

FINAL TRANSCRIPT

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MFC - Manulife Financial Corporation Financial Position Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Manulife's conference call. Your host for today will be Mr. Amir Gorgi.

Amir Gorgi - *Manulife Financial Corporation - AVP, IR*

Thank you and good morning. Thank you for joining us on this call today. If anyone has not yet received our press release and slides for this conference call and web cast, they 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.

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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 Harbor Provisions of Applicable Canadian and U.S. Securities Laws. Forward-looking statements involve risks 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 express or implied in these statements. For additional information about 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 Power Point presentation for this conference call as well as management's discussion and analysis section of our most recent annual report under the headings "risk management" and "critical accounting and actuary policies".

When we reach the question and answer portion of the conference call, we would ask each participant to adhere to a limit of one or two questions. If you have additional questions, please requeue and we will do our best to respond to all questions. With that, I would like to turn the call over to Dominic D'Alessandro our President and Chief Executive Officer who will make some introductions. Dominic.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Thank you, Amir. Good morning, ladies and gentlemen, thank you for joining us on this call. Last week we became aware of concerns swirling in the marketplace regarding Manulife's guarantees with respect to variable annuities, the condition of our credit portfolio, our investment portfolio generally and our overall capital position. We thought that rather than let these concerns go unanswered, that we would issue a (inaudible) press release and also make ourselves available today to respond to the questions and concerns that may exist out there and as you will -- as I hope you will conclude, as we go through the items individually, that the concerns that exist as they relate to Manulife are grossly exaggerated. We remain very well capitalized and we have no intention to issue equity capital, contrary to speculation that was -- that came to our attention. So we prepared a presentation to deal with some of the issues that we've talked about that I've just mentioned and I'd like to ask our Chief Actuary, Simon Curtis, to take us through the presentation of the impact of equity markets.

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

Thank you, Dominic. This morning, I'd like to give you an update on how the recent equity market volatility is impacting Manulife's overall capital position, as well, I'll provide some context on the risks associated with variable annuities and segregated fund guarantees and then discuss how the capital and reserve requirements for the guarantees have moved with the recent market volatility.

Turning to Slide 3, this slide provides an overview of how equity market volatility is impacting Manulife's capital position in the third quarter. As I believe most of you know, Manulife operates through two primary operating company streams, one, the acquired John Hancock companies and one, the older Manulife which has most of our variable businesses. On this slide we've concentrated on the capital position of manufacturers life because the other stream, the acquired John Hancock stream, has limited equity exposure and has very limited equity sensitivity

For the Manulife stream, basically all of our variable annuity businesses such as variable annuities, guaranteed segregated funds are held in this company so it is the company that is the most responsive to equity market movement. As you can see on this slide, in the box at the middle, we are expecting to close the third quarter in our target MCCR range of 180 to 280 -- to 200%, albeit at the lower end of that range. As you can see, the required capital has increased and the primary driver of the increase in required capital is the impact of the equity markets on the segregated fund guarantees. Available capital has also increased, driven not just by expected earnings but also by some capital repositioning whereby we've moved excess capital from other components of the organization into Manulife. I would just caution at this stage that the Q3 numbers are still estimated as we're still [finishing] our final close of the books so all the Q3 numbers that you see in this report are preliminary.

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Turning to Slide 4, we just provided some comments on our fourth quarter outlook as I know with the volatility that we have seen in the first few days of the fourth quarter, there is interest on how that volatility will impact us. Obviously, the fourth quarter equity markets would put downward pressure on our capital ratios because of the segregated fund guarantees if markets were to remain significantly depressed below September 30 levels.

However, looking at the volatility that we've seen to date in the fourth quarter, we would still expect to be able to close the quarter above regulatory minimum target levels; however, probably slightly below our own target levels. If markets do respond and what we've seen in the last day continues, we could well be within our target range. In the fourth quarter, we're anticipating continuing the number of capital initiatives that we've already undertaken in the third quarter with capital repositioning such as rebalancing capital requirements within our corporate structure and potentially looking at other transactions such as reinsurance to help manage our equity risk. External equity capital raising is not anticipated to be necessary to maintain our fourth quarter capital ratios.

I would also point out that because our capital and reserve regime capitalizes market impacts in the current period that is being looked at there is really no subsequent period drag on our balance sheet or in a material way in our income levels from the current market volatility, so it's important to realize that once we get through the period of market volatility, and lower markets, our balance sheet will be a strong, solid platform to both rebuild the capital base, grow the capital base from organic means.

Turning to Slide 5, what I would now like to do is just review our segregated fund guarantees, and how the reserve and capital requirements for those guarantees are determined. Our segregated fund guarantee offerings are primarily in three jurisdictions. Our US business, our Canadian business, and our Japanese business. And we have approximately 72 billion of net in force of guarantees. It's important to note that the benefits from these guarantees are extremely long-dated, they are expected to be paid over prolonged periods in the future and as we'll see on the next graph, most of the cash flows are 7 to 30 years out in the future. There are very limited cash flows over the near-term.

The guaranteed benefits provided under our segregated fund guarantees cannot be accelerated by the policyholder. Effectively, the guarantees are only payable on specified dates or events, such as policyholder death. The guarantees that we offer take several forms including minimum death benefits, minimum annuitization benefits, maturity benefits or periodic withdrawal benefits. The vast majority of new business that we're selling worldwide are guaranteed minimum withdrawal benefits, where the key benefit is a structured minimum amount that can be withdrawn over a number -- spread out over a number of years or over the lifetime of the contract.

In many ways, the segregated fund guaranteed products operate as private pensions, allowing investors to invest in equity and bond funds but having the comfort of some minimum level of guaranteed structured payments. There is no cash call or liquidation risk associated with these guarantees. As we said earlier, they cannot be accelerated and most of them are paid many years into the future. We'll also show on the following graph potential cost of these guarantees is well within the existing resources of the company and that the reserves and capital that we provide for these guarantees provide a very high level of coverage for the risks.

Turning to Slide 6, this is a cash flow graph for our overall segregated fund guaranteed profile that we've put together reflecting what we would think would be the net cash flows on these guarantees for the whole book that we have in force at September 30, worldwide. Now, we have just -- I'll just take a minute to explain this graph because it's an important graph to understand the nature of these guarantees. First off, we have shown three levels of cash flows for these guarantees with different lines, which reflect different calculations of the confidence levels of these cash flows. The cash flow shown are the expected -- are the level of payments we would pay under these guarantees, less the fee income associated with these guarantees.

So as you can see in the first few years, the cash flows tend to be negative as the revenues that we charge will exceed the guaranteed benefits and potentially in later years there are situations where the guaranteed costs that we would pay for these guarantees exceed the revenues. Now the three lines that we've shown here are a blue block line, which is the expected cost, that's labeled the CTE, zero line. A red line, which is effectively the level at which we reserve, CTE70 over longer periods of time

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which is about a 90% confidence level and then the green lines are the cash flow that would be reflected in a capital calculation. These are the CT95, are a very high confidence level such as over 98 percentile.

As you can see at an expected level, the cash flows are negative for many years up to about 15 years in the future and only very slight positive costs thereafter. And in fact on a present value basis, on an expected level fully reflecting where markets were at September 30, the revenue that we charged for these guarantees is still expected to exceed the cost of these guarantees. The red line looks at a slightly higher level, confidence level, much higher confidence level, the CT70 level or about 90 percentile and you can see even for these lines, this cash flow line, there is still positive cash flows for approximately 10 years before we see some costs associated with the guarantees. And it's the red line here that gives rise to the reserve that you see on the balance sheet, which at the end of the second quarter was about \$750 million as we'll show in later slides will be larger this quarter up to about \$1.4 billion.

The green line are the cash flow that's get reflected in our capital calculation and these are the only scenario in which there are material costs. However, we would point out that the -- I would point out that the cost in this line, the annual costs are all at maximum, well under a \$1 billion pretax and this needs to be looked at and that's in the context of our total revenue stream for our worldwide businesses, including all of our non-equity linked businesses which are much higher levels of income over \$4 billion pretax. In other words, even in very extreme scenarios, the expected income from the non variable annuity businesses is well, well in excess of even the worst single year cash flows that we would get from these businesses. The key message is that these cash flows are extremely long-dated and at most confidence levels fully reflecting the September 30 markets, there is still very limited costs associated with these cash flows.

Slide 7 actually takes the previous numbers and it turns them into a bit of a present value cost presentation. The notional amount at which the guarantees are in the money today is about \$12 billion, that's the -- someone could accelerate and crystallize all their costs which could only be achieved if the million variable annuity policyholders all died tomorrow we would actually have a total potential exposure of \$12 billion.. As we covered on the previous slide, that cash flow profile is well deferred into the future, cannot be accelerated and will be largely diffused by fee income, charged explicitly for those guarantees. You can see at the CT level, which is the average of all the scenarios we run, the expected result, the actual value of the guarantee you would expect to pay is only \$0.7 billion with fee income of \$5.5 billion expected over the same periods on the guarantees for actually a net revenue, revenue exceeding costs of \$4.8 billion.

Capital level calculation looks at the 5% average worst scenarios, there you can see the cost is actually larger, materially, \$8.9 billion offset by \$3.2 billion of revenue for a \$5.7 billion net cost in that scenario. In other words, at an expected level, there is significant net revenue, only at the capital level do we see a significant net cost. That net cost of \$5.7 billion is held on our balance sheet as a combination of reserves and required capital as we point out below. About a \$1.4 billion of reserves are expected to be held at the third quarter and \$4.3 billion of capital.

On Slide 9, you can see I've just -- we've just done a roll forward of the net amount at risk exposure, the reserves and capital that we hold. You can see at September 30, the reserve number of \$1.4 billion, the required capital of \$4.3 billion for the total of \$5.7 billion. What we've also done here to highlight is that over time as we build to a target 200% MCCR ratio, you can see that when you actually consider the scale-up on required capital, which really doubles the MCCR required capital point, we're actually holding resources quite close to dollar for dollar the notional net exposure if all of these guarantees could be paid off today. I would also point out that looking at 200% MCCR ratio, while if you consider that the resources that we would be holding \$10 billion would be versus an expected cost of \$4.8 billion net revenue, so almost \$15 billion more than the net cost expected from these guarantees.

Just one last comment I'd make on this slide, as I know a number of you have raised this question, when we look at the \$1.4 billion of reserves that we're expecting to hold at September 30, we've actually strengthened our reserves to the maximum level at September 30, given the equity market volatility so when one looks at that increase of approximately \$650 million from \$750 million at the second quarter, about \$400 million of that is an increase associated with increasing the CTE level of the reserve and the other \$250 million of that would be the normal market movement. The \$400 million increase from increasing

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the CTE level is going to be offset in the Q3 earnings by a release of some excess interest rate reserves, which will leave the overall PfAD levels unchanged and neutralize that component from an earnings perspective.

So in summary, looking at Slide 10, three key comments that I would like to end with are to emphasize that the segregated fund guarantees are very long-dated, deferred contingent obligation. Any return to normal market movement conditions over the next several years will substantially reduce the current observed exposure and effectively reduce and reverse the reserves and capital that we've accrued because these are not amounts that can get crystallized.

Our overall balance sheet is extremely strong. We have good organic growth in our earnings and a diversified business so we're well-positioned to cover existing exposures, even with market conditions at current levels and as they persist in the future and generally we have a very diversified earnings base of non-equity sensitive businesses, which will drive core earnings and offset a number of these exposures.

So with those comments, I'd like to turn the platform back to Dominic D'Alessandro.

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

Thank you, Simon and before we open up the call to questions, I'd just like to say with regard to credit losses that the number that we've disclosed of the impact for the quarter of \$250 million largely relates to the troubled credits that we've previously discussed with you, the Washington Mutual situation, Lehman I think is the bulk and a little bit for AIG because most of our exposure in AIG is in the operating companies. You'll recall that we had our Analyst Day meeting on the very morning that Wachovia announced its troubles. We're very pleased with the resolution of the Wachovia situation. None of our exposure to them will result in any loss, given the arrangements that have been made with respect to that company. And we'll just leave any other issues to be covered during the question-and-answer. Operator, we are ready now for the question-and-answer portion of the call.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now take questions from the telephone lines. (OPERATOR INSTRUCTIONS) . Our first question is from Colin Devine from CitiGroup. Please go ahead.

Colin Devine - Citigroup - Analyst

Good morning. Couple questions. I guess Dominic, looking at the jump here from Slide 3, with the required capital up 19% in a single quarter, frankly on page 9, up 139%, what does this say about the quality of Manulife's hedging programs or should -- are we at the time where this thing needs to be substantially more hedged where you can have this kind of volatility. That's the first question. The second question on the use of reinsurance, are you considering the use of surplus relief is number two. And then third, if you can comment on the stability of Manulife's dividend, please.

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

Okay. Well, with regard to the increase in the required capital of \$1.5 billion, I guess that I would say, Colin that markets have moved very, very dramatically since the end of the second quarter and given the size of our business and the size of our equity exposures, I'm not -- I'm not surprised that there's been an increase in the required capital. With specific reference to your question about can you hedge all of this away or is this a time to start hedging all of this away, we're going to do more hedging

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but the volatility and the cost of using hedging is very, very high at this time. We would like to exhaust other avenues. I don't think it's realistic to expect that we would be able to go and hedge away all of our exposure in a very short time frame and I don't think it's the right use of our resources. We are looking at the use of reinsurance for purposes of providing us additional capital relief, should that become necessary and there are blocks of business in our company that would lend themselves to that. And these are being explored in the event that they become necessary.

Finally, with regard to the dividend, we have no plans to reduce the dividend. Our capital is at even after the market falloff, which was very substantial, is at 183. We think there are other steps we can take in the fourth quarter, the markets should deteriorate or not show improvement or we'll judge that as we go along. The dividend cut is not something we're contemplating.

Colin Devine - Citigroup - Analyst

Okay. Dominic. Specifically I asked on the use of surplus relief insurance and if you could just comment on that and then also what you've shown here I think just relates to what's in the US.

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

No, no, this is worldwide.

Colin Devine - Citigroup - Analyst

This includes everything including the Japanese business?

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

Yes, everything in the world, yes.

Colin Devine - Citigroup - Analyst

And then the surplus relief question.

Peter Rubenovitch - Manulife Financial Corporation - SEVP & CFO

Colin, it's Peter. We're not looking at surplus relief. If we did reinsurance it would probably be co-insurance on blocks that have big embedded value and it's a choice that we're inventorying but not actively advanced yet.

Colin Devine - Citigroup - Analyst

Very key distinction. I appreciate that.

Operator

The next question is from Michael Goldberg from Desjardins Securities. Please go ahead.

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Michael Goldberg - Desjardins Securities - Analyst

Judging from your comments, it sounds like there's going to be a Seg fund guarantee strengthening this quarter of about \$650 million and you said there would be an offset on release of reserves related to interest rate assumption. Is that the 400 increase in the CTE level, just so I have that correct?

Simon Curtis - Manulife Financial Corporation - EVP & Chief Actuary

Yes, Michael, it's Simon. And just to caution you, again, these numbers are all preliminary.

Michael Goldberg - Desjardins Securities - Analyst

I understand.

Simon Curtis - Manulife Financial Corporation - EVP & Chief Actuary

If you take the reserve we booked at the second quarter which is about \$750 billion and use the \$1.4 billion as a reference for the third quarter, the increase in the CT level would be about \$400 million, \$250 million would be the movement in the reserve at the starting CT level and it's the \$400 million that would be offset by repositioning some of the existing PfADs so that we would leave our overall PfADs unchanged.

Michael Goldberg - Desjardins Securities - Analyst

And these are all pretax numbers; right?

Simon Curtis - Manulife Financial Corporation - EVP & Chief Actuary

That's correct.

Michael Goldberg - Desjardins Securities - Analyst

So we could just apply a normal tax rate to figure out an after tax impact?

Peter Rubenovitch - Manulife Financial Corporation - SEVP & CFO

That would be in the ballpark.

Michael Goldberg - Desjardins Securities - Analyst

Okay. Can you also comment on the expected impact of the market volatility on the sales of these products?

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

The sales have been affected because of the market volatility. I guess that's no big surprise, that people are deferring investment decisions, given the uncertainty that's confronting them every day, looking at -- so our sales are down. They're going to be down anywhere from 20 to 30%, I expect, during the period.

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Michael Goldberg - Desjardins Securities - Analyst

Thank you.

Operator

Thank you. The next question is from Andre Hardy from RBC Capital Markets. Please go ahead.

Andre Hardy - RBC Capital Markets - Analyst

Thank you. Simon or Peter, can you please comment on the impact of weak equity markets on areas other than VAs? , if any?

Peter Rubenovitch - Manulife Financial Corporation - SEVP & CFO

Our fee income is on average asset balances, so that's a direct function of equity markets with average value and of course our owned equities would be reflective of market conditions. This would be the only other key area and we've discussed it in some detail so you would understand it. The others are exactly what you would expect relative to our fee income on the asset portfolios and the owned equity positions.

Andre Hardy - RBC Capital Markets - Analyst

Okay. So if we go back to your Q1 disclosure, which was very good, to break out the different impacts, today you addressed what cost you \$105 million after tax in Q1? Would it be fair to assume a similar impact as Q1 on your earnings from non-VA impacts?

Peter Rubenovitch - Manulife Financial Corporation - SEVP & CFO

Yes, it would be similar relative to the move; that's correct.

Andre Hardy - RBC Capital Markets - Analyst

Okay. Thanks. The other thing I wanted to clarify is this interest rate reserve release. Is that related to capturing some of the increased spreads that we've seen in your expected future income or it's your reserves related to or your PfADs related to the level of risk free rates?

Simon Curtis - Manulife Financial Corporation - EVP & Chief Actuary

It's really -- it's really looking at the scenarios that the Canadian [suite of actuaries] requires us to cover versus the scenarios we use to book our reserves and certainly with changes in some of the risk free rates and market spreads, the scenarios we used to book our reserves have been overly conservative versus those prescribed scenarios. We were already in discussions about our auditor about releasing some of that excess conservatism. We thought with what we've seen in the market this quarter shall it shall, it was a good time to make that adjustment.

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Michael Goldberg - Desjardins Securities - Analyst

You talked about not raising equity capital and you talked about a lot of potential alternatives to strengthen capital in Q4. Would that potentially include the issue of debentures or preferred shares or -- ?

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

Those are some of the alternatives we're looking at.

Michael Goldberg - Desjardins Securities - Analyst

Thank you very much.

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

I've just gotten a note here that I should remind everybody, I mentioned that our sales were soft this last month or so. I was speaking about our variable annuity sales, our savings product sales. In fact, our life insurance sales remain very strong across the system.

Operator

Thank you. The next question is from Mario Mendonca from Genuity Capital. Please go ahead.

Mario Mendonca - Genuity Capital - Analyst

Dominic, you explained that there was some capital movement, probably from the holding company into this operating company to get you to the 183% MCCR. Question I have is what is the MCCR at the holding company? Is there any excess capital there or is there capital anywhere else in the operation that can be moved to this subsidiary, if needed?

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

Well, the answer to the second question is there's a number of things we can do to bolster the capital if it should be required in our operating company. We've talked about some of them. With regard to the capital at the holding company level, I am not sure we know what that is just now. Do we?

Simon Curtis - Manulife Financial Corporation - EVP & Chief Actuary

We haven't got the final calculations for those numbers.

Mario Mendonca - Genuity Capital - Analyst

Is the company, the capital in the holding company or the MCCR in the holding company is it greater than the MCCR in the operating company, normally?

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Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

Typically that would not be the case.

Mario Mendonca - *Genuity Captial - Analyst*

The holding company, MCCSR is normally lower than the, is that what you're saying?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Of course.

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

It's regulated differently because it is a holding company.

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

Yes. Mario, it's Simon. The holding company is not regulated on an MCCSR basis. It's really only the operating company. It's a different metric for the holding company and I guess I would point out that we are looking at some restructuring so that by the end of the year there actually would be most of our operations would be combined in one company that would be subject to MCCSR. You'll see that.

Mario Mendonca - *Genuity Captial - Analyst*

I guess what I'm getting at is we don't have disclosure of holding company MCCSR anymore.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Because there isn't any such measure. Is there an MCCSR for the holding company?

Mario Mendonca - *Genuity Captial - Analyst*

It's submitted to (inaudible). I don't think it's reported anymore. Every other insurance company in Canada submits their holding company MCCSR to (inaudible). At least that's what they told me.

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

Nobody does a formal MCCSR filing to [aus] on holding company MCCSR. We all talk about different risk metrics with our regulator but it's not a formally reported number therefore it wouldn't be one that would get disclosed.

Mario Mendonca - *Genuity Captial - Analyst*

Maybe, I'll ask it this way, is there any excess capital in this company, anywhere?

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Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Well, I think we've got 183% MCCR ratio. We've got a number of other initiatives we can undertake to improve that ratio, including we talked about some of them, reinsurance and the redistribution of capital within our subsidiaries and additional hedging, perhaps, and --

Mario Mendonca - *Genuity Captial - Analyst*

Let me just, if I could just try one more thing. Is there any room for mortality reinsurance in this market right now? Is there any appetite for that?

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

Yes, yes, of course there is. The fact is, we like our mortality risk but there obviously is an appetite -- we have mature and seasoned blocks that --

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

We're not very keen and we don't see the need at the moment. I mean, we would do these things because in essence if you reinsure, you're giving away future profits and we really don't see the need to do that, Mario.

Mario Mendonca - *Genuity Captial - Analyst*

I understand.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

We've got a wonderful book of business. We've got a portion of our operations which have been affected by -- we're trying to communicate to you that even in these extreme situations, these books are structured and the payments will be and the fees and so on and what Simon was showing you, the CTE95 assumes that the September 30 situation, which was already quite a bit affected by the decline in equity markets, that would suffer a further decline of some 20 to 30% which would persist and never been recovered and so we're maintaining capital at that level and so the discussion this morning was an attempt to clarify for you that the capital resources for the company, under almost any reasonable expectation of what's going to happen, are more than adequate today. Now, I can't predict the future and the other thing we would like to communicate to you is if markets do deteriorate we're a big, strong company and we'll go and do something else to re-establish our capital levels at acceptable -- at an acceptable threshold.

Mario Mendonca - *Genuity Captial - Analyst*

Just one final thing, maybe I'm not sure if Simon, this is something you can help with. On Slide 3 you show that the Q3 '08 estimated required capital is \$9.3 billion. October 10, where would that be at October -- I don't imagine it's linear, going from the 7.8 to the 9.3 or could you give us a sense of where the required capital would be at October 10?

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

We haven't done that calculation for the post September 30 that we could -- we want to talk to. You have to understand that these calculations are quite complex. Until we actually finish our Q3 we don't want to sort of roll the stuff into the fourth quarter.

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Mario Mendonca - *Genuity Captial - Analyst*

Thanks.

Operator

Thank you. The next question is from Tom MacKinnon from Scotia Capital. Please go ahead.

Tom MacKinnon - *Scotia Capital - Analyst*

Thanks very much. Two quick questions here. I guess as a key take away to I think you had somewhere around, you used to talk about \$3 billion of excess capital in the last quarter. Can you give us any level right now?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

If you take the information we've given you, which is at the 7.8 is now being -- the 7.8 on Slide 3, here's how I would use it. The 7.8 of required capital at the end of Q2 has grown to \$9.3 billion, largely because of the decline in equity markets and so that's an increase of \$1.5 billion. That's required capital at 100%. Now, if you have a target of 180 to 200%, you just say well, all right, so my required capital or my target, my targeted level now is I need an extra \$3 billion. So if you had \$3 billion excess to start with, and now markets have moved in a way that consumed that \$3 billion, wouldn't you assume that.

Tom MacKinnon - *Scotia Capital - Analyst*

If you want to run at that top level, than you've (inaudible) it but if what to be somewhere else than you've got some more. So if you're sitting at 190 somewhere around there, you might have somewhere around 1 1/2, 1 to 1 1/2.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Exactly. What we wanted to do today was to respond to some pretty extreme concerns that we saw that people were raising with us about whether or not the equity meltdown that's occurred was going to cause us to have to undertake a massive dilutive capital issue and these numbers are intended to show you that that's clearly not the case. There's no reason for that.

Tom MacKinnon - *Scotia Capital - Analyst*

Okay. And this \$6 billion that we speak of growth on realized losses on fixed securities, what was that number at the end of the second quarter?

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

That was \$3 billion, Tom.

Tom MacKinnon - *Scotia Capital - Analyst*

Okay. And then finally, the CTE level that's -- you talk about there's a 400 increase, as a result of the increase in the CTE level, I think it was 69 at the end of the second quarter?

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Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

Yes, Tom, we would expect to book CTE to the maximum that we would be permitted to at the end of the third quarter, given the volatility.

Tom MacKinnon - *Scotia Capital - Analyst*

I mean, you ran at the end of the first quarter somewhere around like under 70 and I -- looking back over several quarters, I haven't seen this thing ever above 75. What was the decision then to run it closer to 90 this time?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Well, because of the way these -- we have an aggregate amount of PfADs, some of which were for interest rates, let's say and were thought to be excessive and some of for these Seg fund guarantees by guarantees which because of could be strengthened. We thought to give comfort to the marketplace we would move the excess reserves from the interest rate P fab to the reserve for the Seg fund guarantee. The aggregate amount of total pads stay exactly the same but they get reported on different lines.

Tom MacKinnon - *Scotia Capital - Analyst*

Okay. Thank you.

Operator

Thank you. The next question is from John Reucassel from BMO Capital Markets. Please go ahead.

John Reucassel - *BMO Capital Markets - Analyst*

Thank you. Just to follow up on the capital, did you -- you have put some money from the hold company into MLI, is that correct? And was that -- was that Tier 1 capital or Tier 2 or could you talk about that?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Yes, we can. Peter, do you want to explain?

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

Sure. We've done a number of things and the end result is to strengthen Tier 1 and Tier 2 capital in the operating company in the quarter and we have a number of other things that are in process for the fourth quarter. Perhaps the most important of which is that combination of the US operations where we had the MLI and the ex Hancock pieces operating separately and the importance of that, we mentioned it at the Investor Day, is that each of those businesses has different risk concentrations and significant portion of our capital and by combining them, the risks will be over a more stable capital base, more diversified.

John Reucassel - *BMO Capital Markets - Analyst*

So if we look at the distribution between your Tier 1 and Tier 2, Q3 disclosure, it should be proportionately roughly the same?

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Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

I think so. I'm not positive. But I don't think it would be dramatically moved. Simon, is that -- ?

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

I don't think it would move dramatically. I know a number of the capital transactions would have put Tier 1 in through common share. That might increase slightly.

John Reucassel - *BMO Capital Markets - Analyst*

The RBC at JHS, is that still around the 400, 439%?

Simon Curtis - *Manulife Financial Corporation - EVP & Chief Actuary*

I don't have the exact number, John. It's still high. It's still well, well in excess of the 300 level. I'm not sure if it's 400 or the 430 but it's way above the 300.

John Reucassel - *BMO Capital Markets - Analyst*

Okay. And Peter or Simon, you have been in the past running a, I don't know if mismatch is the right way to call it in the US business. Has that now gone away or.

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

Interest rate you're talking about or -- ?

John Reucassel - *BMO Capital Markets - Analyst*

Interest rate.

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

No, that's unchanged.

John Reucassel - *BMO Capital Markets - Analyst*

The last two questions. I guess they're both for Dominic. I guess the ISB allowing at least European banks to look at amortized costs for some of those assets, any developments here? And I guess does this, what's happened in the last few weeks, limit your appetite for acquisitions?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

I'm not aware that we're looking at modifying the way we're carrying our investment portfolio. So the amortized cost question, we haven't had that debate and that discussion, we're following developments closely and are intrigued with the efforts made

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to improve stability of all financial institutions, but as regards Manulife, we haven't had any concrete discussions regarding adjustments.

I guess your second question is a very interesting one. Does the turmoil affect our appetite for business expansion and M&A activity. I guess I would answer it this way, is that, when you see your stock drop by 25% in two days, it sort of focuses your mind that maybe you ought to pay attention to reassuring and making your investors understand your position. We think that Manulife was side-swiped by the meltdown in the markets in a way that grossly exaggerated any impact that they're going to have on us. I want to put that to rest. And so that was the first priority. Of course, we are interested in growing our business, there is opportunity in this marketplace and we expect to take advantage of the opportunity.

John Reucassel - BMO Capital Markets - Analyst

Thank you.

Operator

Thank you. The next question is from Jukka Lipponen from KBW. Please go ahead.

Jukka Lipponen - KBW - Analyst

John Hancock, RBC ratio you said way above 300 on the second quarter call you said your target was maybe 300 to 350. Would it be fair to say that for an AAA rated company the target is probably at least 350 in terms of the rating -- to satisfy rating agencies?

Dominic D'Alessandro - Manulife Financial Corporation - President & CEO

I'm not sure that -- Peter, do you ?

Peter Rubenovitch - Manulife Financial Corporation - SEVP & CFO

I think it's a range and it depends on your operations and your earnings stream. I don't think it's clear that that is an accurate statement.

Jukka Lipponen - KBW - Analyst

Whatever that level is, anything above that basically could be considered excess capital; correct?

Peter Rubenovitch - Manulife Financial Corporation - SEVP & CFO

Yes, I think that's fair.

Jukka Lipponen - KBW - Analyst

And then my other question is experienced gains have been a significant component of your earnings and you made reference at the Investor Day that the investment related gains have been an important part of that. If we remain in a less favorable investment environment, and I don't mean that kind of days and weeks we've had recently, but less favorable than what we've

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had in the last several years, would that not put pressure on you achieving your 15% EPS growth targets over the next several years?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Well, it depends. Again, this current quarter I would expect our experience gains will be more modest than they have been in the past, for obviously reasons. But going forward, I would remind everyone that our expected reserves are very conservative and we would, nonetheless under most scenarios expect to continue to enjoy experienced gains. Will they be at the same magnitudes as they have been in the past? I think that will depend on a number of things, the overall level of interest rates. There's some scenarios where you could say they might be even higher than they have been in the past, depending on what happens to interest rates. And it will depend on what happens with credit losses and how quickly and how severe any economic corrections are. So, the long -- that's a long answer. But if the interest -- if the economic conditions remain very depressed or no growth scenario, and it may be more challenging for us to earn a 15% consistent ROE but I'm not sure we're there yet.

Jukka Lipponen - *KBW - Analyst*

Thank you.

Operator

Thank you. The next question is from Darko Mihelic from CIBC World Markets. Please go ahead.

Darko Mihelic - *CIBC World Markets - Analyst*

Just three quick questions. I think Simon and Peter, you sort of helped us out with some of the items that are affecting the quarter but I'm just curious why have you elected to not provide a range of earnings per share for the quarter. Most of the [insurers](inaudible) south of the border who pre-announced provided a range. My second question is to respect to one of your competitors sold a piece of their business to raise some capital. Is that possibly another last ditch sort of thing that you might have to do or considering to do rather than raise capital. And finally my last question is with respect to pricing of product. Is the environment causing you to rethink any sort of pricing parameters for any of the products that you sell? Thank you.

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

Let me start off with the Q3 comments. We report slightly later in the cycle than many of those that prerulease. Also, our close includes more actuarial input that would typically be the status in the US. So as a consequence, we're a little earlier in the cycle. As well, the discussions that we were concerned about didn't relate to our results but rather these matters that we have spoken of in some detail.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

With respect to the two other questions you asked, we are not contemplating selling any significant businesses, as we have said many, many times. We like the businesses we're in. We're very careful about what businesses we get into and we like the ones we're in. With regard to pricing action, I think it's safe to say there are a number of products that are undergoing review with the idea of making them more appropriate for the times that we're living in. I expect that you'll see that be an industry phenomenon that there will be a systematic review of products to make sure that they reflect current conditions.

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Darko Mihelic - *CIBC World Markets - Analyst*

Thank you.

Operator

Thank you. The next question is from Eric Berg from Barclay Capital. Please go ahead.

Eric Berg - *Barclay's Capital - Analyst*

Thanks very much and good morning to everyone.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Good morning.

Eric Berg - *Barclay's Capital - Analyst*

Good morning, Dominic and to your team. What would you anticipate would be the enduring effects of this market turmoil on consumer behavior in the life insurance business and how distributors behave? How do you think the industry is going to be affected long-term from those perspectives?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Well, I think that we're in for an extended period of reregulation of many activities. I don't think the insurance industry has been as unregulated as some other sectors in the financial services, but I think regulation will be a bigger feature going forward. I think, I believe that consumers will be more discriminating about who they do business with and I think there will be more care and attention directed at who is the provider of financial services. And I think that there will be an increased awareness on the part of consumers that what you buy and who you buy it from is important and I think that the appetite for some of the products that we sell will actually increase.

Eric Berg - *Barclay's Capital - Analyst*

The other question I had relates to sort of the financial impact that has been recorded so far by the North American Life Insurers. Manulife has relatively modest exposure to some of the structured securities that have been in the papers every day, the subprime, the Alt-A, the MBS and so forth and your competitors state side, while they have recorded large unrealized losses have really done very little to record permanent impairment, so what I guess is called in the auditing profession, other than temporary impairments, suggesting that they believe they're going to get that close to \$100-cents on the dollar from these structured finance securities. Is this -- my question is, it's just curious that the industry has essentially taken the position that it is largely side-stepped this entire fiasco in structured finance. Is this luck? Is this wishful thinking?

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

I really don't know the -- I think you would have to know the detail of everybody's portfolio to answer that question with any degree of confidence. I would say, though, that just as an observer, looking -- I mean, the movements and the volatility is so huge, I don't think anybody can know exactly what values to ascribe to some of these positions. Just look at the Wells Fargo and Citibank valuations of Wachovia. In the space of a couple days, two very sophisticated purchasers had radically different

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views of what that entity was worth and what those portfolios, what losses may have been embedded in those portfolios. So I'm somewhat sympathetic to trying to put a pin at a particular point in -- at a particular spot, given how difficult that is. I don't know how to answer your question other than in those generalities. I would remind everybody that we don't have any of those instruments on our books. It wasn't an accident, by the way. That was a conscious decision we made not to participate. Our credits are more conventional in nature and I think more than adequately reserved for.

Eric Berg - *Barclay's Capital - Analyst*

Thank you, Dominic.

Operator

Thank you. The next question is from Jim Bantis from Credit Suisse. Please go ahead.

Jim Bantis - *Credit Suisse - Analyst*

Hi, good morning. Many of my questions have been asked and answered. I'll ask a quick one. With respect to your capital ratios at October 10, you suggested they would be below your targeted range but above the regulatory minimums. I'm just wondering, Peter, to what extent would your AAA rating be at risk with respect to your ratios being below your range? Maybe you could add a little bit of color on that in terms of what would put that in jeopardy.

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

We just went through our discussions with the rating agencies, again, it was before this extreme market turbulence and there wasn't particular issues or problems. It's my view that if this is a short-term situation that has remedies that it's unlikely to have an impact but at some juncture of course the rating agencies will look at your ratio and market conditions and they would be reflected in ratios. We're not currently of the view that that's an issue for us but clearly we're keeping an eye on the matter.

Jim Bantis - *Credit Suisse - Analyst*

Thank you.

Operator

Thank you.

Peter Rubenovitch - *Manulife Financial Corporation - SEVP & CFO*

I think we're done.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

So is there any more questions, operator?

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Operator

There are no further questions registered.

Dominic D'Alessandro - *Manulife Financial Corporation - President & CEO*

Okay. Well, thank you, everyone for joining us. I hope our comments have helped to clarify our position and hopefully given you the confidence that Manulife is in a pretty good position, all things considered. Of course, having the markets rebound another few thousand points would be good too. Anyway, thanks very much.

Operator

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

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