends and stock buybacks and things like that, relative to that core-earnings expectation. That's not to imply that you take, you know, our payout ratio, take it exactly as it is and apply it to that. You know, you have to determine what type of payout ratio you think is comfortable. That's something that we'll be doing. But I think you want to

reference it on sort of core earnings as opposed to earnings that are, you know, either wildly optimistic because the market has run up in a quarter, or wildly pessimistic because the market has gone down, or some of those other things, interest rates and other factors.

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**John Reucassel, Managing Director, BMO Capital Markets**

why don't you come forward so they can just hear you on the phone. Just speak up.

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**Unidentified Female Speaker**

As we pointed out, and most of us here are equity analysts and we've got to look at, you know, the statistics you give us and decide whether or not you guys are doing a good job, clearly quarterly earnings is not the number that you want us to use to do that; because you talked about the various puts and takes that make for (inaudible) not necessarily representative of whether or not you guys are doing a good job. So what is, what would you like us to look at? What do you look at when you're talking to like John DesPrez or Michael and, you know, are they doing a good job.

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**Donald Guolien, President and Chief Executive Officer**

Yeah, can I paraphrase your question for the people on the line. The question is, as equity analysts we have to look to quantitative information to judge a company, I guess, (inaudible), and you know, I'm sort of saying that quarterly earnings are not a good measure, what do I look to internally.

This may surprise you but embedded value is a very good measure. Now, the trouble with embedded value is it's not comparable between companies. Now, I think companies are getting better at disclosing it, and this isn't positive for us. I mean, this is not boosterism. If you look at our first quarter, you know, the call was easier than I expected because I knew business embedded value fell by a lot, and it fell by a lot because we were selling less business and we were hedging. The costs of hedging were reflected in there, associated with the VA business, and those who are paying attention to that number would see, you know, a very negative development.

I guess the other thing was we had a spectacular quarter the year before so the comparison was a little unfair, but that's a very important indicator of information. So that is

something that we take very seriously, which is the long-term profitability, you know, the notion of embedded value, you don't know when exactly it's going to merge but you fully expect that if your assumptions are realized it will merge through the fullness of time. You know, that concept, you know, is much better used and appreciated in Europe. It's not all used in the United States.

The irony is it's used all the time when people are buying businesses. That is the single determinant, most important determinant of, you know, what people use regardless of where their geography is. They start with an embedded value report, which is the long-term, you know, expected emergence of profit again, and then you look at how it's expected to develop over time, depending on what accounting regime, you know, it's subjected to. It's a very important measure, but unfortunately, you know, it's got less objectivity, and people today are, you know, so – you know, I'm going to get into accounting theory, but do you want very subjective but less meaningful information – very objective but less meaningful information which, you know, characterizes you as US GAAP, right. You know, it's entirely objective but it doesn't tell you a lot, you know, as opposed to something that is more subjective, more judgment involved in determining things like long-term lapse rate and so on, but is a far more meaningful depiction of the underlying economics of the business.

So, you know, we've been pretty good at disclosing that to you and it will give you signals that sometimes will be positive for Manulife and other times negative for Manulife, but it's something that we pay a lot of attention to.

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**John Reucassel,**  
**Managing Director, BMO Capital Markets**

Just a question, there's a question up there.

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**Unidentified Male Speaker**

Could I explore the flight to quality issue. You already have a credit rating that's damaged but if you were to, you know, do all these things to raise capital, including cutting dividends – (inaudible) cutting the dividend helped you get to a triple A rating faster, better credit rating allows your sales force and distribution to really benefit from that flight to quality. Was that clear (inaudible) decision-making whether to cut the dividend or not?

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**Donald Guolien,**

**President and Chief Executive Officer**

Again, it's a Board decision, but I would not take a decision as Draconian as cutting the dividend with a view to getting a triple A rating. You know, it's questionable whether or not any of the rating agencies would hand out triple A ratings at this time in the financial services industry, for anybody. You know, I'm probably overstating it a little bit but not too far, they'd certainly be waiting a long period of time, and I don't think, you know, one would expect that, you know, if you raised – other than an extraordinary amount of capital or retained dividends or other (inaudible) that you'd get a triple A rating back very quickly.

You know, Double A Plus is a very, very high rating. We, at the time we accepted the triple ratings, you know, we're very clear that we weren't going to run our company, you know, in a manner that suggested that we would do everything that is required to be a triple A company. That is probably, you know, too high a cost. Now, I think at the end of the day Manulife has the characteristics of a triple A company, I think we deserve a triple A rating, you know, and I think that will be recognized by the ratings agencies through the fullness of time.

But I think it would be -- you know, you're giving me a very favourable question but I want to respond honestly -- I think that could be a good strategy, for a company to make, you know, sacrifices in order to get a triple A rating. I think, you know, being Double A Plus is plenty right now. I mean, again then you look at many of our competitors, I mean, you know, are either, are living day-to-day as a result of direct government assistance, and I'm not just talking about U.S. companies, I'm talking about the Europeans as well, you know, they have the government as a shareholder. People know that that's not a long-term reliable position or very complimentary to the companies. So, you know, we continue to access capital. If you look at the cost of capital reflected in our IT1 issue, relative to that of others that have raised capital, I mean, that tells you something about how well we're regarded, right? You know, one can argue that we raised 300 basis points less than, you know, comparable issues of other companies. Adjusted for tenure and for currency, you know, so that says something about the quality in which our company is held.

So I believe we are a triple A company. I would never set an objective in these markets of, you know, a commitment that I would get there, you know. That would be too costly.

**Unidentified Male Speaker**

I'm just wondering if you can talk a little bit about how far down the road you are to reaching those fortress levels of capital. Is there a little bit more to go, a lot more to go?

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**Donald Guolien,  
President and Chief Executive Officer**

Well, I think we're in outstanding shape. I can't tell you, honestly, right now, how much further they go. We're doing more work and, you know, fortress is a relative word, right? You know, I don't want anybody coming to me and saying, you know, we're at fortress levels of capital now, and then the market goes down to 300 and something happens that, gee, you lied to me. We're in a very robust position right now. You know, that doesn't say that we're finished but, you know, we're in a (inaudible) position. This IT1 issue, you know, when you think about it, we raised \$3 billion of bank debt. We will within 12 months, without being required to do so, will have repaid the entire bank debt issue. That's the intended proceeds of the IT1.

The IT1 in the meantime is being held in the holding company, which gives us flexibility that, you know, that contingent capital, you know, God forbid, should, you know, markets go down or something terribly negative occur, in global capital markets so, you know, the rating agencies know that the intention of that money is to, you know, replace the remaining bank debt before its first anniversary, you know, which is a very positive thing from every prospect, but in the meantime, you know, you can think of it as contingent capital, you know, protecting against the worst contingencies.

So, you know, we've got a strong MCCR. We just did the – I mean, I can't tell you what the MCCR is after the IT1 issue but, you know, we've done that issue and, you know, you could expect that we'll continue to kick away at, time to time as we see opportunities, as we did with our preferreds, little bites here and there, to put us in a very robust position.

Again, I would be concerned if I was on your side that we're going to end up, you know, too – what's the word – (inaudible) capital down the road, except for the fact that I'm very, very confident we'll see opportunities before that for organic growth (inaudible).

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**Unidentified Male Speaker**

Don, I'm just wondering, looking back it appears that maybe (unintelligible) between the actuarial side and the market side, the assessment of which – (unintelligible) I'm just wondering, looking forward now, you've put steps in place that will kind of (inaudible) between I guess actuarial marketing and senior management (inaudible) new products and the pricing of products going forward.

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**Donald Guolien,  
President and Chief Executive Officer**

Well, I think the short answer is yes. I think the industry, you know, Warren Buffet says the five most dangerous words in the English language for business people is that all the others are doing it. We could look at some of the VA products, and I've seen this before, I mean, I'm an old man, despite my youthful appearance and vigour, you know, has anybody been around long enough in the insurance industry to remember what happened with the individual disability carriers? I mean, without naming names, but they all tried to outdo each other with own occupational coverage which said that if you're a doctor and you're a surgeon and you cut your finger, you can go teach at a university and make four or \$500,000 a year as a professor but still get paid as a dentist on an indexed basis, you know, going up with inflation, because you can't do your own occupation, because you didn't study to become a professor.

They discovered that a whole bunch of dentists had gone to San Diego because it was a nice warm place and when the military bases closed people moved away and there wasn't this built-in, you know, embedded base of customers, and fluoridation of water and so on, so a lot of dentists elected to take disability coverage after suffering some terrible indignity. I'm not knocking dentists. It was doctors, it was lawyers, it was accountants, all kind of people were, you know – professions who got this type of coverage, which was indexed, and they're still paying those claims today. You know, the name of the game for a long period of time was how much you could outdo the guy, you know, we'll ratchet the benefits up four years and we'll do it every year – we'll do it quarterly, and we'll do it, you know -- I don't know if they got into continuous compounding but it probably would have won a marketing award if I had thought of it at the time.

You know, so they kind of blew their brains out, because interest rates fell. Remember, they were discounting those liabilities at 15, 12 percent, whatever, I suppose, at the peak, right? The crazy days were in the early, mid-eighties, and they had their heads handed to them. Some of the revered names at the time, you know, sort of no longer exist. I think the VA business, people got very

aggressive with some of these features and benefits and got way out of line with – you know, capital markets view of, you know, because of the relatively thin prices or thin markets on options and so on, didn't give a fair indication of what – if you look at the capital markets of the risk, you know, it was way too high because the markets were thin. There wasn't people on the other side taking the transactions, by and large.

But it gives a useful indication. You know, again, you can make up the numbers but, you know, if the capital markets cost is two times or five times, it tells you something different. So I do think that some of the features and benefits got ahead of, you know, good risk management processes, generally speaking, and people were caught up and comforted by this notion that everybody else is doing it. But, you know, of course, that's not unique to the insurance industry, right? You know, I think a little bit of that happened with some banking institutions globally, some stock brokers firms, and you know, some of those are no longer here. You know, a lot of people got caught up in that phenomena.

I think, you know, risk management is something, a topic I'm very fond of, and I think the world is going in -- I'm going to get off my Manulife thing, risk management is -- we're going in a very bad direction these days. A lot of people are asking for compensation to be risk adjusted, you know, better risk measures and so on. You notice most of the hearkening in that area is talking about quantitative measures of risk, which all the institutions that had difficulty had all those quantitative measures of risk. What we're talking about is idiosyncratic risks, and that is not susceptible to, you know, quantitative measures. You know, when Manulife – a lot of you guys didn't pay attention to this, I don't think -- you know, there used to be a measure called a risky-asset ratio, that talked about things like mortgages and so on and, you know, our timber properties and things would have gone into that category and, you know, one of the rating agencies used this thing called risky-asset ratio. We actually pushed up our risky-asset ratio to, you know, one of the highest levels it had ever been by diversifying into a number of very intelligent investment vehicles.

The quantitative measures of risk would have told you that we were taking very large risk but what we avoided in doing that, we didn't buy, you know, the double A securitized, you know, CMBS portfolios that people were bingeing on and the sub-prime RMBS that had the high ratings that would have given an illusory notion of less risk. So, this is a soapbox of mine and, you know, I once had a guy in my office, Bev brought a person around, they were doing best-practices analysis on credit and he said, you know, you should have an indicator on your

screen that tells you what your credit – you know, still down to one number, the best banks have those things.

I said, I don't want that. He said, no, it's not that costly, we can deliver that to you, he said. If I have the conceit that a single number is going, from 6.7 to 7.1, is telling me that my credit is improving or, you know, I shouldn't deserve my job. You know, it is a much more complex game. I think all this push for, you know, obviously people are angry about what's happened, that companies took risks that they shouldn't have taken, but they did those risks with the conventional quantitative technique, you know, that supported to measure this risk and what we're essentially talking about is risk that is very difficult to quantify.

You know, I don't have an easy solution to that. It's judgment, at the end of the day. You know, asset-backed commercial paper, that was as good as cash as far as any external measure of the risk. It turned out not to be. Some institutions bought lots of it, some bought none. It wasn't the quantitative measures of risk that led them to the right conclusions on some of those things.

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#### Unidentified Male Speaker

(unintelligible) Jack (inaudible) once said there's no bad risks, only bad (inaudible). I mean, I just want to make sure that going forward pricing is going to reflect a comprehensive measure of risk that's assigned by product.

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#### Donald Guolien, President and Chief Executive Officer

Yeah, pricing will, and, you know, I think that's, throughout my comments, that I expect, you know -- I think there's very few insurance company CEOs or anybody involved on the financial side that wouldn't tell you that they expect pricing to (inaudible) in the future. But I also think that there are certain types of optionality that one should not take under any circumstance. I mean, you simply cannot manage, it leaves too much, and you know, people now have learned to look at the tail, and you know, it's not the central tendency that one needs to worry about, it's the tail.

I guess the other thing I would say is that there's probably no such thing as a risk that you won't take at a price so long as it's in a measurable quantity. You know, we don't write credit derivatives but I wouldn't embarrass to say we had a dollar of no-show exposure credit derivatives. You know, I wouldn't want it to be a big number.

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**John Reucassel, Managing Director, BMO Capital Markets**

I think we have time for one more question. Is there anyone – (inaudible) wants to take.

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**Unidentified Male Speaker**

Just going back to the value of new business, as you mentioned, it was down significantly in Q1 and you mentioned it was down much more than the level of sales, applying lower margins. Do you see that as a temporary problem? Or do you see that as a more permanent status?

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**Donald Guolien,  
President and Chief Executive Officer**

There were two large contributors to that. One was the volume of new business and the other was the new business hedging costs. But we're now hedging virtually all of our new business. The volatility -- the key inputs to hedging costs are volatility and swap curves, neither of which were very conducive to the product of the time. We took the view, I mean, you can't reprice the product, you know, on a daily basis. We take the view that the products are adequately profitable and, you know, without disclosing too much, I think you know what's happened to volatility and swap rates have both moved in a more favourable direction since that time.

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**John Reucassel,  
Managing Director, BMO Capital Markets**

With that I just want to say thank you to Manulife and to all of you that came this afternoon. There is some dessert left back there, so feel free to grab some and again, thank you. Thank you all for coming.

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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.