FINAL TRANSCRIPT

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PRESENTATION

Operator

Please stand by; your meeting is ready to begin. Please be advised this conference is being recorded. Good afternoon, and welcome to the Manulife Financial Q2 2008 financial results conference call for August 7, 2008. Your host for today will be Amir Gorgi. Mr. Gorgi, please go ahead.

Amir Gorgi - *Manulife Financial Corporation - Assistant Vice President, IR*

Thank you, and good afternoon. I would like to welcome everyone to Manulife Financial's earnings conference call to discuss our second-quarter 2008 financial and operating results.

If anyone has not yet received our earnings announcement, statistical package and slides for this conference call and webcast, these are available in the Investor Relations section of our website at www.Manulife.com.

As in prior quarters, our executives will be making some introductory comments. We will then follow with a question and answer session.

On behalf of the speakers that follow, I wish to caution investors that the presentations and responses to questions may contain forward-looking statements within the meaning of the Safe Harbour provisions of applicable Canadian and U.S. securities laws. Forward-looking statements involve risk and uncertainties and undue reliance should not be placed on them. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in these statements. For additional information about the material factors or assumptions applied in making these statements and about the material factors that may cause actual results to differ materially from expectations, please consult the PowerPoint presentation for this conference call, as well as the "Management's Discussion and Analysis" section in our most recent Annual Report under the headings "Risk Management" and "Critical Accounting and Actuarial Policies".

When we reach the question and answer portion of our conference call, we would ask each participant to adhere to a limit of one or two questions. If you have additional questions, please re-queue as we will do our best to respond to all questions.

With that, I'd like to turn the call over to Dominic D'Alessandro, our President and Chief Executive Officer.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you, Amir, and good afternoon, ladies and gentlemen. Thank you for joining us on this call.

This morning, we reported second quarter shareholders' earnings of CAD1.008 billion, down from the CAD1.102 billion reported in the second quarter of last year. This resulted in fully diluted earnings per share of CAD0.66 cents and a return on equity of 17%.

The decrease in earnings is largely attributable to weaker U.S. and Hong Kong equity markets, higher strain on increased sales, the strengthening Canadian dollar and tax related provisions, which in the aggregate reduced earnings by approximately CAD250 million this quarter.

We are pleased with our performance, particularly given the very volatile and unsettled markets that prevail. We again experienced excellent sales results in almost every one of our businesses, contributing to robust growth in new business embedded value.

Total insurance sales rose 18% over the first quarter of last year on a constant currency basis, while wealth sales grew by 14%. These strong sales levels contributed to very good growth in new business embedded value, which was up 15% from a year ago. I am very pleased with both our sales and new business embedded value creation.

Before Peter begins his review of our financial results, I would like to comment on some of the operational highlights from the quarter. All of our businesses remained focused on execution and on delivering solid organic growth. The pace of new product introductions remained strong. And, together with our broadening and deepening distribution capabilities, we continued to enjoy strong sales across our Company.

In the United States, we continued to achieve market leading positions in our chosen product segments, including life and long-term care insurance. Our variable annuity sales were also strong, despite turbulent market conditions. And our mutual fund business enjoyed a near-record level of sales of open-end funds. We also continued to innovate on the product front, where our group pensions business just launched a new optional rider, called Guaranteed Income for Life, which was designed exclusively for the 401(k) market and is receiving favorable market response to date.

In Canada, recently released independent market surveys confirmed that we secured the #1 sales ranking in Individual Life and Segregated Fund sales in the first quarter of this year. We continued to post robust sales in our innovative wealth product offerings including IncomePlus and ManulifeOne. IncomePlus deposits have now exceeded CAD5 billion in less than 20 months since the product was launched, while ManulifeOne set a new sales record with loan volumes exceeding CAD1 billion in the second quarter. Leveraging our successes, we also launched a group version of IncomePlus in the quarter -- another first in the Canadian marketplace.

In Asia and Japan, all of our businesses continued to generate good sales growth, as they too expanded their product offerings and broadened their distribution. Japan reported a very strong sales growth in both variable annuities and insurance products, while Hong Kong continued to post strong sales in the quarter. Japan introduced a new cancer product and Hong Kong launched several new funds in the quarter, each providing a wider selection of choices that cater to different needs and objectives. Other Asia territories also posted strong insurance sales, primarily in Singapore and in China. We continued to expand our footprint in China receiving an additional license this quarter, bringing our total up to 31, the most of any foreign life insurance company operating in that country.

With that, I'd like to ask Peter Rubenovitch to take us through the numbers in more detail, and that will be followed with the usual question and answer session. Peter?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Thank you, Dominic. As just indicated, our shareholders' earnings of CAD1.008 billion were reduced by approximately CAD250 million when compared to the same quarter of last year, due to a series of items. Equity markets in the US and Hong Kong were each down 3% in the quarter, compared to increases of 6% and 10% a year ago. These year over year differences resulted in business unit earnings being approximately CAD85 million lower on a comparative basis. In addition, in our Corporate accounts, we reported CAD45 million less of equity gains compared to the prior year.

Although the growth of insurance sales contributes positively to future in-force earnings, we incur upfront charges on our new sales. The strain increased this quarter by approximately CAD45 million in the quarter, due primarily to strong growth in insurance sales and changes in business mix.

Finally, the strengthened Canadian dollar reduced the current quarter's earnings by CAD41 million compared to last year, and tax-related provisions of CAD33 million were also booked in the current quarter. In total, shareholders' earnings were down CAD94 million when compared to a year ago, as good operating results partially offset these items.

On slide 8, you can see the year over year progression of shareholders' earnings and the split between Insurance, Wealth and Other segments. The Other segment reported a loss of CAD57 million versus earnings of CAD62 million in the prior year, primarily due to lower realized gains on surplus funds and tax-related charges on leveraged lease investments. Insurance segment earnings were marginally lower, as favorable claims experience was offset by higher new business strain on rising sales. Wealth segment earnings were up 8% over the second quarter of 2007, driven by strong sales and investment-related gains despite the weak public equity markets.

On slide 9, turning to our Source of Earnings disclosure, expected profit on in-force business was CAD805 million in the second quarter, down 2% from last year, but up 13% had exchange rates remained constant and equity markets performed at long-term levels, reflecting good organic growth in our in-force business. The impact of new business was an origination loss of CAD129 million, reflecting continued strong insurance and wealth sales. Experience gains were very strong at CAD480 million, largely due to investment-related gains on fixed-income investments and also due to gains on private equity investments. As credit spreads widened, we took the opportunity to add attractively priced risks to our portfolio, moving closer to our targeted credit quality profile. This quarter's strong result also reflects overall favorable claims experience.

Earnings on Surplus Funds were down from prior quarter levels due to lower realized gains on available-for-sale assets in light of weak equity markets. The Other line item primarily reflects tax-related charges on leveraged leases.

Turning to slide 10, premiums and deposits amounted to CAD17.3 billion in the second quarter of 2008. On a constant currency basis, premiums and deposits grew by 11% over the second quarter of 2007, driven by robust wealth sales and growth in recurring insurance premiums and group pension deposits. The rise in premiums also reflects the increased use of dollar cost averaging programs by our U.S. Variable Annuity clients. Monies received in this program are invested initially as general funds and then moved to separate accounts on a scheduled basis.

Turning now to slide 11, during the second quarter, new business embedded value totaled CAD562 million, an increase of 15% over the second quarter of last year on an equivalent basis. Strong levels of new business embedded value were generated by our wealth management businesses, particularly our variable annuity franchise in Canada and Japan. Total wealth sales were CAD10.9 billion, up 14% over the prior year on a constant currency basis, producing new business embedded value of CAD345 million, an increase of 29% over last year.

Our insurance businesses also posted strong sales of CAD601 million, an increase of 18% over 2007 levels on a constant currency basis, contributing CAD217 million of new business embedded value. While this result is down marginally from a year ago, strong contributions of each of our large life insurance businesses were offset by lower current quarter volumes in our P&C business as well as less favorable business mix. Overall, these strong new business embedded value results contributed positively to our current quarter and position us well for future earnings growth.

On slide 12, total funds under management at June 30, 2008 were CAD400.3 billion, in line with the prior year on a constant currency basis. The impact of capital markets is quite evident in these results, as strong positive net policyholder cash flows were overshadowed by approximately CAD21 billion of decline due to turbulent capital markets. This is reflected in the investment loss indicated of CAD9.4 billion, which would have been an investment gain of CAD11.6 billion absent the above noted market impacts.

Slide 13 provides a brief update of our investment portfolio, which continues to be well diversified and of high quality. As discussed in great detail in previous quarters, our exposure to problematic investments remains quite modest. The current market environment has presented good investment opportunities, allowing us to add some attractive spread assets of high quality, moving us closer to our targeted risk profile. While changes are relatively moderate when viewed against the size of our total portfolio, we have made slight adjustments, re-aligning our weightings both by asset class and credit quality on an opportunistic basis.

Turning to slide 14, our credit quality profile is not dissimilar to that of 18 months ago, as we are seeing credit spreads widen and we believe we are now once again being paid adequately for taking on credit risk.

Turning now to slide 15, credit impairments were at more normal levels of CAD33 million in the quarter. However, as was the case last quarter, we had CAD23 million of recoveries on pre-merger assets that were fair valued on purchase. There are likely to be few such gains in the future as the written down merger assets are largely resolved.

While still well within normal expectations, gross credit experienced in the second quarter of 2008 was less favorable than the unusually strong results of the second quarter of 2007 and the very positive experience that we have had over the past several years. In light of the macro economic environment, we remain very pleased with our credit experience.

I would now like to turn to a review of our divisional performance. On slide 16, you can see US Insurance earnings were $221 million, up 23% from a year ago. The increase was caused by very strong in-force business growth and favorable claims experienced. This was partially offset by higher strain on strong new sales levels compared to a year ago. Product changes and re-pricing plans are expected to reduce new issue strain somewhat in future quarters. The already implemented re-pricing of an in-force insurance block is reflected as the management action in this quarter's Source of Earnings disclosure.

Turning to slide 17, US Life Insurance had a record second-quarter sales level of CAD243 million. Sales exceeded the prior year by 22% with growth in all major product lines. The business continued to enhance its product offering, and is believed to be gaining market share consistent with first-quarter results, as industry sales are expected to be flat in the second quarter.

Long-Term Care continued to post industry leading sales levels. Although, sales for the second quarter were down from the a year ago, as the prior year's figures reflected very strong group sales. During the quarter, the Long-Term Care business enhanced its product offering, adding new caregiver support services, consumer protection provisions and a new CPI-linked protection feature.

The slide 18, turning to US Wealth Management, earnings for the second quarter were down from a year ago, as continued weak equity markets resulted in lower asset-driven fee income and weaker results on segregated fund guarantees.

The slide 19, net flows from the Variable Products group were $2.5 billion, up modestly from a year ago. In the Variable Annuity segment, sales once again exceeded $2.5 billion, as the business enhanced its top selling Income Plus for Life rider by introducing new product features and adding new investment options from leading independent investment managers. Despite weak equity markets, Variable Annuity net flows were a strong $977 million.

Group pension sales were in line with the prior year. The recently-launched Guaranteed Income for Life option has received a very favorable market response as it helps plan members protect and build their retirement savings through a guarantee offering upside potential and downside protection and a source of income for life.

Our Mutual Funds segment experienced its second highest quarter of open-ended fund sales on record, with sales in the quarter up 31% over the second quarter of 2007. Strong performance in a number of key funds, the addition of several new distribution partners and a more tenured sales force all drove the increase in sales and led the business to the highest net customer cash flows in the last eight quarters. During the quarter, the US Wealth business successfully completed the refinancing and full redemption of all of the outstanding Auction Rate Preferred Securities on its leveraged closed-end funds.

On slide 20, Fixed Products group's second-quarter earnings were CAD136 million, up significantly from the prior year. As mentioned earlier, investment-related gains were very strong in the Wealth Management segment this quarter, due to fixed income and private equity gains. Although we introduced an investment pooling methodology in the first quarter of this year, this quarter's gains were strongest in the Wealth pool.

On slide 21, the Canadian Division reported record second-quarter earnings of CAD302 million. The earnings benefited from in-force business growth, improved claims experience and favorable investment results in the Wealth Management pool. Partially offsetting these items were less favorable results related to segregated fund guarantees, and a rise in new business strain due primarily to strong insurance sales.

Canadian Individual Insurance ranked #1 in sales in the first quarter of 2008, with over a 20% sales market share. This momentum continued in the second quarter, with sales of CAD65 million, our second best sales quarter ever. All major product lines contributed to the strong result, with good market reception to the recently-launched non-participating whole life product, Performax Gold.

Group Benefit sales were 44% higher than last year, driven by Corporate and large case sales while Group Pension sales were up 25% over the second quarter of 2007 due to higher Defined Contribution and Single Premium Immediate Annuity sales.

On slide 23, Canadian Individual Wealth Management posted extremely strong sales and net flows in the quarter, with total net flows more than doubling the levels of last year and sales up 33%. Driven by the success of IncomePlus, Segregated Fund sales exceeded CAD1.1 billion in the quarter, up 34% from a year ago.

For the first time, Manulife Bank generated over CAD1 billion in new loan volumes, driven by ManulifeOne. Growth in sales, as measured by new loan volumes, was up 33% over last year.

Sales also increased in Guaranteed Products and Mutual Funds. During the quarter, the Mutual Funds segment announced its alliance with Mawer Investment Management Limited for a new suite of co-branded retail mutual funds, providing investors access to the award-winning investment performance of Mawer through seven new fund mandates.

Slide 24, turning to Asia and Japan, earnings were US$212 million, down marginally from the second quarter of last year. This quarter's results benefited from earnings growth in Japan's variable annuity and life insurance businesses, offset by less favorable investment results in Other Asia and lower fee income as a result of declining equity markets in Hong Kong.

On slide 25, Insurance sales in Asia and Japan increased by 39% to US$136 million. In Japan, insurance sales for the quarter nearly doubled versus the prior year, benefiting from the launch of a new cancer product. In Other Asia, insurance sales rose by 29% above the prior year's level, led primarily by strong results in Singapore and China. Hong Kong insurance sales were up 12%, attributable to product enhancements and new marketing initiatives.

Turning to slide 26, Wealth Management net flows in Asia and Japan of US$1.3 billion were double the prior-year results. In Japan, VA sales approached US$1.2 billion, more than double the year-ago level. The increase was led by the broadening of distribution channels and continued success of our new VA product offering. In Hong Kong, net flows were also up over last year, with good growth in our pension investment products, partially offset by the impact of weak equity markets on our Individual Wealth Management segment. Wealth Management sales and net flows in Other Asia were down from the prior year due to slower mutual fund sales primarily in Indonesia.

Turning to Insurance on slide 27, our earnings were US$45 million, down from US$62 million a year ago. During the quarter, a few large life claims resulted in overall unfavorable claims experienced for this division. As well, the weaker equity markets, compared to prior year levels, resulted in a decline in earnings from Segregated Fund guarantees. Partially offsetting these unfavorable items were improved claims experience in the P&C segment.

Turning to slide 28, the Corporate and Other segment reported a second-quarter loss of CAD49 million versus earnings of CAD48 million in the prior year. As previously discussed, this variance was primarily caused by lower realized gains on available-for-sale assets and tax-related charges on leveraged lease investments. This was partially offset by the non-recurrence of the unfavorable claims experience that occurred in '07 and the run-off John Hancock Accident and Health business.

This quarter, we have made a new footnote disclosure on tax-related contingencies. Certain elements of the Company's tax positions are contingent upon the final resolution of tax authority audits or on the substantial enactment of tax regulations which have currently only been issued in draft. There are three significant tax-related contingencies as of June 30, 2008. Two items are expected to be favorable and our dispute related to leveraged leases has been provisioned at a level considered appropriate but may result in gains or losses pending the ultimate resolution of this dispute.

So in conclusion, sales levels were once again very strong this quarter, as we successfully maintained market leading positions in our core businesses. Strong growth in new business embedded value continued to be achieved in our Insurance and Wealth Management lines. We are now adding high quality assets at attractive spreads, a significant change from the situation of a year ago.

Our credit experience remains quite satisfactory and our expenses are under good control. Although reported results showed a modest decline from last year, our operational results were strong. I believe that our good operational results, strong balance sheet, excellent distribution capabilities and leading market shares continue to position us advantageously. Thank you.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you, Peter. Operator, we're ready to begin the question and answer portion of our call today.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Jim Bantis, Credit Suisse.

Jim Bantis - *Credit Suisse - Analyst*

Just a couple of questions, one for the US team. Pretty exceptional growth coming on life sales of 22% where the industry is flat. Can you talk a little bit about the momentum and how sustainable it is in that product area, given the weakness in terms of the consumer confidence in the US, as well as the economic backdrop? What product is really driving this, and how does it relate to some of the strain issue that we are facing?

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Okay, well, John DesPrez is here, so I will ask John to begin answering that question.

John DesPrez III - *John Hancock Financial Services - President & Chief Executive Officer*

Well, our life sales are not particularly sensitive to economic conditions. You've got to recall, Jim, that we specialize in the very high-end estate planning type of sales. Those are not typically very sensitive to the overall economic conditions. They tend to be driven by life events, estate planning type considerations that are not particularly affected by changes.

The momentum of our sales remains very good. The inventories remain very strong. We have not seen any drop off at all.

The thing I would like to stress, I guess, is that our life sales -- the strength in the life sales is very broad-based. It is across all of the various segments of our business. Our most traditional segment that we have been strong in the Universal Life segment is actually the slowest growing piece of our life sales equation. Our term sales are way up. Our life sales are good. Our variable sales are very strong. So it is a very broad-based advance, and we think it is quite sustainable.

Jim Bantis - *Credit Suisse - Analyst*

John, are your competitors pulling back in terms of some of the products, in terms of pricing? Is that an advantage to you at the moment as well? Peter had mentioned something about some sort of modifications on the product lineup.

John DesPrez III - *John Hancock Financial Services - President & Chief Executive Officer*

Actually, some of our competitors are starting to cut prices to try and up their sales. So we are actually a little concerned that in terms of our competitive positioning, our pricing is a little bit higher than some of our competitors right now.

There is an additional factor I would point out here, Jim, is that in this type of environment with all the credit problems, etc., there is something of a flight to quality going on here. Our AAA rating affects this business more than almost anything else other than maybe our fixed products on the Wealth Management side. And we are clearly benefiting from that, as people begin to focus more on the quality of the issuing company.

Jim Bantis - *Credit Suisse - Analyst*

Got it. I appreciate that, John. Question for Don --

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Did we have a limit of two questions for--?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Jim, if we can ask you to re-queue, we will try and get back to you.

Jim Bantis - *Credit Suisse - Analyst*

Absolutely.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

People get upset, otherwise, Jim.

Jim Bantis - *Credit Suisse - Analyst*

I've heard

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy - *RBC Capital Markets - Analyst*

A question for Don, so maybe that is what Jim was going to ask. Page 36 of the supplementary package, I am focused on the top box, the bottom two lines, so the BB rated and the B and lower. There has been an increase in the absolute amount of BB rated volumes and B and lower. Can you split out what has been driven by downgrades? And if so, how much you had to add to your actual reserves versus incremental investments that you have made?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

I can't split that out, but most of it would be incremental investments that we have made as opposed to downgrades. We are not immune from some exposure to downgrades, but haven't been a significant number for us or a particularly worrying number.

Andre Hardy - *RBC Capital Markets - Analyst*

Okay, so the increase we are seeing is more driven by actions by Manulife than market movements?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, Peter said that a couple of times in his opening remarks. We are seeing greater opportunities to add spread to the portfolio, and we have been complaining for a long time that we were not getting paid for taking the risk and now we are.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

I thought there were downgrades as well, or was that mostly in the first quarter?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

There were, but there wasn't much crossing the line between investment grade and non-investment grade, where he is asking. But there is, of course, a trend where downgrades are outpacing upgrades at this juncture.

Andre Hardy - *RBC Capital Markets - Analyst*

But for it to really matter to your reserves, it would have to be in those bottom two lines (multiple speakers)?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

The weakest buckets are by far the most important. That's correct.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

The entire addition to the reserves is a result of downgrades across the board of CAD50 million.

Operator

Michael Goldberg, Desjardin Securities.

Michael Goldberg - *Desjardin Securities - Analyst*

The CAD130 million year-over-year variance in equity impact that you showed in your presentation, I understand is in the same basis as a CAD265 million from the first quarter that was a variance from, say, normal contribution expected from equities. Could you tell us what the equity experience in the second quarter was on the same basis as the CAD265 million that you disclosed in the first quarter?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Sure. Michael, I don't have the exact calculation, but it was modestly disappointing, so somewhat neutral. We didn't get a contribution from equity markets, but we didn't suffer a loss like in the second quarter, where there was -- the first quarter where there was a reversal. So it was relatively benign across. On the other hand, asset values are down very substantially from a year ago, and the move over the year is material. And that is the item I observed in my comments.

Michael Goldberg - *Desjardin Securities - Analyst*

Right, but if you take the two together, what would the impact on second quarter earnings have been?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

I don't have it that way, but I guess the way I would describe it is -- because I don't know what last quarter was versus last quarter a year ago off hand. But I would say that this quarter was -- in terms of that CAD265 million from last year, slightly negative, whereas last quarter we of course described in some detail. And I would have to look up a year ago, Michael. But I guess you guys could do that as well to see what the markets did.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Simon, do you have anything to add?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

I think the CAD265 million last quarter was the stand alone impact in the quarter. You see this quarter, as Peter was saying, it is pretty close to break even to a very small loss. So basically, the variance from quarter to quarter is about that CAD265 million number.

Michael Goldberg - *Desjardin Securities - Analyst*

But doesn't that take into account -- doesn't the CAD265 million take into account the lower level of funds under management also from the first quarter?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Only in the quarter, Michael.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Michael, can we -- I think I understand your question. You want to compare the impact of equity markets in the first quarter versus what happened in the second quarter, and we would be pleased to give you that information. We just need to present it that way, and no one has it right handy at this instant.

Michael Goldberg - *Desjardin Securities - Analyst*

Okay, and I have got one other quick question. I noticed that your insurance VNB margin was down from about 43% in the first quarter, which is a high margin by historic standards, back down to 36% this quarter. Can you just remind me what contributed to the high margin in the first quarter, and is it fair to say that you are back down to a more normal margin on insurance products?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Michael, just to clarify what you are asking, it is the value of new business as a function of what that you are measuring?

Michael Goldberg - *Desjardin Securities - Analyst*

It is value of new business as a percent of sales.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, I am not sure we can give you a great answer. But I think, obviously, mix would be the biggest parameter quarter to quarter. And it would change. Simon, I don't know if you can add to it.

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

One of the reasons it was up a lot in the first quarter is because we -- when we had a number of our businesses such as the P&C business went through the renewal season where we recognized a fair amount of new business embedded value, which I don't think it fits into the denominator that you are using. So it was just a business mix, the fact that we had a number of businesses go through the first quarter with sort of one-time new business to get it back.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

With good margins like P&C.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes.

Operator

Tom MacKinnon, Scotia Capital.

Tom MacKinnon - *Scotia Capital - Analyst*

I want to talk a little bit about private equity investment gains. The press release notes that part of the year-over-year decline in the Corporate division's earnings was attributable to lower realized gains on available-for-sale assets. And I can certainly see that on page 38 of the SIP. But they also say it is due to lower realized gains on private equity holdings, and I really have no idea how to find any of this stuff in your SIP or in your slides or wherever.

So you do disclose something called Other Investments. Are these Other Investments anywhere related to these private equity investments you talk of? What are these private equity investments, and what is in this Other Investments line, too?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

We have a variety of private equity investments, and we have actually a great quarter for them. But we had an exceptional quarter in the same quarter of last year. And so --

Tom MacKinnon - *Scotia Capital - Analyst*

So they are not in the Other Investments line, I assume, because the Other Investments here are certainly a lot better this year than they were last year during the same quarter. So where do they show up in? Where can we find these things, and how can we monitor them?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

I think they are in the business results. I am not sure which line you are referring to.

Tom MacKinnon - *Scotia Capital - Analyst*

The Other Investments line on page 38 of the SIP.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Let me just find that for you.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Anybody have an idea what's --

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, I think they are in the stock line.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

In stocks, because their hybrid is probably where they do turn up.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes, but what's other? He wants to know what's other.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, it would be anything that doesn't fit in a natural bucket. So if it is not a bond, a stock, or a loan, it would be other. It could be related to -- well, derivatives is another line. There is not much in Other.

Tom MacKinnon - *Scotia Capital - Analyst*

So in the stock securities would be all the private equity stock. Is that right?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Generally, it could be bonds with attachments and riders.

Tom MacKinnon - *Scotia Capital - Analyst*

And in the Other Investments thing, which has been up significantly over the last couple of quarters, or was it year before?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Sorry, I think in Other Investments, there's a line here Other Investments, as opposed to Other.

Tom MacKinnon - *Scotia Capital - Analyst*

Yes, the bold line other investments.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, I think that is where they would be. Other Investments, it has an income item. That is the line that the bulk of them would likely arise.

Tom MacKinnon - *Scotia Capital - Analyst*

The bulk of the private equity investment gains would be?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes. Now what you also have are sometimes sweeteners and riders on bonds and stuff, and they would be in different places. So it is not 100%, but that would be the area where we would see most of it. Now, to clarify --

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Tom MacKinnon - *Scotia Capital - Analyst*

You talked about them being down year-over-year in the quarter. And here they are up year-over-year in the quarter, that Other Investments line.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Simon, why don't you try that?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

Yes, what you have is when you are looking at the source of earnings, your investment gains and losses show up both in the experienced gains and in the interest on surplus. I believe that on the private equities in the Surplus segment, there were lower levels relative to last year, whereas on the Private Equities and the Liability segment, they were increases.

Tom MacKinnon - *Scotia Capital - Analyst*

Okay, so that explains it. So overall, they are up. And can you give us a little bit more color as to what will be in these private equity investments, and why they have been so large over the last couple of quarters? And is that necessarily sustainable?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Well, we have had a great track record, Tom. As I think we have said before, we can't always predict where they are going to show up in the balance sheet. To some degree, the pooling has helped with that. But the pools we have are Wealth Management and Insurance, and they can go between there. They can also show up in the Corporate segment.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

But we have had this asset class for years and years now. I mean, what is the aggregate amount that Bill Eeuwes manages? There's what a lot of them show up.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Well, it's Bill and the Bond Corporate Finance Group. It's a whole variety of things, and we have a pool about CAD4.5 billion of private equity of various sorts. And in the quarter, the one that was most significant was a coal investment. But --

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Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

That was very quarter to quarter.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Last year, I think it was some hotel.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

It was. A year ago, it was a hotel.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

They are lumpy, but they -- I think on that asset class of private equities -- what do we target to earn 15% or something?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

And we have done certainly better.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

And so you will have quarters when it is good and quarters when it is less good.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

But they won't be lumpy, Tom.

Tom MacKinnon - *Scotia Capital - Analyst*

And the income that shows in there, is that primarily just realized gains on it?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes.

Tom MacKinnon - *Scotia Capital - Analyst*

I have got another one, I will requeue though.

Operator

John Reucassel, BMO Capital Markets.

John Reucassel - *BMO Capital Markets - Analyst*

Just Peter, you talked about you are buying some -- putting some more money to work because the spreads are widening out. What about the mismatch you have historically run in the US staying short on the curve? Are you still holding that, or have you --

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

That is unchanged at this point.

John Reucassel - *BMO Capital Markets - Analyst*

It is unchanged at this stage, okay. And then the capital -- the three legal subsidiaries that your legal entities you're merging in the US, is that going to release a lot of capital, or is it a little bit of capital? Or could you talk a bit about how that is going to transpire over the course of the year?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, this is going to have a fairly modest impact. The real importance there is, it's really complicated to run multiple companies. And it will simplify administratively our life, and allow us to combine things that, right now, have to operate separately.

John Reucassel - *BMO Capital Markets - Analyst*

Okay, so it is not a huge capital, but it is going to make life easier for you.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes indeed.

John Reucassel - *BMO Capital Markets - Analyst*

Last, the LTC seemed to have a big quarter this quarter. Is that the case, and are these investment gains in long-term care as well as from an earnings perspective?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

The investment results were good, but they also had nice operational results on claims and experience.

John Reucassel - *BMO Capital Markets - Analyst*

I will requeue.

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - *Genuity Capital Markets - Analyst*

A question first for Simon. In the past, on page 39, you described the change -- and this is from your supplement -- the change in segregated fund reserves. This quarter, CAD6 million down. But you didn't break out the -- how much of that was before the CTE change, and how much related to the change in CTE. Could you give us those too, please?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

Sure, Mario. The CTE level went up. So actually, what we had was -- that is not in the notes this time -- is the CAD19 million in reserve increase for the CTE. So the CAD6 million of release would have been a CAD25 million lease if we had not seen the CTE level go up 1%.

Mario Mendonca - *Genuity Capital Markets - Analyst*

The CAD25 million, and then the strengthened by CAD19 million?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

That's right.

Mario Mendonca - *Genuity Capital Markets - Analyst*

A different type of question -- in your presentation, probably for Peter and Don, you talked about your MBS and ABS, the 5% of the 164 billion or roughly CAD8 billion. It would be helpful to understand a little bit more about that CAD8 billion. What are the underlyings for the ABS? I think the MBS I understand; those are residential mortgages. But what are we talking about in terms of the underlying, first?

Secondly, what are these supporting? Are they policyholder liabilities? Is it surplus? And what has happened to the fair value of those assets in the last little while?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

The biggest chunk of it is CMBS, commercial mortgage-backed securities, which are extremely high quality. Approximately 90% of which would be AAA rated, currently AAA rated, and truly AAA. We do our own underwritings, I think we've talked about before on commercial mortgage-backed securities. We looked at actually the underlying, what the actual buildings are, which mortgages are applied. It is the older vintages -- when the underwriting was much, much better. And we would expect trivial losses associated with that portfolio, if any.

Mario Mendonca - *Genuity Capital Markets - Analyst*

What is it supporting?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

It's largely in the liabilities segment?

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Yes, but what is it -- policyholder liabilities?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, policyholder liabilities, it had been a good match for that.

Mario Mendonca - *Genuity Capital Markets - Analyst*

And then finally, the fair value relative to book?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

The fair value -- just a second, I can get you that. It is a pretty small diminution in value reflecting overall broader spreads.

Mario Mendonca - *Genuity Capital Markets - Analyst*

If it's small, it really doesn't matter. I guess the --

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

It would be very small.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

It is not a problem for us

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

It would probably be down in value something on the order of 5%.

Mario Mendonca - *Genuity Capital Markets - Analyst*

And just to sort of wrap that all up then, are CMBS and RMBS, are those really the only two categories? Is there anything else? Are there any HELOCs that is supporting or cards or--?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

No, we have very small exposure to other things. We have CDOs that are not related to subprime that would be CAD450 million roughly.

Mario Mendonca - *Genuity Capital Markets - Analyst*

Like HELOCs, cards?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Very small trivial amounts.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

I don't know what a HELOC is --

Amir Gorgi - *Manulife Financial Corporation - Assistant Vice President, IR*

Home equity lines of credit.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

No, we are not players there.

Mario Mendonca - *Genuity Capital Markets - Analyst*

Well, if you don't know what it stands for, then you probably don't have it.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

We don't.

Operator

Colin Devine, Citigroup.

Colin Devine - *Citigroup - Analyst*

A couple of questions. First, one on capital -- the MCCSRs are like up modestly from the first quarter. It seems to me it's probably at about the lowest level since you took over, Dominic. When I look at also the share buybacks down -- way down year-over-year, it makes me wonder, are you starting to see a little bit capital constrained? And if you are, does that dampen your appetite for potential M&A from what we have seen in the past?

Second question for John -- Dominic made the comment about the Guaranteed Income for Life products, and how it has been accepted in the market. I guess I've got to push back on that, because I know we refused to put it on the shelf here because of some concerns. To the best of my knowledge, another major wire house has as well. What are you doing to address the portability with that?

And then finally, for Don Guloien, can you just give us a little more color on your CMBS as well as your residential mortgage backs in terms of vintage -- kind of what percentage of them are '06 and later versus '05 and earlier?

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

All right, that is one question with three subparts.

Colin Devine - *Citigroup - Analyst*

I try.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

The capital ,Colin, you are right to observe that we have slowed down the buybacks, and that the capital level is hovering around the 200 mark, which is a bit lower than it has historically been. And part of that is driven by what you see in the markets with equity values being where they are and the need to provide capital for some of our business lines, particularly the variable annuities. As you may know, we don't get capital relief or any hedging activity that we might undertake with respect to that product. So it is a burdensome -- it is a very capital-intensive product.

And we have looked at this issue in many ways, and we believe that we have the mechanisms to monitor it and take appropriate action, come what may. In the circumstances, given the tenure of the times, it is better for us to remain a little well-capitalized than to let our capital ratios decline too much.

Does this in any way affect our appetite for consummating an M&A transaction? Not in the least. I mean, I think that we have access to capital that is ready and available to us. So there is no constraint whatsoever that way.

With respect to the GMWB, John, who is refusing to carry this product?

John DesPrez III - *John Hancock Financial Services - President & Chief Executive Officer*

You are referring, I take it, Colin, to the 401(k) version of this as opposed to variable annuity?

Colin Devine - *Citigroup - Analyst*

That's correct, John.

John DesPrez III - *John Hancock Financial Services - President & Chief Executive Officer*

Yes, there is one small hole in the portability stuff that we are working on. Actually Hugh is here. I think he has already explained it to you before, but he is going to explain it --

Hugh McHaffie - *Manulife Financial Corporation - Executive Vice President , US Wealth Management*

It's Hugh McHaffie. As we have discussed, the new rider provides a guaranteed withdrawal benefit to participants within a 401(k) plan that can either be invoked either in-plan or if they are permitted to transfer the funds out into an individual variable annuity that we're making available as a rollover.

There is one small area that is an issue, is change of record keeper. And could that guarantee continue when there is a change of record keeper? What we have done when we constructed this product is, it is on the particular investment option within that 401(k) plan. So we're working with that third-party administrator to find a way that that investment option that has that guarantee attached to it can be ported over as just an additional outside investment within the new record-keeping system. So I think the design we have will allow us to do that. It is now for us to work with the industry to find a way to have that actually affected when plan administration changes.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

And then there was something about the vintages and --

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, Colin, first of all, our subprime related RMBS, which is the area that most people have concern with is roughly CAD0.5 billion, which is a pretty small number relative to the size of the balance sheet. I think you would agree that as a percentage of the size of the balance sheet, it is probably one of the lowest virtually anywhere in their space.

In terms of the vintages, I don't have all the vintages, but I can speak of all RMBS, that basically 80% of it is 2005 and prior. And virtually none written in 2007 and after. I mean, trivial amounts. In terms of the quality breaks, all but maybe 10% would be currently rated investment grade or better.

Colin Devine - *Citigroup - Analyst*

That may not mean to much, Don. In terms of a CMBS -- and nothing against your underwriting more a comment on the rating agencies, perhaps. But on your CMBS, what would that same split be?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, CMBS would be about 85% written 2005 and prior --

Colin Devine - *Citigroup - Analyst*

Perfect.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

And all but 0.7%, but don't hold me on the rounding. But call it 1%. Let's round it up as investment grade or better currently rated.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

It's not investment grade

Colin Devine - *Citigroup - Analyst*

Is that a Freudian slip, or--?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

It's not investment grade or better, and 99% is investment grade.

Colin Devine - *Citigroup - Analyst*

And remind me, Don, how fast the RMBS is running off?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

It is burning up pretty quickly, something on the order of CAD50, CAD60 million a quarter. The rate of pre-payments, obviously, has slowed down in the marketplace. They're not burning up as fast. But we are pretty comfortable we are going to experience trivial losses associated with that, and that has been fully provided for.

Operator

Jim Bantis, Credit Suisse.

Jim Bantis - *Credit Suisse - Analyst*

Just I was following up with Don. Peter had made the comment with respect to credit spreads widening and allowing you to get your targeted credit quality profile. Maybe you could elaborate, Don, on what that targeted profile is looking at the asset quality breakdown on slide 36?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Well, we have a broad range in terms of our target. But I think we have been very clear that as spreads have diminished, that we were going with a safer and safer portfolio, not because we were adverse to taking a credit risk, but because we were getting paid for taking credit risk. And we did not expect to maintain that posture forever.

I was quoted in the paper, I think the words I used is, "Their ship is coming in," when credit spreads started to widen and we are starting to judiciously add credit risk to the portfolio in a variety of areas that we think pose no long-term risks to the Company.

Jim Bantis - *Credit Suisse - Analyst*

So over the next few quarters, we should just see a rise in the percentage of assets coming in -- single As, BBBs and perhaps AAs I guess continuing along that line?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

But you will also see us adding some below investment grade credit, not a stupendous amount. It is not going to shock you. But you shouldn't be surprised to see that creep up a few percentage points in terms of the growth of the portfolio.

Operator

Jukka Lipponen, KBW.

Jukka Lipponen - *KBW - Analyst*

First question, why is the investment income line negative in corporate?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

To remind you, the two items charged there are the charge for the tax-based accrual. And there is lower investment income realized in the quarter versus the other expenses that are in there.

Jukka Lipponen - *KBW - Analyst*

And my other question is with respect to capital, can you remind us what your targets are in terms of overall the debt to capital at the MCCSR level and RBC levels?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, our targeted leverage level is around 25% debt, 75% equity. And obviously, we work with each of the rating agencies, and they give you various levels of credit for hybrid stuff. And then with respect to our target MCCSR range, we've generally targeted 180% to 200%, but had historically been above that.

Jukka Lipponen - *KBW - Analyst*

And RBC?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Simon, do you recall?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

It is generally 300 to 350 is the target. But as you can see, we are well above that.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Same sort of thing.

Jukka Lipponen - *KBW - Analyst*

Was that 300 to 350?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, that's generally the range, and we have been above that.

Operator

Andre Hardy, RBC Capital Markets.

Andre Hardy - *RBC Capital Markets - Analyst*

Just two quick ones. On your sources of earnings, slide 9, earnings on surplus, how much of that would be yield like versus realized gains and/or losses?

The other question I have is the Company has targeted 15% mid-term earnings growth. And what kind of macro environment would that imply, or would be needed?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, obviously, a more normal market is what we generally set the target against. And we are going through cycles, and this would be a little harder cycle to do the 15%. But we continue to think long-term, that is not unreasonable. Simon, can you--?

Andre Hardy - *RBC Capital Markets - Analyst*

While Simon looks that up, Peter, you're talking about equity markets here or credit interest rates as well?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

You were asking about earnings in one environment. I didn't say prosperity. So a recession is not good for earnings growth. Obviously, equity markets have a big impact. But for us, for example, widening spreads or rising interest rates could be quite positive.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

There is a whole bunch of metrics that we have embedded in our -- in that assumption, which I don't have them handy. But we can pull them out. Like, I think we look for markets over time to grow at 2% equity market, 2% a quarter, real estate that yield us whatever. All the asset classes have a particular target -- a yield ascribed to them. And at any given time, you will have some that do better and some that do less. We are in a down cycle just at this moment.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

And in terms of earnings on surplus, the majority of it would be fixed income -- interest in dividend income. There is the realized gains on the AFS securities that Peter talked about that goes up-and-down -- realization on our public equity portfolio.

Operator

Tom MacKinnon, Scotia Capital.

Tom MacKinnon - *Scotia Capital - Analyst*

Two quickies here. Don, you said something about the increase in the reserves as a result of net upgrades and downgrades. Was that CAD50 million? Is that what it was?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

50 and don't quote me if it was 47.

Tom MacKinnon - *Scotia Capital - Analyst*

No, no, that's fine. And then the Seg Fund -- I would have thought the Seg Fund reserves would have been up more in the quarter. In the first quarter, they were up CAD237 million. We had equity markets -- the S&P 500 was down just point-to-point on the quarter, 10%. And we had some weaker markets in Asia and the TSX was down 4. And in this quarter, I guess -- it says down 5. But it seems odd. We had the S&P 500 go down 3%, and we even had a little boost in the TSX. But how should I weight these things in order to determine what this number should be -- weight these different markets?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

It is Simon Curtis.

Tom MacKinnon - *Scotia Capital - Analyst*

Is there any kind of rule of thumb? You know equity markets go down, 6. You get hurt 237. Equity markets go up 3, you don't get hurt at all? How can you help us with regard to this?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

I don't think there is a strict rule of thumb. I think you just need to take into account that with our variable products and such, we really have three main market exposures -- the US S&P, Canada and Japan. The variance in those markets can be quite different from quarter to quarter. The S&P was down 3% in the second quarter, for instance, in the US. But in Canada, the TSX was up 8%, and the Nikkei was up close to 8%.

Tom MacKinnon - *Scotia Capital - Analyst*

Yes, so how should we weight them, then, Simon, in order to help--?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

I don't think there is a quick rule of thumb we can give you on the --

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

We actually do detailed models. And they are not linear.

Tom MacKinnon - *Scotia Capital - Analyst*

Well, I'm glad your models are detailed, Peter. But I was just --

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, you're asking for a shortcut that I am not sure is likely to be robust, I guess, is my point.

Tom MacKinnon - *Scotia Capital - Analyst*

All right, well, any guidance and help with that would be help. But I guess it seems like --

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

We will have a look at it, but just off the top --

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Wasn't there that quarter when it went up there? Wasn't there symmetry in how the markets behaved and some markets that were completely disconnected from others?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

You mean from one quarter to the next? There certainly were.

Tom MacKinnon - *Scotia Capital - Analyst*

Well, no, even within the quarter, you had, I think -- you had the Asian markets that performed a certain way. And the North American markets were completely the other way.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

And Canada has been bucking the trend in the last few quarters, right?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

Yes, I mean, Tom, just to give you some pre-thoughts, the fact that the S&P in the US would be our primary exposure, but that was down modestly. And then with both Japan and Canada up in the 8% range, that is why the overall impact ends up being somewhat neutral. We are more exposed to the US market.

Tom MacKinnon - *Scotia Capital - Analyst*

Maybe 60/20/20 or something?

Simon Curtis - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

I mean, we can look at it, but --

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Why don't you do some work on it that way and call Tom and tell him? I mean there must be some algorithm here that works.

Tom MacKinnon - *Scotia Capital - Analyst*

That would be appreciated. Thanks.

Operator

Michael Goldberg, Desjardins Securities.

Michael Goldberg - *Desjardin Securities - Analyst*

I have got a couple of quick ones. In Japan, when did you get into cancer insurance, and what is actually going on in that market that accounted for the strong, positive reaction to your new product? It seems like it is aimed at one other insurance company it sounds like in particular.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Not, really, Michael. I think you are probably thinking of AFLAC there. It is really a combination of things. It is a new distribution channel, the [MGA] channel. And it is a product that doesn't have, frankly, a lot of morbidity risk. I think the best attributes of the Japanese consumer is if they do get one of these awful diseases, they can take their money out with interest without paying any sort of a tax penalty. So there is a very strong savings element to the product.

We are actually experiencing great growth on all three channels in Japan. We chose to highlight the one that had the greatest percentage growth. But the fact is the VA channel and the MGA channel and the bank channel and the stockbroker channel are all doing very well, and we are doing well in both wealth management products and life products in Japan. Basically, everything is doing well.

Michael Goldberg - *Desjardin Securities - Analyst*

But the MGA channel is a new channel for you.

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes it is.

Michael Goldberg - *Desjardin Securities - Analyst*

Okay. Second question is when you talk about the leverage with rating agencies, do you also look at debt in relation to equity plus PAD?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

No, we don't get much respect from the rating agencies for our PADs. They understand them, but we don't have an exact calculation like that.

Michael Goldberg - *Desjardin Securities - Analyst*

Why don't you just call them unearned income?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

That's a good idea. Why don't we check out if they like that?

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

It has been a source of contention over the years. As you know, we'd like to represent ourselves as having a very robust balance sheet, and we would like to get credits for the conservatism of our reserves. I think that some of you that analyze our accounts from quarter to quarter see that conservatism emerged through the experience gains. That is why our experience gains are usually so predictable. The CAD300 million is virtually what is built into our reserving mechanism. And they go up with the experience gains or down, depending on what might have happened in the quarter. But it is a very tough thing to get recognition for the PADs long and short.

Michael Goldberg - *Desjardin Securities - Analyst*

So maybe just to follow up, another way of putting this as you said -- you are being extremely conservative in your reserving. Or alternatively, you could save you're over reserving. Is it in mortality? Is it -- where is it that--?

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, it's in all of these by and large. But the largest piece would be in investments. We have very conservative assumptions built into our reserves for future investment returns. We told you many times, like for example, our ultimate reinvestment rate is, what, 3.65%. Clearly, to the extent that we earn more than 3.65%, we will have an experience gain and so on. It's the same with different -- other classes of assets.

Michael Goldberg - *Desjardin Securities - Analyst*

Thanks very much, Dominic.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

So that's -- Operator are we done with the questions now?

Operator

Mario Mendonca, Genuity Capital Markets.

Mario Mendonca - *Genuity Capital Markets - Analyst*

Sorry to do this. We are headed toward what is clearly a deteriorating credit environment like Moody's reports today would certainly support that. And I think you would agree your credit experience has been perfect -- virtually perfect. When you think about a CAD164 billion portfolio of invested assets, Don, what do you figure is a reasonable amount in terms of basis points to expect each year in terms of credit or sort of asset impairment on an annual basis? What would you put that at, Don?

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

In terms of percentage of the portfolio to lose --

Mario Mendonca - *Genuity Capital Markets - Analyst*

Basis points on that CAD164 -- 30, 40?

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

No, I thought it was a little less than that

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, you wanted the (multiple speakers) do the math. Just a sec.

Mario Mendonca - *Genuity Capital Markets - Analyst*

I mean, it has been negligible for --

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

It's 25 basis points.

Mario Mendonca - *Genuity Capital Markets - Analyst*

25 basis points a year, and that would be on the entire 164?

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, the way we actually look at it is more granular than that (multiple speakers) --

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

An income portion of that.

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, we would look at each bucket and we would risk weight it. Then we typically look at historical Moody's and S&P loss given default and probability of default, and calculate it right through. And that would be sort of like a macro number. But what really happens is you have some really good years where you lose virtually nothing, and you have some quite bad years where you will be well through the average.

Mario Mendonca - *Genuity Capital Markets - Analyst*

And I think what I am getting at here is the 25 basis points sounds like a normal sort of through the cycle, I will call it, average.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

It's what we build into our pricing. Isn't it? --

Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Absolutely.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

And as would we -- when we do the pricing for our products, we have to put in an allowance or credit losses. And that's what is --

Don Guloien - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer*

Yes, it averaged to that number. We put through actually a complete matrix, depending on the (multiple speakers) --

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Peter Rubenovitch - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

That will be our base number, and then we would have some conservatism against that.

Mario Mendonca - *Genuity Capital Markets - Analyst*

And when things get rough, it can go above that. And when things are great, it can go below it.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

We have had that. Remember, when we had the WorldCom loss, for example.

Mario Mendonca - *Genuity Capital Markets - Analyst*

I remember that well.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

You know, so it happens --

Mario Mendonca - *Genuity Capital Markets - Analyst*

Just something to work with, thank you.

Dominic D'Alessandro - *Manulife Financial Corporation - President & Chief Executive Officer*

Ladies and gentlemen, thank you very much. I would just like to sum up by saying we have had a nice discussion here about the -- our general ledger, that's what I call the SIP. It has got a lot of numbers in there. I want you to bear in mind the robustness and the strength of our franchises. More and more as every quarter goes by and you look at our performance vis-a-vis the industry or vis-a-vis specific competitors, and I think it is at least arguable that there is a qualitative difference here.

Our Company continues to grow. Our assets under very, very -- are of excellent quality. Our costs are well-controlled. We continue to gain market share. Our businesses are expanding everywhere. We don't run the business for quarter to quarter purposes. We run it for the long-term. And I think that maybe we have been tremendously lucky over the last number of years. But I think that our business model also had something to do with the fact that we have been so successful.

So I would ask all of you to bear these comments in mind when you are assessing our overall performance. We are very proud of it, and we think we look forward to continuing to deliver strong results in the periods ahead, no matter what the economic conditions are. Will it be 18% returns? Well, you know, that might be a little tough. But they will be respectable returns.

We underlined or underscore our confidence in our future. We did increase our dividend this quarter, in part because we feel good about the way the universe is going to unfold. Who knows how the universe is going to unfold? I am not particularly pleased to read, as I did this morning, the long litany of financial institutions coming forward with more and more problems. I don't manage those institutions. We manage our own, and we try to govern our business and take care of our affairs. And I think we are taking care of our affairs very well.

So thank you very much, and we look forward to reporting to you next quarter. And those of you who have specific detailed questions that have not been covered on the call, please call Simon or Lynda or Don or Peter -- whoever. Thank you very much.

Operator

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