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EDITED TRANSCRIPT

MFC.TO - Manulife Financial Corp at Barclays Global Financial Services Conference

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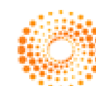

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CORPORATE PARTICIPANTS

Steve Roder *Manulife Financial Corporation - Senior EVP, CFO*

CONFERENCE CALL PARTICIPANTS

John Aiken *Barclays Capital - Analyst*

PRESENTATION

John Aiken *- Barclays Capital - Analyst*

Okay, ladies and gentlemen, we're going to get started. For those of you who don't know me, my name's John Aiken, I cover the Canadian financial services here at Barclays. Very pleased to have Steve Roder here with us, who's the Chief Financial Officer at Manulife.

Steve, first of all, thank you very much for coming; we do really appreciate it. Was wondering, to kick us off -- Manulife has actually undergone a very large amount of changes since the financial crisis. Can you give us a sense, from your standpoint, as to how the changes have done? What do you believe this has done to undermine profitability, and your (inaudible) trajectory going forward at this stage?

Steve Roder *- Manulife Financial Corporation - Senior EVP, CFO*

Yes, sure. Thanks, John; a pleasure to be here. If you compare Manulife today to where it was in 2009, it's a very different organization. And by the way, I wasn't around in 2009, so don't blame me. So back in 2008, 2009, the group was selling a lot of variable annuity business in the United States, a lot of long-term care.

And probably fair to say that Asia was not front and center of the agenda, and the global wealth and asset management business was still fairly embryonic; was probably more of, if you like, a collection of individual businesses rather than a cohesive strategy.

So today, where we are today is we still have some of the legacy that arises from the activities leading up to the financial crisis. So we do still have the legacy of a large VA book and a long-term care book. And if you like, the biggest headwind against us in terms of ROE expansion. But at the same time, we've been successful in growing our Asian business and global wealth and our asset management business.

So when I look at the group, I kind of think about it in three buckets, in a sense. The two fastest-growing that have the highest returns are the Asian business and the global wealth and asset management business.

And then, if you put everything else together in the third category, there are some good businesses in there. I mean, Manulife Bank in Canada is a good business; some of the retail businesses in Canada are good businesses. But there's also quite a lot of the past in there, if you will.

And our strategy has been to grow those fast-growing businesses that have high returns attached to them and effectually dilute down the impact of the legacy.

John Aiken *- Barclays Capital - Analyst*

Fantastic. We've seen Manulife rebuild capital levels to much higher and stronger positions, but I guess the next question becomes what is Manulife's aspirations for inorganic growth? And can we assume that most of that attention is going to be focused towards Asia?

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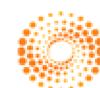

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Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes. I think if you look at what we've done over the last two or three years, we've done four notable transactions. The first was we acquired the Standard Life business in Canada. But we really did that for its retirement business.

The second was the acquisition of New York Life's 401k business in the United States. So both those deals fit in the category of wealth and asset management.

The third deal was the very significant bank assurance distribution deal we did with DBS, which is centered on Singapore but also includes Hong Kong, mainland China, and Indonesia. So that's clearly an Asia-focused deal.

And then, the fourth deal was the deal with Standard Charter Bank for distribution agreement and acquisition of their MPS business in Hong Kong. So 401k equivalent business in Hong Kong.

So that's, if you like, in the sweet spot of being Asia and wealth. So quite clearly, if we're deploying capital in an inorganic sense it's more than likely it's going to be in Asia or it's going to be in global wealth and asset management and I don't see much change to that.

Having said that, I think -- we're digesting those transactions. The Standard Charter one hasn't yet completed. We're digesting DBS and building out a whole new distribution channel there. We're still integrating Standard Life and New York Life. So I wouldn't want to put too much emphasis on the inorganic right now.

The Standard Life deal was unique. There was one sort of major piece of the jigsaw floating around in Canada that was going to free up, and did free up, and that was Standard Life.

I don't see a deal on the horizon anything like DBS -- DBS is a very substantial opportunity and there's nothing that I expect to happen of that sort in the near term. So the emphasis, for us, is making those deals work, if you like.

John Aiken - *Barclays Capital - Analyst*

So to paraphrase, we're looking at execution over the next little while more so than anything substantive?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, probably. I mean, we always have to be, I guess, somewhat opportunistic because you're never quite sure what may be available. But very big focus on making those deals work and making them properly accretive that will help our ROE.

John Aiken - *Barclays Capital - Analyst*

Good. Thanks, Steve. Before I open the questions to the floor, can we kick off for the first polling question, please? For those of you that are on the Web, what would have the greatest positive impact on Manulife's valuation multiple -- (1) a material acquisition; I guess we've kind of taken that off the plate. (2) Return of capital. (3) Divestiture. (4) Resumption of investment gains. Or (5) rising interest rates?

We have those -- quite overwhelming -- rising interest rates. Next would be return of capital. I guess, Steve, this begs the question -- Manulife has done a significant amount of de-risking, and a lot of that is [to Street] sensitivities. Can you address what rising interest rate impact would have, I guess, and the secondary/tertiary impact?

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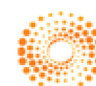

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Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, for sure. I mean, you're right. We've put in place hedging programs to massively reduce our exposure to interest rates. So in some quarters our interest rate, first-order sensitivity, rounds to zero, which is kind of amusing.

If you go back to the time of the financial crisis, it was a very, very large number as you know, John. And today we've pretty much attenuated that sensitivity.

But there are all sorts of secondary-order impacts and some of them, you can't hedge away. So in particular, the impact of interest rate on the quiet capital. If you compare where we are today with say, two years ago, I suspect we're carrying several billion dollars of additional capital, if you like, because of the increase in required capital, which is a direct impact of the continuing declines in interest rates.

And then you get secondary-order impacts to do with spreads in general, and in a higher interest-rate environment you can make on spread products, etc.

So there's no doubt that rising interest rates would, over time, benefit us despite the fact that we've hedged away the first-order impact. But it's terribly hard to quantify.

I would also think in that environment you'd expect people to be acting with more confidence, so they'd potentially be investing more in equity-based mutual funds, which have higher fees attached. As a for instance, you'd earn more on your surplus assets as you replaced fixed income assets, as they mature, with higher-yielding assets, etc.

So there's a number of second-order impacts. So yes, we're all looking forward to the day. But we've been looking forward to it for a while.

John Aiken - *Barclays Capital - Analyst*

Well, it begs the question -- are you brave enough to tell us what Manulife's [sales] call is for the Fed rate?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

No, I'm not. (Laughs) Manulife asset management's economist does have a view and you can find it on the website.

John Aiken - *Barclays Capital - Analyst*

Absolutely. At this point, are there any questions with the audience?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thanks for your time. You just talked to us about how you've taken interest rates out of the equation, and it's taken hard work to do that, I'm sure. So what are the two or three primary drivers of growth over the next three years for your business?

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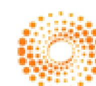

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Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Sure. If you look at where the ROE expansion will come from, it will come from the fact that the fastest-growing businesses also have the highest ROEs attached, which is a very happy scenario because it means that your strategy's pretty obvious, in a sense. And that means that we have to grow the Asian business and we have to grow the global wealth and asset management business.

Those two businesses are growing well, and they both continue to have high returns associated with them. So if we can continue to shift the mix of that business, then that will help with the ROE expansion and the earnings growth.

The second would be making the deals properly accretive. So in the case of, say, Standard Life, the Standard Life deal to a large extent, but not entirely, would be about getting cost synergies out. And as of the end of 2015, maybe we were halfway through that process, in a sense. It takes time. So that will help.

DBS will also help. We're very early days on the DBS deal; the deal kicked off in January this year. So we're still building out that channel, but we expect it to become very significant over time. It has taken us from being, frankly, nowhere in the Singapore market to market leader now, I believe, virtually overnight. And so that's reduced our reliance on Hong Kong and Japan, so that's good.

And we've got to continue to make the New York Life deal properly accretive as well. So making those deals accretive, that's the kind of second component.

The third component will be a continuation on of our efficiency program, which we started about four years ago. So about four years ago, we decided to target getting CAD400 million out of the cost space of the group, and we've succeeded in doing that.

And some of that was basic infrastructure, heavy lifting-type stuff. So more efficient use of real estate, freeing up real estate. Rationalizing the number of service providers in key areas, such as IT. Reducing the number of call centers in North America. Having more processes in our business processing center in offshore location. So a number of ways in which we've got cost out of the business.

Although having said that, we've tended to reinvest a lot of that over the last two or three years to fund things like Vitality in the United States, a lot of digital activity in all our geographies, which all takes investment dollars. So net-net, we sort of haven't sort of seen that benefit earnings. But as we go forward, I think we'll see more of that benefit earnings as well.

So I'd say, yes, (1) is making the deals accretive. (2) is growing the fastest higher-return businesses so we change the mix in our business. And (3) is continuing on the efficiencies program.

Unidentified Audience Member

Thank you.

John Aiken - *Barclays Capital - Analyst*

There's a follow-on for the efficiency effectiveness program. This was one of the key pillars to the growth outlook, but the 2016 aspirational target of CAD4 billion -- how much of the efficiency and effectiveness target is actually built into the numbers for 2016? Can we see improvements going forward in 2017 as the reinvestment opportunities begin to wane?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, some of that was built into the CAD4 billion, but what became clear as we got into the program was that we had more opportunities. And so the way these things tend to work is you tend to have to spend the dollars to get the dollars out.

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So that CAD400 million partially has been invested in some of these growth opportunities such as equipping all our agents in mainland China with iPad technology, for example. And getting that all to work so that they can process straight from the coffee bar somewhere in deepest Beijing straight into our back office. So there's expense associated with that.

But we've also been funding more projects that will produce even greater returns. The best example there would be moving from an environment where when we calculate our liabilities every quarter, there's probably over 400 actuaries involved in that process somehow or other around the world, and Excel spreadsheets galore. And a lot of manual process and data moving around and whatever.

If you move from that to putting your data in a cube in a cloud environment, you get some significant savings. But to get there, you've got to spend money. So we're two years through a four-year program to do that. So we've been funding that kind of activity as well.

So in 2016, [the tender] -- it's partly reinvested either in growth or it's invested in more projects. And I think as we go forward, we will see more come through net-net to the bottom line, as it were.

John Aiken - *Barclays Capital - Analyst*

Fantastic. Any questions?

Unidentified Audience Member

Just going back to the interest rate question -- so you strongly disagree with the consensus view of the chart there?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

No, I don't; I agree with that. This result doesn't surprise me at all because the secondary impacts are quite significant. I mean, I think it's probably fair to say we've probably got about CAD3 billion more of senior debt and sub-debt that we've had to raise to deal with the required capital as opposed to the available capital -- the required capital in our solvency account, which is purely a result of interest rates.

Well, that comes at a cost. One of the headwinds for earnings has been we're havign to service significantly more debt than we would have expected to have been at this point. Now, our leverage ratio is fine; it's sub-30; it's okay. But it still comes at a cost.

So no, I think a rising interest rate environment would be very positive for us. If nothing else, in terms of sentiment. But at back, having said that, we have hedged away the immediate first-order impact very largely. So there are all kinds of second-order impacts.

So yes -- I mean, another impact has been because of low interest rates everybody's hunting for yield, and so lots of people are looking at various forms of alternative assets. So it's dragging down yields on all asset classes. And it will come as a great relief if we can start to see that go into reverse. No, I'm absolutely with the results of this survey.

John Aiken - *Barclays Capital - Analyst*

Maybe just a quick jump to Hong Kong and get an update on your thoughts in terms of the environment for greater China insurance sales, and particularly sales in Hong Kong, which are important to a number of insurance companies out there. With the Chinese buying through Hong Kong and -- there were a few push-backs earlier in the year. Has that stabilized or is that still a source of risk?

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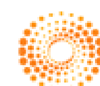

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Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, sure. So Hong Kong is a key location for us. I mean, we're a household name in Hong Kong; we've been there over 100 years. Our brand is very, very well known there. And it's a big market for us. We are big in not just insurance, but we are also the No. 2 provider in the 401k to K equivalent, the MPS space there, in terms of assets under management. And we're actually No. 1 in terms of net cash flow into the program.

So Hong Kong is very important to us; it's just -- as a generalization, it probably constitutes something in the order of 40% of our Asian core earnings every quarter, something in that ballpark. So it's a very important environment for us.

Having said that, the issue of mainland Chinese visitors into Hong Kong has got a lot of attention. When the story started to break people started to talk about their proportion of Hong Kong sales, insurance sales, that were to mainland Chinese visitors. I think some of our competitors came out with numbers such as 40%, 50%. I even saw 70% for one of our competitors. At that time, our equivalent was actually 15% -- one-five. So we were much less reliant on that market than our major competitors.

This year, what's happened is because the authorities started to tighten the regulations, mainland customers have been, I guess, trying to get ahead of whatever else may happen in terms of tightening of regulation, and so there's been a surge in demand for product from mainland Chinese visitors.

So our proportion has probably increased this year. But having said that, as a proportion of overall Asian sales, it's not really material, frankly. So it's not something we spend a lot of time worrying about.

Our approach has always been that we wouldn't want to be overly reliant on that market because the authorities do, effectually, have the ability to turn it on and off. I guess from a strategic point of view, you wouldn't want to be overly reliant on that market.

And I guess the other thing is, if you were heavily reliant on mainland Chinese visitors, maybe that would imply that your -- you may have a compliance risk around how you're achieving that or you may be, let's say, flirting with the border of what's acceptable and what isn't. So I'm happier being where we are, frankly.

John Aiken - *Barclays Capital - Analyst*

Sticking with Asia, one of the things I think most misconstrued, but Manulife's exposures in Japan. The pushback is always that Japan is effectively no growth, particularly for the insurance industry. Yet Manulife has proven that's not the case and maintains that that's not the case. What is the outlook for Japan and how can you actually grow within that region?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, okay. Japan's an interesting market. It's been a good market to us. Again, our proportion of Asian earnings attributable to Japan is somewhere in the sort of 30% to 40% range in a typical quarter.

We are, I would say, a niche player in Japan. Actually our business is in, I think, a much better shape now than it probably was five years ago. We've got a broader shelf of product there, we've got a much broader distribution. If you go back four or five years ago, we were very dependent on the corporate MGA channel -- that's the independent agency channel.

If you look at our business today, we distribute through corporate agent MGA channel. We've built out the retail MGA channel, which is typically insurance shops. We also have a significant amount of bank distribution now, which we didn't have four or five years ago.

So I think our business is a lot more robust. A lot of what we sell is basically stuff that the big Chinese -- I'm sorry, Japanese -- companies are not selling. So Japanese companies are typically not selling foreign currency-denominated products. Some of our products are quite complex so they

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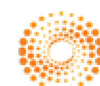

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have to be sold -- because they need to be explained and sold by sophisticated sales force. So it's not the sort of product that would appeal to a mass sales force, if you like.

And so we've been able to make acceptable returns in Japan. And it does give us -- I guess you could say it enables us to have scale in the region. Because if you run a big platform in Asia, you've got to run an Asian regional structure. You're going to have an Asian regional office, you're going to have an Asian regional chief executive, etc., etc. So you need to fix cost coverage.

So Japan's role has really been to have acceptable returns and contribute to the coverage of the fixed expense base in the region -- that's the way I put it. So it's kind of been a bit of a sort of steady performer for us. I'm not suggesting it's going to have anything like the growth that you could expect to see in mainland China or Vietnam or the Philippines or Indonesia; that's not really its role in the portfolio.

John Aiken - *Barclays Capital - Analyst*

Fantastic. Before we move to the next question, can we have the second polling question, please? What do you value most in Manulife's operations? (1) is growing wealth management business. (2) Exposure to Asia. (3) Exposure to rising interest rates. (4) Exposure to strengthening global economy. (5) North American protection business.

Exposure to Asia. So should we just sell the North American operation?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

(Laughs) Again, I'm not surprised by that. In fact, I'm very encouraged by that because I sometimes think our Asian business is undervalued by the market. And last summer, when the macro picture was China meltdown, etc., etc., it was kind of tough. Because I'm in Asia probably eight times a year and so I visit our operations, I get to touch and feel what's going on there. There was a major dis-link between what I was reading in the press about China hard landing, etc., etc., and what was actually happening on the ground in our businesses.

That's not to say that the macro commentary's wrong, it's just not what's happening in our businesses. And I think the emerging middle class story in Asia, which -- you could call it the rising tide that lifts all boats, if you like -- is such a strong phenomenon that it outweighs the short-term macro considerations.

And so at the same time as we were having all this doom and gloom about Asia and therefore -- we were part of the sort of short Asia story -- at the same time, we were experiencing 35% year-on-year increase in insurance sales in China, mainland China. Well, this doesn't sort of stack up.

And as of Q2 this year, Asia not only is a third of our earnings, but it's something in the order of 70% of our insurance sales. And the new business value associated with those sales is even higher, which means that the margins that you get in Asia are higher than in North America.

John Aiken - *Barclays Capital - Analyst*

I know that one of the projects that you championed coming on as CFO was disclosure of the embedded value and value of new business, particularly in the region. Can you let us know what type of traction that has gained with your shareholder base?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, it's interesting, actually. I think for the very first time on the quarterly earnings call, John, that you take part in, we've actually had questions about embedded value and new business value.

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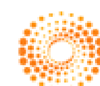

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John Aiken - *Barclays Capital - Analyst*

Full disclosure -- that wasn't my question.

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

That wasn't your question, but it actually has started to happen. We've actually had Asian-based analysts join the call, which is something that never, never happened before. And I've had some analysts who are not believers in embedded value, new business value particularly, they still think the actuaries -- we just make it all up.

I'm not an actuary, by the way, but there's a view that the actuaries just make it all up and it's just all completely unreliable. And I don't have that view. There's an independent review of all this stuff by an independent firm of actuaries. We're pretty good at what we disclose, so if people don't like our assumptions, they can make whatever adjustments they want.

And so I do think it's a really interesting data point, the new-business value-generation. And yes, people have started to talk about it a little bit more. And even the nonbelievers are starting to say, well, even if I don't believe it, I'd better work out what the people who do believe it think; otherwise I might miss the boat here.

And what we have seen is -- we have seen an expansion of our shareholder register, particularly in Europe, actually. Particularly in Europe, and somewhat in Asia. And basically it's people who get the Asian story. They've probably been invested in AIA or Pru-PLC, frankly, and so they're kind of familiar with the stories through that.

And then, they see our growth where we are outpacing our competitors in terms of the percentage growth rate in new business value and top-line premium.

So there's no doubt we've got some momentum into our Asian operations over the last three or four years. A lot of change there, frankly; a lot of new management.

And I think the DBS deal was very important because it signified to the market that we're a serious player. And it's also made it easier to attract and retain great talent because people kind of get the view that something's going on at Manulife that's good and so there's a whole different, I'd say, attitude and optimism and dynamism in our Asian business that probably wasn't there five years ago.

John Aiken - *Barclays Capital - Analyst*

Well, I think a follow-on to that is that Manulife earlier in the year actually had a financing debt issuance in the region. Was that a one-off? Or is that something that you might contemplate going forward?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Sure. I mean, the background to that was I kind of had one of these ah-hah moments, I think. It was in the bath or the shower or whatever; I don't know. But suddenly kind of realized that the binding constraint on us was no longer our leverage ratio which, when I joined the Company four years ago, the binding constraint in a way was the leverage ratio -- it was, like, 34%. And the leverage ratio was on its way down to 25%.

It became clear that the binding constraint wasn't the leverage ratio, it was actually the capacity of the Canadian market to absorb our paper and also the paper of some of our competitors. And so we started, in mid-2015, doing all the homework to allow us to do a debt issue somewhere else. And we did our homework on the US, but we also started doing our homework on some of the Asian markets.

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And so, at the beginning of 2016, we came back to the US with a debt issue -- I think it was the first one we'd done for five or six years. And that was very, very well received and the pricing was favorable and it actually helped bring our Canadian spreads in, so that was great.

And then, the thinking behind Asia was that -- we'd actually talked to DBS about the possibility of doing a deal in Singapore. As part of our overall relationship we talk about various things, not just the bank assurance distribution agreement. And we had a view that if, if you like, the incremental pricing was sufficiently low that you would justify in terms of the halo effect you'd get in terms of PR, etc.

And so we were able to get that deal done, and I think it really helped in terms of our brand image, particularly in Singapore and somewhat in the region as a whole. And it helped with the DBS deal, getting the volumes through there.

It also helped when it came to the Manulife REIT that we IPO'd in Singapore, I think it was in June this year. So that really worked very well.

And then we thought, well, okay, that was a relatively modest deal. But we were also aware of the Formosa bond market in Taiwan. And having done a US deal, that then enables you to do a Taiwanese deal because the Taiwanese market will essentially price off the US. And we got a deal done on what I regarded as very, very attractive terms. So we took it while it was there to do back in the summer, and basically pre-financed some calls that we have to make later in the year.

I mean, I would emphasize the headline MCCSR ratio at the end of Q2, which was 236%, is a little overstated in the sense that it has pre-financing in there. So I regard the pro forma rate as sort of mid-high 220%s.

John Aiken - *Barclays Capital - Analyst*

Any questions from the audience before I move to our last polling question? Because you did a perfect segue into that. Can we have the third question up, please? How would you like to see Manulife deploy its excess capital, if the argument is that high (multiple speakers) excess --

Implement a share buyback. Increase the payout ratio or dividends. Reinvest organically. Or make acquisitions.

Reinvest organically, and then implement a share buyback. I guess we'll send this one to the Board. I guess we've talked about the organic/inorganic growth. I think the share buyback is interesting because the argument can be made that Manulife's valuation is undervalued; this might be an opportune time for a buyback. What's your, or Manulife's, philosophy on that?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Sure. So if you go back a couple of years ago, at that time we made it fairly clear that we preferred sustainable dividend increases to share buybacks, and I think the research that we've done suggests that they are actually higher valued than a one-off buyback. So we implemented a progressive dividend policy, basically, and we've had a series of dividend increases, so that's good.

And our payout ratio is close to 40%; that's higher than it was historically, I think, when I came to the Company. I actually had to look very, very hard to find out what our stated payout ratio was because we hadn't talked about it since 2007. So we had to do a bit of digging around, but it was 25% to 35%. So I increased that, with the agreement of the Board, to 30% to 40%, and we've been paying out close to 40%.

And we've also had a big focus on making sure that we can translate a good proportion of our earnings into cash. So put in place, I would say, a lot more discipline around remittance targets and embedded those remittance targets into people's scorecards.

So today, I have an overall target that I can turn 65% of a typical year's earnings, core earnings, into cash, if you like. And so -- and that's based on a view that 70%'s a pretty good number for North America and 50%'s probably a good number for Asia. Not a lot of science in there but it's not too far adrift from reality.

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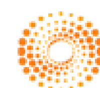

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In terms of the buyback, therefore, we've never said no; there has been a preference for organic reinvestment, that's for sure. There's been a preference for increasing the regular dividend, that's for sure. Having said that, given where our stock price is trading, it's certainly on the table as an agenda discussion; our chief executive talked about it last week at another conference.

I think in the context of what we refer to as a balance sheet optimization transaction, if we were able to agree, a transaction to free up capital from some of our in-force, which is easier talked about than actually done, but maybe we can get something done there. Then I think that would actually alter that buyback discussion.

But I would go back to pointing out that I don't think we've got as much excess capital as people might think when they see that 236% number. By the time you've bought back -- you've redeemed two issues in the latter part of this year, paid for Standard Charter Bank deal, etc., it's not as high as that.

And then, we have had the uncertainties associated with [LICAT] to think about.

And we do have some volatility in our income statement, and we want to be able to stay above 200. So I'm not sure how much excess capital there is, but certainly the buyback is not something we've ever said no to, and it is a matter of some debate.

John Aiken - *Barclays Capital - Analyst*

I think we have time for one more question out of the audience before we break for lunch. In the back.

Unidentified Audience Member

Could you elaborate on how you're marketing your business to Asia versus AIA, other competition?

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Yes, sure.

John Aiken - *Barclays Capital - Analyst*

Other than it's better.

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

(Laughs) Yes. If you go back say 10 years ago, at that time I would say we and AIA were quite similar, actually. I'm not sure if you're aware, I was previously the CFO of AIA, so I know one or two things about this. But the biggest difference between the two companies was that AIA was red and we were green, but very, very dependent on tied agency 10 years ago.

So 10 years ago, something like 90% of our distribution would have been through tied agency. Today it's less than half. And what you've seen is the expansion of the independent agent channel in Japan, but more importantly you've seen a massive expansion for us in bank assurance distribution in the region.

We've got something like -- I think it's six exclusive deals -- we've got the DBS deal but we also have other exclusive deals in Philippines, Indonesia, Vietnam, Malaysia. So we've got a much more diversified footprint now than we had before.

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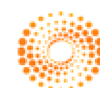

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So today, I'd say we've probably got a broad -- I think I'm safe in saying we've got a broader distribution channel footprint than AIA; I think AIA is still more biased towards tied agency, although they have their flagship bank assurance transaction that they did coming up to two years ago.

Prudential were probably one of the first to really exploit the bank assurance channel because they did their deal with Standard Charter Bank a long time ago now. And so they probably took a more prominent position in the bank assurance channel earlier. So I'd say today we're probably somewhere between the two in terms of our mix.

Our footprints are slightly different. We've all got our strengths and weaknesses. AIA and Prudential are not in Japan; we are. They will tell everyone what a terrible place it is and then you've heard my description -- for us, it's been a very solid and acceptable return performer and it continues to be that way, so that's good.

I think our China business is a very nice business and we think we have the most profitable of the foreign joint ventures. AIA has this legacy position which is wholly owned but is not through a national license so they're sort of more constrained on how they grow their footprint in China so that's a bit different.

AIA is very long Thailand with a massive tied agency force. We've got -- we're very, very small in Thailand. Prudential is very big in Indonesia -- way bigger than us or AIA.

So we've all got our kind of strengths and weaknesses. I think -- I would say we like to think that we have the highest quality tied agency and we have a focus on financial planning, if you like. So to the extent that our agents are not financial planners, we want them to be financial planners. So we'd rather have 10,000 highly productive agents who are akin to financial planners than 200,000 agents who are pushing a product. There's a slight philosophical difference there.

And so we tend to terminate agents who are not productive because we see them as a compliance risk, so there's a difference there.

Those would be the differences. I mean, they're both great competitors and I regard them as our main competitors in the region. And from a capital markets perspective, I regard Prudential PLC as probably the closest thing to us.

John Aiken - *Barclays Capital - Analyst*

Well Steve, thank you very much. We have to call it there but I do really appreciate your time and your answers. (Conference Instructions)

Steve Roder - *Manulife Financial Corporation - Senior EVP, CFO*

Okay, thank you; thank you very much.

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