

FEDERAL RESERVE SYSTEM

Manulife Financial Corporation
Toronto, Canada

John Hancock Financial Services, Inc.
Boston, Massachusetts

Order Approving Formation of Bank Holding Companies
and Elections of Financial Holding Company Status

Manulife Financial Corporation (“Manulife”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)¹ to become a bank holding company and acquire all the voting shares of John Hancock Financial Services, Inc. (“John Hancock”) (together, “Applicants”), and thereby indirectly acquire First Signature Bank and Trust Company, Portsmouth, New Hampshire (“First Signature”), a wholly owned direct subsidiary of John Hancock.² John Hancock has also requested the Board’s approval to become a bank holding company and retain control of First Signature.³ As part of the proposal, Manulife and John Hancock have

¹ 12 U.S.C. § 1842.

² Manulife proposes to acquire John Hancock through a merger with a newly formed direct subsidiary of Manulife. After the merger, John Hancock would be a wholly owned direct subsidiary of Manulife.

³ John Hancock holds First Signature in accordance with grandfather rights under section 4(f) of the BHC Act (12 U.S.C. § 1843(f)), which exempts from treatment as a bank holding company a company that has continually owned an institution that became a bank as a result of the enactment of the Competitive Equality Banking Act of 1987 (Pub. L. No. 100-86 (1987)). First Signature is an insured bank that currently accepts demand deposits but does not make commercial loans. On consummation of this proposal, neither

filed with the Board elections to become financial holding companies pursuant to sections 4(k) and (l) of the BHC Act and section 225.82 of the Board's Regulation Y.⁴

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 70,506 (2003)). The time for filing comments has expired, and the Board has considered the proposal in light of the factors set forth in section 3 of the BHC Act.

Manulife, with total assets of \$115.3 billion, is a Canadian insurance and financial services firm engaged principally in the business of underwriting life and health insurance and in reinsurance activities.⁵ Manulife also engages in a variety of other financial activities in Canada, the United States, and other countries, including investment advisory and management services and securities brokerage activities. Manulife principally operates in the United States through subsidiaries that include two insurance companies, a registered investment advisor, and a registered open-end investment management company. Through these subsidiaries, Manulife offers individual life insurance, group pension, and annuity products and distributes educational savings plans and managed account products in every

John Hancock nor Manulife would be entitled to the exemption under section 4(f) of the BHC Act.

⁴ 12 U.S.C. §§ 1843(k) & (l); 12 C.F.R. 225.82.

⁵ Asset data are as of December 31, 2003. Manulife was incorporated under Canada's Insurance Companies Act in 1999 to become the holding company for The Manufacturers Life Insurance Company ("Manufacturers Life"), which converted from mutual to stock organization in September 1999. Manufacturers Life is now a life insurance company with common shares and a wholly owned direct subsidiary of Manulife.

state in the United States. Manulife's only subsidiary bank, Manulife Bank of Canada, Waterloo, Ontario ("Manulife Bank"), has no banking operations in the United States.⁶

John Hancock, with total assets of \$111.3 billion, is an insurance and financial services company engaged principally in underwriting life and long-term care insurance.⁷ John Hancock also provides annuities, mutual funds, and other investment products, as well as investment advisory and management services, to retail and institutional customers in the United States and internationally. First Signature is a New Hampshire state chartered bank and John Hancock's only subsidiary depository institution. First Signature, the 8th largest depository institution in New Hampshire, controls assets of \$355 million, which represents less than 2 percent of assets held by banks in the state.⁸

The combined organization would be the second largest life insurer in North America by market capitalization.

Factors Under the Bank Holding Company Act

The BHC Act sets forth the factors the Board must consider when reviewing the formation of a bank holding company or the acquisition

⁶ Manulife Bank, a wholly owned subsidiary of Manufacturers Life, was established in 1993 as the first federally regulated bank in Canada owned by an insurance company.

⁷ Asset data are as of December 31, 2003. John Hancock was incorporated in 1999 to become the holding company for John Hancock Mutual Life Insurance Company ("John Hancock Life"), which converted from mutual to stock organization on February 1, 2000. John Hancock Life is now a life insurance company with common shares and a wholly owned direct subsidiary of John Hancock.

⁸ Asset and ranking data are as of December 31, 2003.

of a bank. These factors are the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the proposal; the convenience and needs of the communities to be served, including the records of performance of the insured depository institutions involved in the transaction under the Community Reinvestment Act (“CRA”);⁹ and the availability of information to determine and enforce compliance with the BHC Act and other applicable federal laws.¹⁰

The Board has considered these factors in light of a record that includes information provided by Applicants, confidential supervisory and examination information, and publicly reported financial and other information. The Board also has contacted and considered information provided by Canada’s Office of the Superintendent of Financial Institutions (“OSFI”), the primary home country supervisor of Manulife and Manulife Bank, and the appropriate federal and state agencies, including the relevant state insurance commissioners, the Federal Deposit Insurance Corporation (“FDIC”), and the Securities and Exchange Commission (“SEC”).¹¹

Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a

⁹ 12 U.S.C. § 2901 et seq.

¹⁰ 12 U.S.C. § 1842(c). In cases involving interstate bank acquisitions by bank holding companies, the Board also must consider the concentration of deposits nationwide and in certain individual states, as well as compliance with the other provisions of section 3(d) of the BHC Act (12 U.S.C. § 1842(d)).

¹¹ The proposal is also subject to approval by the insurance commissioners of Massachusetts, Delaware, and Vermont, the states in which John Hancock’s U.S. insurance company subsidiaries are domiciled, and by OSFI.

proposal that would result in a monopoly or be in furtherance of any combination to monopolize or attempt to monopolize the business of banking in any part of the United States. The BHC Act also prohibits the Board from approving a proposed bank acquisition that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal in that banking market are clearly outweighed in the public interest by the probable effects of the proposal in meeting the convenience and needs of the community to be served.¹²

The proposal involves the acquisition of a bank by Manulife, which does not have any banking operations in any banking market in the United States. Based on all the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of banking resources in any relevant banking market, and that competitive considerations are consistent with approval.¹³

Financial and Managerial Factors

As previously noted, the BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in an acquisition.¹⁴ The Board has reviewed

¹² 12 U.S.C. § 1842(c)(1).

¹³ The combination of the nonbanking businesses of Manulife and John Hancock is subject to review for its potential effect on competition by several federal, state, and foreign regulators. The Applicants filed a pre-merger notification with the Federal Trade Commission and the Antitrust Division of the Department of Justice (“DOJ”) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (15 U.S.C. § 18a), and the DOJ granted early termination of the statutory waiting period on November 13, 2003.

¹⁴ 12 U.S.C. § 1842(c)(2).

information provided by Manulife and John Hancock, publicly reported and other financial information, and confidential examination and other supervisory information evaluating the financial and managerial strength of Manulife, John Hancock, and First Signature. In addition, the Board has consulted relevant supervisory authorities in the United States and Canada.

The Board has consistently considered capital adequacy to be an especially important aspect of the analysis of financial factors.¹⁵ Manulife's capital levels are considered equivalent to those that would be required of a U.S. banking organization under similar circumstances. All the subsidiaries of Manulife and John Hancock that are subject to regulatory capital requirements currently exceed those minimum regulatory capital requirements. In addition, First Signature is well capitalized under relevant federal guidelines, and would remain so on consummation. Other financial factors are also consistent with approval.¹⁶

The Board has carefully considered the managerial resources of Manulife, John Hancock, and First Signature in light of all the facts of record, including a public comment on the proposal.¹⁷ The Board notes that First

¹⁵ See Chemical Banking Corporation, 82 Federal Reserve Bulletin 230 (1996).

¹⁶ A commenter expressed concern about press reports discussing a potential financial exposure of Manulife and John Hancock through John Hancock's holding of \$152 million in public and private bonds issued by Parmalat Finanzaria SpA, an unaffiliated foreign company. The Board notes that the investment represented 0.1 percent of John Hancock's total assets and that John Hancock charged off most of that investment in 2003.

¹⁷ Citing various press reports, a commenter asserted that the activities of Manulife and John Hancock overseas have caused financial harm to individuals, damaged the environment, or caused other societal harm. The commenter also voiced concern about requests for information issued to

Signature is considered well managed, and is expected to remain so after consummation. Based on all the facts of record, the Board has concluded that the financial and managerial resources and future prospects of Applicants and First Signature are consistent with approval under section 3 of the BHC Act.

Convenience and Needs Considerations

In acting on the proposal, the Board must consider the effects of the proposal on the convenience and needs of the communities to be served and take into account the records of the relevant insured depository institutions under the CRA. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹⁸

The Board has carefully considered the effects of the proposal on the convenience and needs of the communities to be served in light of all the facts of record, including the CRA performance record of First Signature, information provided by Applicants, and a public comment received on the

Manulife by U.S. and Canadian regulators seeking information related to mutual fund activities. The commenter suggested that these issues reflect negatively on the managerial resources of Applicants. The Board notes that these contentions contain no evidence of illegality on the part of Manulife, nor do the press accounts indicate regulatory actions that would affect adversely the safety and soundness of the institutions involved in the proposal. The Board has consulted with and considered information received from the relevant supervisors and notes that, if any illegal activity is found, these agencies have ample authority to address such matters.

¹⁸ Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

proposal. Manulife currently does not control an institution subject to evaluation under the CRA. First Signature, the insured bank owned by John Hancock, received an overall rating of “satisfactory” at its most recent CRA performance examination by its primary federal supervisor, the FDIC, as of December 1, 1999. First Signature does not make commercial loans and has been designated as a wholesale institution for purposes of evaluation under the CRA.¹⁹

At the most recent examination, examiners characterized First Signature’s loan products that target low- and moderate-income individuals as “flexible and innovative.” In considering First Signature’s community development outreach, examiners reported that First Signature actively pursued opportunities to offer its specialized community development loan products, and that the Bank played a leadership role in many community development activities and organizations, including two affordable housing loan consortiums in New Hampshire.

Based on these and all the facts of record, the Board has

¹⁹ See 12 C.F.R. 345.25(a). A commenter objecting to the proposal expressed concern that John Hancock planned to expand the activities of First Signature to those of a full-service bank without submitting a CRA plan as part of its application. Although on consummation of this proposal John Hancock could expand the scope of First Signature’s activities, Applicants have stated that there are no current plans to do so. Moreover, the CRA requires that, in considering an acquisition proposal, the Board carefully review the existing CRA performance records of the relevant depository institutions. First Signature’s future activities, performance under the CRA, and continued qualification as a wholesale institution will be reviewed by the FDIC in connection with future CRA evaluations of First Signature, and the Board will consider the actual CRA performance record in any subsequent application by Applicants to acquire a depository institution.

concluded that considerations relating to the convenience and needs of the communities to be served, including the CRA performance records of the institutions involved, are consistent with approval.

Other Supervisory Considerations

The Board notes that a substantial portion of the U.S. activities of Manulife and John Hancock are subject to functional regulation by state insurance commissioners or the SEC. The Board will, consistent with the provisions of section 5 of the BHC Act as amended by the Gramm-Leach-Bliley Act, rely on the appropriate state insurance regulators and the SEC for examination and other supervisory information in fulfilling the Board's responsibilities as a holding company supervisor.

The Board also has considered the supervision of Manulife as a diversified financial services company organized in Canada. OSFI is the consolidated supervisor for Manulife and Manulife Bank and has legislative authority to supervise and set capital requirements for diversified financial services companies in Canada, including insurance holding companies. OSFI conducts inspections of Manulife and its subsidiaries, including Manulife Bank, and requires Manulife to submit reports about its operations on a consolidated basis. OSFI has stated that it supervises Manulife Bank in the same manner that it supervises other Canadian banks that the Board has previously determined to be subject to comprehensive consolidated supervision.²⁰ OSFI also may review material dealings between Manulife and its subsidiaries and has authority to require Manulife to take measures

²⁰ See Canadian Imperial Bank of Commerce, 85 Federal Reserve Bulletin 733 (1999); Royal Bank of Canada, 83 Federal Reserve Bulletin 442 (1997); National Bank of Canada, 82 Federal Reserve Bulletin 769 (1996); Bank of Montreal, 80 Federal Reserve Bulletin 925 (1994).

necessary to ensure the safety and soundness of the Manulife organization.

In accordance with section 3 of the BHC Act, Manulife has provided adequate assurances that it will make available to the Board information on its operations and activities and those of its affiliates that the Board deems appropriate to determine and enforce compliance with the BHC Act.²¹ The Board has reviewed the restrictions on disclosure in jurisdictions where Manulife would have material operations and has communicated with relevant government authorities concerning access to information. Manulife has committed that, to the extent not prohibited by applicable law, it will make available to the Board such information on the operations of its affiliates that the Board deems necessary to determine and enforce compliance with the BHC Act and other applicable federal law. Manulife also has committed to cooperate with the Board to obtain any waivers or exemptions that may be necessary to enable its affiliates to make any such information available to the Board. In light of these commitments, the Board has concluded that Manulife has provided adequate assurances of access to any appropriate information the Board may request.

For these reasons, and based on all the facts of record, the Board has concluded that the supervisory factors it is required to consider under section 3(c)(3) of the BHC Act are consistent with approval.

Foreign Activities

Manulife Bank does not have operations in the United States. Accordingly, Manulife is not eligible under section 211.23(c) of Regulation K for the exemptions available to a qualifying foreign banking

²¹ See 12 U.S.C. § 1842(c)(3)(A).

organization (“QFBO”).²² Manulife has, therefore, requested that the Board make a specific determination of eligibility pursuant to section 211.23(e).²³ Based on all the facts of record, the Board has determined pursuant to section 211.23(e) that on consummation Manulife would be eligible for the exemptions available to a QFBO under section 211.23(c) of Regulation K and would not be eligible for the limited commercial and industrial activities exemption under section 211.23(f)(5)(iii).²⁴

Other Issues

As noted above, Manulife and John Hancock engage primarily in a variety of insurance underwriting and sales activities, including underwriting life, health, and long-term care insurance, as well as reinsurance activities. Both companies also provide investment advisory and management services. These activities are permissible under the BHC

²² 12 C.F.R. 211.23(c).

²³ 12 C.F.R. 211.23(e).

²⁴ 12 C.F.R. 211.23(f)(5)(iii). The Board has considered the factors specified in section 211.23(e) as they relate to Manulife’s operations and has determined that these factors are consistent with approval.

A commenter opposing Manulife’s request for eligibility for the QFBO exemptions asserted that Manulife does not meet the definition of a foreign banking organization on technical grounds. The commenter also asserted that John Hancock would inappropriately benefit from a determination that Manulife is entitled to the QFBO exemptions. As noted above, however, the Board, after consideration of the required factors, has made a specific determination of eligibility pursuant to section 211.23(e). This QFBO determination does not apply to the non-U.S. operations of a domestic organization such as John Hancock.

Act for financial holding companies and, as described below, Manulife and John Hancock have elected to be financial holding companies for purposes of the BHC Act.

Manulife and John Hancock also engage in a limited number of activities that have not been approved under the BHC Act, including certain real estate investment, development, and management activities.

Section 4(a)(2) of the BHC Act requires each company that becomes a bank holding company to conform its nonbanking activities and investments to the requirements of the BHC Act within two years from the date it becomes a bank holding company. The Board may extend this period for up to three years.²⁵ The Board's action on the proposal is subject to the condition that Applicants take all actions necessary to conform their activities and investments to the requirements of the BHC Act and the Board's regulations thereunder in a manner acceptable to the Board, including by divestiture if necessary, within two years of the date of consummation of the proposal or such extended time period that the Board, in its discretion, may grant.

Approval of Bank Holding Company Formations

Based on the foregoing, and in light of all the facts of record, the Board has determined that the applications to form bank holding companies should be, and hereby are, approved.²⁶ In reaching its conclusion, the Board

²⁵ Section 4(a)(2) authorizes the Board, on request, to grant up to three one-year extensions of this conformance period, if the Board finds that the extensions "would not be detrimental to the public interest." 12 U.S.C. § 1843(a)(2).

²⁶ A commenter requested that the Board extend the comment period on this proposal. The Board has accumulated a significant record in this case, including reports of examination, supervisory information, public reports and information, and public comment. In the Board's view, interested persons

has considered all the facts of record in light of the factors it is required to consider under the BHC Act and other applicable statutes.²⁷

Financial Holding Company Determination

have had ample opportunity to submit views on the proposal and, in fact, the commenter has provided written submissions that the Board has considered carefully in acting on the proposal. The commenter's request for additional time to comment does not identify extraordinary circumstances that would justify an extension of the public comment period for this case. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. 12 U.S.C. § 1842(b); 12 C.F.R. 225.15(d). Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant Board action at this time and that an extension of the comment period is not warranted. Accordingly, the request for an extension of the comment period is denied.

²⁷ The commenter also requested that the Board hold a public hearing on the proposal. Section 3(b) of the BHC Act does not require the Board to hold a public hearing on an application unless the appropriate supervisory authority for any of the banks to be acquired makes a timely recommendation of denial of the application. The Board has not received such a recommendation. Under its regulations, the Board also may, in its discretion, hold a public meeting or hearing on an application to acquire a bank if a meeting or hearing is necessary or appropriate to clarify factual issues related to the application and to provide an opportunity for testimony. 12 C.F.R. 225.16(e). The Board has considered carefully commenter's request in light of all the facts of record. As noted above, interested persons, including the commenter, have had ample opportunity to submit comments on the proposal, and the commenter has submitted written comments that the Board has considered carefully in acting on the proposal. The commenter's request fails to demonstrate why its written comments do not present its views adequately or why a meeting or hearing otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or meeting is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

Manulife and John Hancock have filed with the Board elections to become financial holding companies pursuant to sections 4(k) and (l) of the BHC Act and section 225.82 of Regulation Y. Manulife and John Hancock have certified that First Signature is well capitalized and well managed and would continue to be so on consummation, and they have provided all the information required by Regulation Y.

As discussed above, the Board has reviewed the examination ratings received by First Signature under the CRA and other relevant examinations and information.²⁸ Based on all the facts of record, the Board has determined that these elections to become financial holding companies will become effective on consummation of the proposal,²⁹ as long as First Signature continues to be well capitalized and well managed and has at least a “satisfactory” CRA rating on that date.

Conclusion

The Board’s actions on this proposal are conditioned on compliance by Manulife and John Hancock with all the commitments made to the Board in connection with the proposal and with the conditions stated or referred to in this order, and receipt of all necessary regulatory approvals. For the purpose of these actions, these commitments and conditions are

²⁸ See 12 U.S.C. § 2903(c).

²⁹ Manulife intends to acquire John Hancock’s direct and indirect nonbanking subsidiaries pursuant to section 4(k) of the BHC Act (12 U.S.C. § 1843(k)) and the post-transaction notice procedures of section 225.87 of Regulation Y (12 C.F.R. 225.87).

deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

The acquisition of First Signature shall not be consummated before the fifteenth calendar day after the effective date of this order, or later than three months after the effective date of this order, unless such periods are extended for good cause by the Board or the Federal Reserve Bank of Boston, acting pursuant to delegated authority.

By order of the Board of Governors,³⁰ effective April 5, 2004.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

³⁰ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.