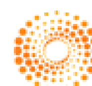
FINAL TRANSCRIPT

Thomson StreetEvents℠

MFC - Q3 2010 Manulife Financial Corporation Earnings Conference Call

Event Date/Time: Nov. 04. 2010 / 6:00PM GMT

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

CORPORATE PARTICIPANTS

Anthony Ostler
Manulife Financial Corporation - SVP, IR

Donald Guloien
Manulife Financial Corporation - President & Chief Executive Officer

Michael Bell
Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer

Jim Boyle
Manulife Financial Corporation - President, John Hancock Financial Services

Scott Hartz
Manulife Financial Corporation - Executive Vice President, General Account Invesment

Cindy Forbes
Manulife Financial Corporation - Executive Vice President & Chief Actuary

Bev Margolian
Manulife Financial Corporation - Executive Vice President & Chief Risk Officer

Warren Thomson
Manulife Financial Corporation -
Senior Executive Vice President & Chief Investment Officer & Chairman, MFC Global Investment Management

Paul Rooney
Manulife Financial Corporation - President & Chief Executive Officer, Manulife Canada Ltd.

CONFERENCE CALL PARTICIPANTS

Tom MacKinnon
BMO Capital Markets - Analyst

Andre-Philippe Hardy
RBC Capital Markets - Analyst

Michael Goldberg
Desjardins Securities - Analyst

Darko Mihelic
Cormark Securities - Analyst

Steve Theriault
Bank of America-Merrill Lynch - Analyst

Doug Young
TD Newcrest - Analyst

Robert Sedran
CIBC World Markets - Analyst

Mario Mendonca
Canaccord Genuity - Analyst

Colin Devine
Citigroup - Analyst

Peter Routledge
National Bank Financial - Analyst

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good afternoon and welcome to the Manulife Financial Q3 2010 financial results for November 4, 2010. Your host for today will be Mr. Anthony Ostler, Senior Vice President of Investor Relations. Mr. Ostler, please go ahead.

Anthony Ostler - *Manulife Financial Corporation - SVP, IR*

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our third-quarter 2010 financial and operating results. Today's call will reference our earnings announcement, the statistical package and webcast slides, which are available in the Investor Relations section of our website at Manulife.com.

As in prior quarters, our executives will be making some introductory comments. We will then follow with a question-and-answer session. Today's speakers may make forward-looking statements within the meaning of securities legislation.

Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied. For additional information about the material factors or assumptions applied and about the material factors that may cause actual results to differ, please consult the slide presentation for this conference call and webcast available on our website, as well as securities filings referred to in the slide entitled Caution Regarding Forward-Looking Statements.

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 requeue as we will do our best to respond to all questions. With that, I would like to turn the call over to Donald Guloien, our President and Chief Executive Officer. Donald?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Thank you, Anthony. Good afternoon, everyone and thank you for joining us today. Our third-quarter 2010 financial results announced this morning reflect a quarter in which we made considerable headway executing our business plan, both in terms of repositioning our business, reducing our equity and interest rate sensitivities.

I am joined on the call today by our CFO, Michael Bell, as well as several members of our senior management team, including our U.S. General Manager, Jim Boyle; Canadian General Manager, Paul Rooney; Warren Thomson for investments and our talented finance team.

Let me start with my assessment of our progress this quarter. We had a net loss attributed to shareholders of CAD947 million, equating to a fully diluted loss per share of CAD0.55. Despite the reported results, it is important to note that we generated strong underlying earnings from operations. Adjusted earnings from operations were CAD779 million in the quarter within the CAD700 to 800 million range we estimated for fiscal 2010 in our 2009 annual report.

The operational contributions were more than offset by a CAD2billion reserve strengthening and a CAD1 billion goodwill impairment related to the current economic climate and the repositioning of our U.S. business.

Manulife's capital position remains strong. In the quarter, Manulife increased its MCCSR ratio to 234%. We achieved a 19% reduction in interest rate income sensitivity by lengthening the duration of our fixed income investments through swaps and other initiatives in both the liability and the surplus segments.

THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Furthermore, we reduced equity exposure by hedging an additional CAD3.3 billion of in-force variable annuity guaranteed value and also lowered our equity holdings by almost CAD450 million. With the actions taken, the total amount of guaranteed value hedged or reinsured was 54% as at September 30.

As you have seen in our press release, we have adopted revised targets for hedging both interest rates and equities. Fortunately, equity markets have moved once again in our favor. The S&P 500 is up almost 20% since the July 2 low. And in fact, it is pretty much on with the yearly high. We also hedged another CAD800 million just today.

Our goal is to execute additional hedges so that approximately 60% of our underlying earnings sensitivity to equity market movements is hedged by the end of 2012. You will note that this is a more relevant standard than the notional standard we used before, [that is] 70% notional amount hedged, now we are using a standard of earnings sensitivity and the goal is to have 60% hedged by the end of 2012. And to go further than that through to 2014. We plan to use a combination of macro and dynamic hedging and other techniques until we are well within our targets.

With the basis changes and interest rate moves in the quarter, our interest rate sensitivity was going to increase beyond levels that we would find tolerable. In addition, the outlook seems to be for lower rates for a longer period of time. As a result, we are arranging our affairs so that we do not expect to see an increase in interest sensitivity, and through a variety of measures, plan to decrease that sensitivity over the next four years. To the extent rates continue to decline, we would also expect to generate additional gains on sale of bonds and surplus.

During the quarter, we saw positive results globally from our efforts to reallocate capital and resources to those products targeted for growth. Our repositioning is indeed working. In Asia, for example, sales of insurance products increased 50%, five zero percent. I am also particularly proud of our U.S. business where adjusted earnings from operations increased 72% over the third quarter of 2009. This was driven by reducing strain, changing product mix and price changes.

In Canada, mutual fund sales increased 181% with deposits almost triple 2009 levels. Manulife bank sales increased by 13% year over year and life insurance sales were up 11% in individual insurance. And in fact, as of last night, our U.S. mutual fund business recorded CAD8 billion in sales year to date.

Our credit experience remained strong, which is a reflection of the continued strength of our investment division. And we know a number of analysts like to compare our results with those of our U.S. peers on the basis of earnings and shareholders' equity. Under U.S. GAAP, we are estimating that we will report a net loss of CAD212 million, which is approximately CAD700 million lower than that recorded under Canadian GAAP. In addition, our total equity is about 9 billion dollars difference.

During the quarter, we also added to the highly successful John Hancock brand campaign in the United States by launching campaigns to tell our stories to Asian and Canadian audiences. These investments are helping to grow the value of our global brand.

In summary, we are successfully reducing our equity and interest rate sensitivities and also positioning our business for future earnings growth and ROE expansion.

I am also pleased to say that Manulife's Board recently had a Board meeting in China where we met with our many wonderful partners in China, signifying the strategic importance of Asia to Manulife's future plans. At that time, the Board also reviewed and reaffirmed its support of the Company's strategic direction and plans and we are enormously pleased to be able to share those plans with you at an Investor Day planned for November 19. With that, I will turn the podium over to Michael Bell who will highlight our financial results and then open the call to your questions. Thank you.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Thank you, Donald. Hello, everybody. Today, we reported a third-quarter shareholders' net loss, of CAD947 million, which equates, to a loss of CAD0.55 per share on a fully diluted basis. I will first refer to slide 7, which provides a summary of the quarter's results. Excluding notable items, our adjusted earnings from operations were CAD779 million and at the upper end of our previously stated range and we view these underlying business results to be strong.

We completed our annual review of actuarial methods and assumptions in the third quarter and this resulted in a total net charge of just over CAD2 billion after-tax and I will review these items in a few minutes.

On a Canadian GAAP basis, we recorded an impairment of goodwill of just over CAD1 billion related to our revised outlook for our U.S. insurance business. This review of goodwill was necessitated by current economic conditions and our recent decisions to reposition that business. And as we have discussed, this goodwill impairment is a non-cash item, which does not impact regulatory capital.

During the quarter, we took important fixed income investment actions, which reduced our sensitivity to interest rate changes and increased our capital levels. We ended the third quarter with a strong capital position as MLI's MCCSR was 234% at September 30, up 13 points from last quarter, despite the impact of the annual actuarial basis changes.

We also did a good job continuing to generate strong top-line growth in our targeted growth areas, while effectively limiting sales of our other products by design. Our credit performance continued to be strong, which is a testament to our investment discipline.

We also significantly reduced our interest rate sensitivity and we have plans to continue to reduce both interest rate and equity market exposures over the medium term.

We expect to report a net loss of CAD212 million on a U.S. GAAP basis in the third quarter. This result continued to be better than our CGAAP net result, even though the U.S. GAAP result includes a larger goodwill impairment.

So overall, we are pleased, with our progress, on several key priorities in the quarter, although obviously not satisfied with our net income result.

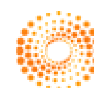
Now let's move to slide 8, which provides a breakdown of the notable items in the quarter. Note that the net impact of the third quarter's higher equity markets and lower interest rates totaled approximately CAD1 billion after-tax. This included CAD569 million of realized gains on the sale of bonds in our surplus segment. These bonds were sold to offset some of the negative impact of the decline in interest rates on the policy liabilities since the beginning of the year, and therefore served as an important partial hedge.

We generated additional investment gains in the liability segments, including the impact of actions to lengthen the duration of our fixed income investments, which support our policy liabilities. We feel positive that these actions contributed to two objectives. They increased our capital, and reduced our interest rate sensitivity. And as noted on the slide, these additional favorable investment-related gains contributed CAD364 million in earnings. So excluding the notable items, adjusted earnings from operations in the third quarter totaled CAD779 million, which we view as a positive result.

Slide 9 summarizes our results by division and we have excluded the impact of the equity markets, interest rates and investment results. So excluding the substantial losses in corporate for the annual basis change in the goodwill impairment, the divisional results were up materially versus the first half of the year.

Our U.S. insurance business demonstrated the most improvement in underlying earnings as price increases and lower volumes drove a substantial improvement in new business strain. Improved policyholder experience contributed as well.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



In addition, we drove underlying earnings growth in the U.S. Wealth Management business primarily through a more favorable sales mix. In Canada, underlying earnings growth versus the prior quarter was driven by improved claims and lapse experience. The Asia division experienced a decline versus the prior quarter primarily due to lower new business gains in Japan. So overall, we are pleased with the underlying trends in the divisional results.

Turning now to slide 10, our source of earnings, expected profit on in-force was in line with the prior year. On a currency adjusted basis, the CAD930 million result was the best in the last five quarters despite the additional earnings headwind from hedging more in-force variable annuity business.

New business strain improved primarily due to the better U.S. results that I mentioned on the prior slide. The net experience gain primarily reflected the higher equity markets and investment gains, which more than offset the impact of lower interest rates. Management actions and basis change of CAD3.1 billion pre-tax is largely comprised of the annual actuarial basis change and the goodwill impairment charges partially offset by the realized gains on the AFS bonds.

Now slide 11 summarizes our regulatory capital position for MLI. The actions that we have taken over the last 12 months to increase capital and to reduce our market exposures have strengthened our Company's overall position. MLI reported an MCCSR of 234% for September 30, a sequential increase of 13 points despite the CAD2 billion impact of the actuarial basis change.

The debt proceeds raised in the third quarter and deployed to MLI contributed to this increase. Our strong investment gains, adjusted earnings from operations and the positive impact of equity markets also increased the capital ratio. The goodwill impairment charge did not impact this ratio as goodwill is excluded from MLI's regulatory capital calculation.

Now slide 12 provides an updated estimate of earnings and capital sensitivities for equity markets and interest rates. As we have discussed before, these are high-level directional estimates based upon changes to a single factor. While we disclose these sensitivities to provide some general direction, in reality, several factors change in the same quarter and no simple formula can model the earnings impact in any given quarter with precision.

The main highlight on this slide is that the actions that we took in the quarter significantly reduced our earnings sensitivity to interest rates to CAD2.2 billion for a 100 basis point parallel decline versus CAD2.7 billion sensitivity last quarter. So in other words, the lengthening of the duration of our assets more than offset the impact on the sensitivity from the annual basis change and the third-quarter decline in interest rates.

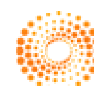
Now, the equity market sensitivity did not change materially from the prior quarter due to the impact of the basis change offsetting the combined impact of the sale of the surplus equities, increased hedging and equity market appreciation. I would note that the MCCSR sensitivities did improve relative to June 30.

Slide 13 details the impact of equity markets on our results in the third quarter. As noted, equity markets generally perform very well, although the TOPIX was down 1.3%. We estimate that the combined impact of the positive equity market performance and variable annuity hedging program resulted in a net positive benefit of CAD683 million. Of this amount, we had gains of CAD700 million for the unhedged VA business, which were partially offset by a loss on the hedged VA block due to higher realized volatility and some unhedged elements of the program.

On slide 14, you can see that, during the quarter, we reduced our equity exposure by hedging an additional CAD3.3 billion of in-force variable annuity guaranteed value. As a result, the total notional amount of guaranteed value hedged or reinsured was 54% on September 30.

We also sold a significant amount of our equity holdings in our surplus segment, which generated gains and reduced our overall equity sensitivity. As noted in our press release, we have now established a goal of executing additional hedges so that 60% of our underlying earnings sensitivity to equity market movements is hedged by the end of 2012 and approximately 75% is hedged by the end of 2014 through a combination of time-scheduled and market-based actions.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Now there are two important messages in this sentence that I would like to reinforce. First, we do intend to implement time-scheduled triggers to supplement our current market-based triggers so that the planned reduction in our equity market sensitivity is not market-dependent.

Second, we intend to transition to our equity market's earnings sensitivity as our primary measure to describe how much we have hedged rather than the 54% of notional guaranteed value hedged.

Our updated plan would entail a larger reduction in earnings sensitivity than the impact of the original plan to hedge 70% of the notional guaranteed value by year-end 2012. So by 2012, we intend to hedge a minimum of 70% of our overall VA earnings sensitivity and 60% of our Companywide earnings sensitivity to equity markets. Overall, our intention is a more certain glide path and a lower earnings sensitivity to equity markets relative to our original plan.

Now moving to slide 15, under Canadian GAAP, changes in interest rates impact the actuarial valuation of in-force policies by changing the returns assumed on the investment of net future cash flows.

During the quarter, both treasury and corporate bond rates declined and long swap spreads decreased, which resulted in an overall impact of approximately CAD360 million after-tax, including the impact of the actions that we took during the quarter to reduce the sensitivity.

Now turning to slide 16, after the basis change, we are now grading to long-term average corporate bond spreads. As a result, interest rates and corporate spreads across the curve in the U.S., Canada and Asia are expected to influence reserves. The predominant influence is long U.S. interest rates and long U.S. corporate spreads, but the complexity of the calculations means that no simple formula can estimate the results accurately.

In addition, our corporate valuation spreads eliminate outliers to be more representative of our investable universe, which typically dampens our volatility to spread changes.

Our estimated sensitivities as of September 30 include the following. For a parallel 100 basis point drop in all interest rates, we would expect to incur a CAD2.2 billion reduction in shareholders' net income. For a 50 basis point drop in corporate spreads, we would expect to incur a reduction in net income of CAD600 million. And for a 20 basis point increase in swap spreads, we would expect to see a reduction of CAD200 million after-tax.

These estimated impacts on earnings are based on the September 30 starting point and the business mix at that date. Actual results may differ materially from these estimates for a variety of reasons, including additional management actions, the interaction between multiple factors and a variety of other variables.

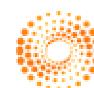
In addition, please note that there is an incremental potential material impact of future changes in our ultimate reinvestment rate used to calculate reserves if government bond rates remain near the current rates as our URR is based on a 10-year weighted rolling average of government bond rates and will continue to be updated in the future.

Now slide 17 details the actions we took, which reduced our net income sensitivity to interest rates by 19%. We are pleased with the progress that we made this quarter and plan to take further actions to reduce our interest rate exposure as measured by the impact on shareholders' net income by a minimum of 25% by year-end 2012 and by 50% by the end of 2014.

In addition, as noted in our disclosures, our economic sensitivity is lower than our earnings sensitivity due to the embedded partial hedge from our long duration surplus bonds.

Now as noted on slide 18, we completed our annual review of all actuarial assumptions in the third quarter, resulting in a total net charge of just over CAD2 billion on an after-tax basis. We completed our comprehensive long-term care claims experience

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

study, which including estimating favorable impacts of in-force rate increases. This resulted in an after-tax impact of CAD755 million.

Within this calculation, expected future in-force premium increases reduced this charge by CAD2.2 billion pre-tax resulting in a total of CAD3 billion pre-tax of future premium increases now assumed in the current reserves.

Premium increases averaging approximately 40% will be sought on approximately 80% of our in-force business and we have made assumptions on our ability and timing of obtaining price increases, although actual results could be materially different. We expect that our actual experience in this area would result in updated assumptions over time, which could be material to net income.

Now as part of our annual review, equity volatility parameters and expected bond returns for variable annuities were updated. In aggregate, these updated assumptions totaled CAD665 million in terms of their impact on net income. Changes to the ultimate reinvestment rates and fixed-income spread grading contributed to an after-tax charge of CAD309 million.

Liabilities were increased by CAD485 million on an after-tax basis to reflect experience on policyholder behavior, including strengthening related to emerging recent lower lapse experience on U.S. and Canadian variable annuity contracts that are in-the-money.

Now, as you will note on slide 19, our goodwill review was accelerated this quarter due to the updated outlook for our U.S. insurance business. This resulted in approximately a CAD1 billion goodwill impact under Canadian GAAP while not impacting our MCCSR. In addition, as noted in our 2009 annual report and this year's disclosures, the adoption of IFRS Phase I will result in additional testing of goodwill, which will be at a more granular level than under Canadian GAAP. Our preliminary estimate is that this could result in an additional CAD2.2 billion goodwill impairment for a total impact of CAD3.2 billion and we expect to complete this analysis in the fourth quarter.

In the meantime, our U.S. GAAP goodwill impairment this quarter was greater than the CGAAP charge previously noted and it is estimated to total approximately CAD2.6 billion. This is attributable primarily to a higher book value of our business on a U.S. GAAP basis relative to the CGAAP basis.

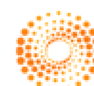
I will now turn to slide 20, which shows that our fixed-income portfolio continued to perform very well relative to overall market conditions. Impairments and downgrades were modestly better than the long-term expected credit losses assumed in the valuation of policy liabilities. So overall, we continue to be pleased with our portfolio's results.

Slide 21 looks at the portfolio and shows that it continues to be of high quality and well-diversified. 95% of our bonds are investment grade and our invested assets are highly diversified by geography and sector with limited exposure to the high-risk areas noted on the slide.

Turning now to our top-line results, on slide 22, you can see the strong insurance sales results. Insurance sales on targeted growth products grew by 24% over the prior year on a constant currency basis. This would suggest an increase in sales market share for these targeted growth products.

In addition, overall wealth sales for targeted growth products grew by 11% over the prior year on the same basis. We view this as good execution in both of these areas.

We also took measured actions to increase prices on new business for various products to better reflect current economic conditions and outlook. Specifically, prices on Universal Life No-Lapse Guarantee products in the U.S. will be increased by 13% on average.



THOMSON REUTERS

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

In Canada, Universal Life products will be increased on average by approximately 10% in December. And pricing for our long-term care new business will be increased by an average of 24% over 2010 and early 2011. And these actions are expected to improve our financial results and help us shift our business mix.

On slide 23, you can see that the Asia division delivered record sales in the third quarter, increasing 50% over the prior year. Of particular note, Japan insurance sales doubled prior year levels on the continued success of new product launches across several distribution channels. In addition, record sales were achieved in Hong Kong and Taiwan. In Canada, Individual Life insurance sales were up 11% over the prior year.

And in the U.S., good progress is being made on our product repositioning efforts as evidenced by the fact that our Universal Life sales, excluding the Universal Life No-Lapse Guaranteed product grew by 20% on the strength of our new products.

Now turn to slide 24, which shows that our plans include growth for our non-guaranteed wealth products. Asia division experienced impressive growth with overall wealth sales, excluding variable annuities, up 63% over the prior year on a constant currency basis.

We are also pleased with the results of our U.S. Wealth Management business. Sales of John Hancock mutual funds increased 26% in the quarter and 55% year to date versus the prior year, attributable to a broad diversified offering of competitive funds distributed through the retail, institutional and defined contribution channels, as well as we got some benefit from improved market conditions. Year-to-date sales in 2010 have already exceeded full-year 2009 and are on pace for a record year. In addition, retirement plan sales ended the third quarter with funds under management at record levels. These results are encouraging signs that our focused product repositioning efforts in the U.S. are working.

In addition, Canada experienced excellent progress as part of our broader sales growth and diversification strategy as evidenced by an impressive increase in Manulife mutual fund deposits, which were almost triple 2009 levels.

Slide 25 shows the growth in new business embedded value for our targeted growth products. New business embedded value for the insurance businesses that we are targeting to grow increased by 10% in the third quarter, reflecting strong growth in Asia and Canada, which was offset by the effect of lower interest rates on the John Hancock life insurance business. New business embedded value on wealth products, excluding variable annuities and the U.S. book value fixed deferred annuities, increased 6% over the third quarter of 2009. New business embedded value for insurance and wealth products that we are not targeting for growth decreased substantially, reflecting lower sales volumes.

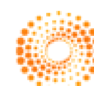
As shown on slide 26, total funds under management on September 30 were CAD474 billion, representing an increase of CAD20 billion over last quarter.

Now similar to last quarter, I think it is important to address key questions that you are likely to have regarding these results. And the first is around our risk reduction actions around interest rate sensitivity. You might ask well, why now? And to answer that, I will reinforce Donald's prepared remarks that, with the bases changes and the interest rate decline in the third quarter, our interest rate sensitivity would have increased beyond levels that we would find tolerable.

In addition, our view of the outlook is that there is now a higher probability of lower interest rates for an extended period of time. And as a result, we took actions to reduce our sensitivity in the third quarter and through a variety of measures, plan to decrease our sensitivity meaningfully over the next several years. So to the extent rates continue to decline, we would also expect to generate additional gains on the sale of additional surplus bonds as a partial hedge.

Another set of questions you might have is around goodwill. Why was this a third-quarter event? What else is expected relative to IFRS? Well, first, let me remind you this is a non-cash, non-capital accounting charge and we believe that the impact should be trivial. The triggering event was our recent decision to lower our sales plan materially for 2011 for long-term care and for the

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Universal Life No-Lapse Guarantee business, reflecting our desire to shift our product mix in the low interest rate environment in order to reduce our risk sensitivity to interest rates on a CGAAP basis.

Current interest rates were also an important factor since they have reduced the future profitability of our in-force block and our new business. So while it was a judgment call, we viewed these circumstances as necessitating an acceleration of the goodwill review. We do not currently expect any additional CGAAP income impact in the fourth quarter nor do we expect a 2011 income impact at this time. We do estimate that we will have an additional CAD2.2 billion reduction in the goodwill on the balance sheet on January 1, 2011 when we transition to IFRS Phase I.

Now another question you may have is regards to the U.S. life insurance business, do we still like that business? The answer is an emphatic yes. We value the life insurance business very much and in fact, our John Hancock life insurance business is a core franchise for our Company. We feel good that we are positioned to grow our life insurance business over time, excluding the Universal Life No-Lapse Guarantee product, which has the largest amount of interest rate sensitivity in the current interest rate environment.

We believe the shift to life insurance products without the lifetime No-Lapse Guarantee feature, is the direction that the overall market will likely take. So we continue to value the John Hancock life insurance business very much and we expect to be successful. We simply want to contain the growth of the most interest rate sensitive products while growing the less sensitive product lines.

And the fourth question that I would like to address here is what is our confidence level in achieving significant long-term care in-force price increases. Well, first, we recognize that there is uncertainty around our proposed in-force rate increases. We do believe though we have strong actuarial support for our proposed rates, including an independent review from an outside consultant.

We also intend to offer equivalent benefit plan reductions to policyholders as an alternative to mitigate large rate increases and we believe this will support our rate filings and reduce the potential policyholder reaction.

Finally, we also see other major long-term care providers filing for large rate increases. And we believe it is widely recognized that this product is only viable if in-force rates reflect emerging experience for this business.

So by way of summary, our underlying earnings were strong for the quarter, but were offset by reserve strengthening as a result of our annual basis change and the goodwill impairment. Excluding notable items, our adjusted earnings from operations were at the upper end of our previously stated range. MLI's capital position remains strong at 234% as of September 30, up 13 points from the last quarter.

We were able to increase our MCCSR in spite of the significant annual basis change and we took important actions to materially reduce interest rate sensitivities. We also made substantial progress delivering upon our business strategy, achieving growth in our targeted products and reducing sales in areas that we have not targeted for growth.

Our credit experience remains strong relative to market conditions and overall, our businesses are well-positioned for future growth as we continue to execute on our strategic plan. This now concludes our review of the results and operator, we can now open the call to Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Tom MacKinnon, BMO Capital Markets.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yes, thank you very much, just a couple questions. First of all, you talk about throughout the press release experience gains that were related to other non-fixed income returns being better than best estimate liability assumptions. I think we saw them in the Canadian, the U.S. divisions, the reinsurance division, the Asian division. And I know that you are working to hedge your equity market exposure, your interest rate exposure, but there is a sizable sensitivity to changes in other non-fixed income returns to the extent that they back best estimate liabilities some CAD3 billion if we get a 100 basis point decline.

Is there ways for -- first of all, can you share with us what sort of -- you do share -- the long-term assumption you use for your equity products or for equities, 2% a quarter. Now can you share with us what you have embedded in your best estimate assumptions and your actuarial liabilities for these non-fixed income returns? And if not, can you speak to how you might want to try to mitigate I guess any sensitivity of this thing, which has increased quarter over quarter going forward? And I have got one follow-up.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Okay. Tom, it's Mike. I will start and then I will ask Warren and Scott to provide the investment perspective. First, just by way of overview, Tom, as you know, we are really proud of the non-fixed income investments that we have. This is a real core competency for the Company. It has been for a long period of time. We think, from a risk/reward standpoint, it is great. We love the diversified portfolio, so we think all that is extremely important.

Now relative to your question on valuation, as you know, we do follow the Canadian Institute of Actuaries' guidelines and as we laid out in the MD&A, our NFI expected returns going forward are approximately in line with our public equity assumptions for that same basis.

Now looking backwards for a second, if we look back at the last say five years or so, NFI has actually been modestly positive relative to those long-term assumptions. I mean it has been bouncy quarter to quarter, but it has overall been positive over the last five years. And again, this is a reminder that this is a very good diversification tool from a risk/reward standpoint because, even when public equities were bad, this was very useful.

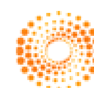
So again, we are sensitive to the same point that you made. We are sensitive to future returns on this block of business. It is something that obviously we will have to evaluate every year, both for the public equities, as well as for NFI. But at this point, we are real comfortable. Warren and Scott, do you want to add?

Scott Hartz - *Manulife Financial Corporation - Executive Vice President, General Account Invesment*

Sure, Michael, thank you. Yes, I think the biggest point is that this is a very diversified portfolio. You can see the holdings in our SIP. There is a combination of real estate, agriculture, timber, private equity and infrastructure investments. And for example, the last couple of years when the public markets have been challenged, some of those categories have outperformed their long-run returns. Agriculture would be a good example of that and over the past five years, we have seen the average returns exceed our long-term expectations. Although certainly, as Michael pointed out, there can be volatility quarter to quarter.

I guess finally I would mention that, as we look in this category, we do look for the less volatile, lower return type categories. Our real estate book, for example, is largely Class A properties in downtown markets and it is fully unlevered. So that dampens the volatility quite a bit. We like infrastructure investments that tend to be stable.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

So I think for all those reasons, we are fairly confident we can achieve the returns that are built into our reserves and that while, yes, they will create some volatility going forward, they really are an excellent fit for our long-tailed liabilities and we are quite proud of the portfolio.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, thanks for that. And just as a follow-up, on slide 16, when you talk about a 100 basis point drop in all rates, hurting income by CAD2.2 billion and you talk about the -- the predominant influence is the long U.S. rates. First of all, do you mean long treasuries here when you talk about long U.S. rates? And secondly, what would happen if the drop wasn't parallel? What would happen if you got a steeper curve or a flattening curve or any of those? How does that change that CAD2.2 billion?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Sure. Tom, it's Mike, I will start and others can add here. First, again, we were attempting to respond to yours and other analysts' questions around, can you give us some rules of thumb. I would emphasize our valuation model and the interaction between our valuation model and the investment portfolio is way too complicated to be boiled down to three numbers. But what we are trying to communicate here is if you look at the 30-year U.S. rates, if you can only pick one point, that would be the most --.

Tom MacKinnon - *BMO Capital Markets - Analyst*

U.S. government rates?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, we will start with the 30-year government rates, then we will talk about spreads. So if you just looked at the 30-year government rates in the U.S., that would be a good starting point. And if, for argument's sake, if the 30-year U.S. government declined by 100 basis points again, and spreads stayed the same, so that meant that corporate A spreads, for example, were down 100 basis points, and no other changes which is a big caveat, we would expect a CAD2.2 billion hit.

Now again, it is not that pure. Canada has some impact, Asia has some impact. The 10-year bond has some impact. But really, after our actions that we took in third quarter, that is the most powerful factor. Now, the point that we are also making here is that if all rates dropped 100 points but we saw a 50 point rise in spreads, that in fact that would mitigate some of that CAD2.2 billion, and hence the importance of the 0.6 for the -- and again, I would tend to look at the 30-year bond spreads, although again 10-year bond spreads are also important.

And then lastly, we are now longer even from a swap perspective. So a drop in swap spreads helps us, a widening in swap spreads hurts us because we have got a fair amount of those assets now on the books.

Again, let me see if the investment guys or Bev would want to add anything to that.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And the swap spreads you are defining as?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Spreads over governments on swaps, interbank swaps.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Tom MacKinnon - *BMO Capital Markets - Analyst*

Swap less the government rate?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes.

Tom MacKinnon - *BMO Capital Markets - Analyst*

For 30 years.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Of the same duration.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. All right, thanks very much.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

I guess the other point that should come out -- I think Mike mentioned it -- but the shape of the yield curve is very relevant the way that we position the portfolio. As a lot of people know, there is some steepening going on, so we will be taking advantage of that. We are taking advantage of that.

Operator

Andre-Philippe Hardy, RBC Capital Markets.

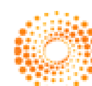
Andre-Philippe Hardy - *RBC Capital Markets - Analyst*

Just a clarification to Tom's questions. When you talk about the returns on the non-fixed income assets, I would think of them as in terms of future expected returns thinking of the risk-free rate plus an appropriate risk premium, which would suggest that there is a real risk of these assets seeing a lower expected return going forward, given what has happened in recent years. Is that a fair assumption?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, I mean I'm not going to tell you that it is without risk. The good news is if we look at the past five years, which has not exactly been a positive environment, this asset class in aggregate for us has exceeded the long-term assumption. Again, I am cognizant and would not hesitate, though, to point out that the future has all sorts of uncertainties. But we like the diversification and we like the risk reward trade-off.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Warren Thomson - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer & Chairman, MFC Global Investment Management*

I think it is important to note that this is a portfolio in many cases that we have been in 20, 30, 40, 50 years some of these asset classes. The assets that we have selected are what I would characterize as core.

We manage them well. Most of the management is executed by local teams that help ensure we have a good understanding of what is going on in the marketplace. And again, I think most of our assets have external marks put on by independent third parties. Our real estate appraisals are done by third-party appraisal firms. In this most recent quarter, we had appraisal gains on both our Canadian and U.S. properties coming in from our third-party appraisers on the basis that we had very strong leasing and occupancy rates.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

You can describe, in first-year economics, everything is described as a risk-free rate plus something, right, depending on the asset class, which is not a bad way of looking at it to start with. The more important thing is the correlations between them.

And as Warren and Mike have pointed out, these things aren't correlated. I mean some of those asset classes during the worst part of the financial crisis were going up in value. Others were going down in value, but by nowhere near the same rate that high-yield bonds or equities were going down. If that diversification and lack of correlation, anything less than perfect correlation is a friend.

Andre-Philippe Hardy - *RBC Capital Markets - Analyst*

Thank you. And the question that I had was around Long Term Care and price increase requests of 40% for 80% of the in-force. I am a little surprised that you are seeking price increases on 80% of the in-force. And maybe it was a misunderstanding on my part, but I thought that the blocks that you had issues with were the legacy blocks that perhaps they were 80% of the in-force and that is what is happening. Is that the case?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

I will start and see if Jim Boyle wants to add. It is the case that the 40% is not uniform across the book of business. It is the case that the older blocks have tended to have the worse experience. The older blocks, therefore, on average are getting larger increases.

Also remember Andre, that over the last several years, we have been steadily increasing new business prices. We are in an environment right now where our new business prices are materially above the average in-force rates. And as a result, the business that we have written more recently in many cases needs either zero or small rate increases.

The other point I would make is that, just reiterating my prepared remarks, we are offering policyholders the option to elect benefit plan reductions as a way of mitigating those rate increases. So again, we think that is another tool that will be useful in terms of executing on this.

Jim, do you want to add?

Jim Boyle - *Manulife Financial Corporation - President, John Hancock Financial Services*

No, I think you summarized it correctly, Mike; 40% is clearly an average. The experience that we saw through our actuarial studies after 2004, when we put in some more scientific underwriting as the rest of the industry did with cognitive screening and others,

THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

the results are much better and, therefore, the increases would be much lower than that average. But to your basic question, the 80% is largely the business that was written pre-2004.

Andre-Philippe Hardy - *RBC Capital Markets - Analyst*

Thank you. That clarifies things.

Operator

Michael Goldberg, Desjardins Securities.

Michael Goldberg - *Desjardins Securities - Analyst*

Thank you. How do you redeploy the proceeds from the sales of bonds and equities backing surplus that you discussed? Is there any change in your investment mix on assets backing surplus? And also is there any change that you foresee in the investment mix and assets backing liabilities given your concern about the interest rates staying lower for longer than you thought previously?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Michael, it's Mike. I will start and again ask the others to add. First, on your question on the surplus assets, the most important thing here is that we harvested the gains that we had on the surplus bonds, on a large chunk of the surplus bonds and then we turned around and reinvested those proceeds into even longer bonds with a longer duration. In many cases, 30-year treasuries, and there are a couple of interesting points there.

One is that we collected the gains, but we have really only a very modest impact, less than CAD10 million a quarter on a go-forward basis in terms of lower IOS because, as Donald mentioned earlier, the yield curve is so steep right now that being able to go out longer on the curve enables us to preserve the yield even though we sold the bonds that were above the original book value. The answer there is we lengthened the surplus bonds with those proceeds.

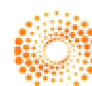
In terms of the liabilities, a couple of pieces there. On the liabilities, we also lengthened the duration pretty significantly both in the cash markets, as well as through derivatives. We did, as noted in the slides, we did take on CAD4.5 billion to CAD5 billion of additional forward-starting swaps that also lengthened the duration of the liabilities. Scott or Warren, do you want to add?

Scott Hartz - *Manulife Financial Corporation - Executive Vice President, General Account Invesment*

Sure. Michael and what I would suggest is that, in surplus, we are clearly moving to a higher quality, more liquid mix, but longer. As Michael said, those sort of offset each other. With a steep yield curve, you get a lot more yield for going out long, but we will be losing a little yield because we are moving to higher quality, more liquid.

In the liabilities, I would say not so much the case. I think the mix is intended to stay the same in the shortest term. We did move into treasuries in order to get the duration we were looking for and the intent and hope would be to roll that into more corporates going forward, which would create the opportunity for trading gains going forward.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



Warren Thomson - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer & Chairman, MFC Global Investment Management*

And where you would see that is if you look at our asset mix as at the end of Q3, about 20% of our assets are now in government bonds on an in-total basis. Government bonds are in the liabilities segments. They are a temporary hold until we find appropriate corporates and that is -- when we create out of those governments into corporates, that's what gives rise to the trading gains and our source of earnings analysis.

Michael Goldberg - *Desjardins Securities - Analyst*

Thank you.

Operator

Darko Mihelic, Cormark Securities.

Darko Mihelic - *Cormark Securities - Analyst*

Hi, actually a couple of questions. The first is if we can look at the source of earnings and the expected profit on in-force. Can you just walk me through the big quarter-over-quarter jump and how am I supposed to think of that? All else equal, is that a good run rate for expected profit in-force going forward?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

It's Mike. I will start. In terms of the source of earnings, a couple things there are important. First of all, obviously, it bounces around quarter to quarter, but I think if you look over the long-term pattern, the most important thing is that our strategy is working. We have been growing the businesses that we want to grow that give rise to greater earnings at lower risk. And again, that particularly shows up if you look at the currency-adjusted expected profit on in-force.

Now in terms of your question on is it a good run rate going forward? Again, it will bounce around quarter to quarter. So again, I would not get carried away on any given quarter's results, but if you were to ask is that a reasonable expectation for the next four quarters on average, I am not aware of anything today in either the Q3 results or in the outlook that would make that an unreasonable expectation.

Darko Mihelic - *Cormark Securities - Analyst*

Okay. And maybe just another question unrelated. S&P put your ratings in watch for negative implications. Does that matter, should we care? A question maybe for Donald, but should we care about that and what is Manulife's response to that?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

We care, but I think S&P responded to the earnings number for the quarter and also the goodwill charge. I mean the way we look at it, we have strengthened our reserve enormously and think we have improved our claims paying ability to the actions we have taken in the quarter by taking the stronger reserve, but also substantial repositioning of the business. I mean the goodwill is a direct reflection of what is going on in the economy and the substantial repositioning that we have taken in the business to reduce the risk profile on a current basis and going forward.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

When Mike talked about the improvement in the adjusted earnings from operations, that is coming from price increases, price increases on products and the elimination of strain that happens as a result of that and it shows up pretty quickly under the Canadian GAAP basis. It is quite appropriate.

So that repositioning is painful in terms of writing off goodwill, but it is a positive repositioning for the business going forward. And I spend a lot of my life rating credits and I would give a credit improvement for that, not a credit downgrade. But S&P has their own methodology and we respect them a great deal and they haven't made up their mind and as indicated by what they have done, so we will be talking to them.

We have adopted revised targets for hedging both interest rates and equities. We get the sense that investors are fatigued with interest rate and equity sensitivity and while we still want to be very much market-dependent -- Mike said we are not going to be market-dependent, we are going to be market-dependent, but we are not solely going to be market-dependent. We have adopted minimums, time-based minimums that we will follow so that our investors and rating agencies and others who look at us have comfort that we will get to the targets within four years, that they are not just a pipe dream.

The goal is to have hedges at 60% of our earnings sensitivity, will be from equities will be decreased by 2012 and 75% by the end of 2014, very, very substantial. The underlying strength and quality of the U.S. franchise remains high. I mean the goodwill write-down -- again, it is a function of interest rates and it is a function of the repositioning of the business, but we are very committed to the business.

Again, the adjusted earnings from operations is up 72% and it wasn't just up 72% from the prior quarter. It is the same approximately order of magnitude against the first quarter and the quarter before that and there is no reason why that run rate would be expected to go down, as Michael said.

So that is a very, very substantial improvement in that business and when they talk about the mutual fund sales -- the mutual fund sales actually hurt earnings in the first year because of the way the acquisition costs are treated, not capitalized. So that has actually been a hurt to earnings, but I defy anybody to sell CAD8 billion of mutual funds and feel bad about it because it is the gift that keeps on giving as long as you keep the money and performance is good, which our performance is good.

So the goodwill impairment has not impacted our regulatory capital in the least, has not impacted our earnings capability and in fact, the very things that gave rise to the goodwill impairment are things that are reducing our risk going forward and improving earnings going forward and you would think when you are doing a credit judgment that that would figure pretty significantly in your mind.

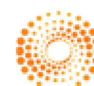
So I guess the last thing I would say is just having a skim of the Standard & Poor's release, I would draw your attention to the many positives outlined in the S&P press release regarding our strong competitive position, capitalization, all the nice things they say about our investment risk. They are essentially acknowledging that the strategy of a blend of NFI and other assets keeps us out of the riskiest end of the fixed income spectrum, which is frankly where all the real debacle occurred in the meltdown and we came through that as well as anybody. We are very proud of it and it is nice to see S&P recognize it.

But our goal -- we should have amongst the highest ratings. Unfortunately, some of the decisions we have taken have not led to that result and we will get them back on track.

Darko Mihelic - *Cormark Securities - Analyst*

But does a rating decrease hurt your business?

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, if S&P were to decrease our ratings, it certainly doesn't reflect the quality of Manulife that we think and that annoys our distributors, but we would be in line with other companies, other pretty good companies. It is just that we believe we deserve to be a notch above and we are a proud company and yes, it would hurt some portion of the business, but I do not think it would be that significant. But the fact of the matter is the ratings should reflect the quality of the Company and the quality of Manulife should be reflected by higher ratings than we have at present, let alone lower than we have at present.

Darko Mihelic - *Cormark Securities - Analyst*

So, in other words, you wouldn't do anything to protect that rating balance sheet-wise?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

No, no. We manage -- we don't manage our Company for the quarter-to-quarter earnings. We don't manage it for the quarter-to-quarter stock price and we don't manage it for the quarter-to-quarter ratings. We manage it for the long term. We are taking these decisions for the long term. They are clearly in the long-term health of the business and that is the way we're going to run it and lots of people are entitled to their opinion, but we are going to run it for the long term in keeping with our strategic plan. We are doing the right stuff.

And again, the actions that we are taking that give rise to that goodwill write-off, that is alarming to people. It is CAD1 billion. I don't like that number, but the actions that we are taking that give rise to that are actions to reduce risk, produce more stable earnings and a higher ROE for the long term of this business. And it is not a pipe dream as indicated by everything we have talked about. The results are coming in this quarter.

Darko Mihelic - *Cormark Securities - Analyst*

Thanks very much.

Operator

Steve Theriault, Bank of America-Merrill Lynch.

Steve Theriault - *Bank of America-Merrill Lynch - Analyst*

Thanks very much, I just wanted to talk a bit about the hedging initiatives. Don, you pushed back pretty consistently from the idea of crystallizing some of the non-cash charges that have come through over the last couple of years. And we have talked about the why and I appreciate a lot of the explanation.

But a couple of questions. In terms of the book value, how much potential notional book value upside do you think you're giving up as a result of the hedging initiatives? And can you talk a bit about the cost of employing the equity market and rate strategies that you have described to us today or is it more of a question really of opportunity cost?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

It is mostly a question of opportunity cost. I think Bev is talking. She is here and prepared to talk about some of the average costs, of hedging and so on, which we have not had any terrible surprises there. It has been consistent with what we viewed

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

so far. We are going to be taking some different approaches, putting on macro hedges, not necessarily with the interest rate leg associated with it, which is a little different approach. Again, not expected to cost more on a percentage basis over time.

I think you are right. The way to look at it is in terms of opportunity cost if markets go up and if you look at our equity or interest rate sensitivities, you can see the upside and the downside there. Our goal is to eliminate as little of the upside as possible and I think we have acted consistent with that. We hedged CAD15 billion in the first quarter when equity markets were high. We didn't hedge anything in the second quarter. In the third quarter, we did a little bit, CAD3.3 billion and this quarter, we are at it again.

Given that markets are up about 20% from the lows of the summer, I think you should anticipate an acceleration of our hedging activity because, as I have said to investors, we are not going to hedge it at the bottom, we are trying to get it out now that equity markets are up. That is in the interest of shareholders, but we are also saying, and again, I will be honest, some of our shareholders are getting fatigued and saying, gosh, if markets stay flat or go lower, you won't proceed on any hedging. So we are introducing time-based triggers that basically forces us to meet targets, but the essence of it will still have a very opportunistic overlay. So you can expect, if markets stay where they are, more hedging again this quarter.

Steve Theriault - *Bank of America-Merrill Lynch - Analyst*

But on the rate side, you don't view some of the interest rate hedging actions as necessarily locking in reserves?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, there is two things. What happens is when the actuaries put pads on the low rates and project the low rates forever, they create an impact on the financial statement that is frankly I think exaggerated relative to the economic impact. But given that it impacts capital and earnings, it gets to a level where you can't tolerate it anymore and that is frankly what happened in the second quarter.

As we look to the third quarter, some of the basis changes lengthen our liabilities. With rates going down, you have got the conjoined impact of lengthening liabilities and lower rates. So that creates a rather dramatic effect. We said we can't let this thing go unconstrained. I mean most of the people in the room believe over the fullness of time interest rates will go back to normal levels. But it looks like it is going to be a longer period of time than anyone thought.

I mean the quantitative easing that has taken place and continues for a while, so rates are going to be lower for a while, plus you have to have a stop loss eventually on everything. So we are not embarrassed to be limiting the total exposure that we have and gradually over time getting it back in line.

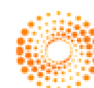
I guess the thing that a lot of people overlook because they focused on earnings sensitivity is the economic sensitivity. At Manulife, we always had a posture in the surplus segment to go fairly long in our fixed income investments. It is interesting that just about everything we have here is mark to market for capital and earnings and other things. But what is not mark to market for capital purposes and earnings purposes is our surplus bonds.

So as rates were going down and we were taking it on the chin in terms of the reserves, huge gains were being built up in the surplus portfolio. We decided to trigger those gains to get regulatory capital credit, which is legitimate, right thing to do. The aberration was the fact that we did not get any credit for that before, so we triggered the gains and what we have done is reloaded with the bonds so that if interest rates actually go down further, we will generate more gains.

And those of you who observed our interest rate sensitivity and looked at it on an economic basis versus an earnings basis, you would have observed that the economic basis, the risk was lower and that is why. The surplus was a natural offset, not a perfect offset, I'd like to say it was, but it was an offset to the direction on the liability portfolios.

THOMSON REUTERS STREETEVENTS | www.streetevents.com | Contact Us

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Steve Theriault - *Bank of America-Merrill Lynch - Analyst*

All right, thanks for that. One more question, if I might. A numbers question on the equity sensitivity, the target of having 60% of the underlying sensitivity hedged. So I'm trying to do a little work, reverse engineering the math here. Would that imply that, all else being equal, the CAD1.3 billion of sensitivity with 10% equity market decline drops to somewhere in the range of CAD700 million assuming no new business? If not, is there a way that I can think of that in terms of -- in dollar terms?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Bev is signaling that you got it right on.

Steve Theriault - *Bank of America-Merrill Lynch - Analyst*

Okay.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

To the accuracy displayed by her fingers, she had seven fingers up when you said that. So, congratulations.

Steve Theriault - *Bank of America-Merrill Lynch - Analyst*

Thanks, Don. I will leave it there.

Operator

Doug Young, TD Newcrest.

Doug Young - *TD Newcrest - Analyst*

Hi, good afternoon. Just I guess a few questions and the first one, I don't know if it is for Jim or for Michael, just around the long-term care business and the reserve charge you took. Obviously, you have explained it in the release that it is very dependent upon what your assumption is of what you get of the 40% on average price increase and the timing of that. And I am wondering if you can give us a sense of what you had assumed to your model? Is it 75% of that 40% increase and over what timeframe? And I think you have assumed it is all implemented next year.

And the second part of the question is if you get 10%, let's say, less than what you are assuming or if you have to wait another year before full implementation, can you give us a sense of what that means in terms of additional charges that you may have to take? And I have a follow-up as well.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Okay, Doug, it's Mike. Just first by way of background, there continues to be obviously uncertainty around this area. So again, we are cognizant of the risks that you are pointing to here. We did go through a detailed analysis to come up with our best estimate of the timing of the regulatory approvals, as well as exactly what will get approved.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Now, and as you well know, under CGAAP, we actually have to add a provision for adverse deviation on top of that. And we did all of that with the benefit of the experience we have seen from others and also help that we got from our outside actuarial consultant who had a fair amount of data.

So again, all in, the reserves are counting on CAD3 billion of additional in-force rate increases, that CAD3 billion being a pre-tax number. But I would really prefer at this point not to disclose the specific timing and percentage assumptions other than that. Again, we will certainly keep you updated as experience emerges. Again, fair to say it is going to take some time, but I would rather not go through that detail at this point.

Doug Young - *TD Newcrest - Analyst*

I guess I mean the reason I ask is that if we have gone through your filing in Pennsylvania alone and looked at the data and it looks like you are asking for upwards of 90% increases in certain instances, which seems unlikely immediately, but maybe you are not assuming that you are going to get immediately 90% and phased in. So we are trying to get a sense of that, so I mean any additional color on that, that would be helpful.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Again, fair to say, Doug, that we are not assuming that we are going to get it day one, so we are not assuming that the minute the filing hits the department it is all set. But again, I'd just really prefer not to dig into the additional details at this point. Fair to say we will continue to give you updates on future quarters as experience emerges.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

I would like to get in, but that is clearly an outlier, Doug. I mean there are numbers that are that high, but anyway, I am going to pass it over to Jim, but that is not at all representative.

Jim Boyle - *Manulife Financial Corporation - President, John Hancock Financial Services*

Doug, I understand your desire for a number and an ability to model the sensitivity. But frankly, there is a lot going on here. We just saw a significant election in the United States where more than 50% of the governors turned over and it is likely we will have new insurance commissioners in many of those jurisdictions. We are very comfortable with the actuarial analysis. There is a process, a very scripted process that you go through with the states. We have been through this before.

I think you will recall in 2007, we had an in-force rate increase. It was less significant, it was closer to 15%. We had to make a lot of the same judgments around timing, effectiveness, etc. We have executed on or better than that plan in 2007. And one of the key components that was mentioned in the prepared remarks was the fact that, although we are filing for these rate increases, and you are right, in some cases, it could be as high as 90%, that would be an outlier.

In each case, we will offer the clients an ability to reduce their benefit and in most cases, products that had a 5% annual inflation feature for example -- we can offer a client the ability, depending on the product, series and type, to go to 4% or 3% and have virtually no rate increase whatsoever. And our experience has been that more than 50% of the clients will opt for a benefit reduction, particularly understanding this low interest rate environment we are in.

So this is going to take more than a year. That is built into our modeling here. There is a lot to play out here because there will be a lot of new players, but the facts support this rate increase and we are not an outlier here. There are others in the industry that are dealing with the same math. I think it would just be more prudent for us to continue to give you updates on a quarterly basis as we learn more, but as of today, we are quite comfortable in our assumptions, our methodology and our approach here.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Doug Young - *TD Newcrest - Analyst*

Okay. And then just second is on the slide 16 talking about now spread widening or the impact from spread widening and so forth. And I know at the end of Q2, there was a discussion that spreads would no longer have an impact and I think, as a result of a lot of changes that happened in Q3, spreads do have an impact. But I guess I am a little confused about that and so if you can give some sense of why now we are looking at spreads again because I just bought spreads were going to be graded down to the long-term average after 20 years?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Sure. Doug, it's Mike I will start and ask Cindy if she wants to add. First, when we talked about spreads not having an impact at Q2, the reason for that is that we had capped spreads in recognition that we were going to be moving to this graded approach. So we didn't want to be in a position when spreads widened in Q2 to take a bunch of benefit from that only to then turn around and reverse it at Q3.

We have now moved to the methodology that says, for corporate spreads, we are going to grade, over a five-year period, from the current spreads to the long-term averages. So by the time we are starting to model cash flows that are going to be coming in six years from now, seven years from now, we are going to be looking at long-term average spreads rather than current spreads.

The 20-year grading that I think you are referencing is the grading to the ultimate reinvestment rate. So we do assume that throughout the 20-year period, we are investing a greater proportion of cash flow that gets invested in bonds, a greater proportion in government bonds over that period. And by the time we get to 20 years, we are assuming that all of our positive cash flows that are being invested in fixed income investments are, in fact, being invested in government bonds at the ultimate reinvestment rate.

That URR, that ultimate reinvestment rate, is subject to additional revisions in the future because it is a mechanical weighted average formula and if rates continue to stay down, that rolling average formula will continue to drift down. So there are really two different issues, but with the methodology that we have implemented, the grading to five-year spreads says that if spreads bump up tomorrow, we get a benefit from that because it will grade off over five years, but we will get a real benefit from that for cash flows invested in the next five years. Cindy? Do you want to add?

Cindy Forbes - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

I think you answered the question well.

Doug Young - *TD Newcrest - Analyst*

That helps a lot. Just last number of questions, what is your URR assumption now?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

I believe, Cindy can correct me here, I believe the long bond rate is now 4% in the U.S. and 3.8% in Canada.

Cindy Forbes - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

You are correct.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Doug Young - *TD Newcrest - Analyst*

Thank you.

Operator

Robert Sedran, CIBC.

Robert Sedran - *CIBC World Markets - Analyst*

Hi, good afternoon. Just a couple of quick follow-ups. I know you don't want to, and for good reason I guess, tell us what the probability that you have assigned on some of these long-term care price increases is, but do you have to disclose it to the regulator when you make the application?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

No, Robert, we do not.

Robert Sedran - *CIBC World Markets - Analyst*

Okay. Just following up on the adjusted earnings from operations. Mike, there is a lot of items on that slide 8. I know a shorthand that has worked in the past that is not working so well today is to basically zero out assumption changes and experience gains and then just apply a normal tax rate. Now that approach would actually get me considerably below the CAD779 million. So is there something in those two lines that is sort of a recurring or part of normalized earnings? How should I think about that?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, let's see, Robert, there are a number of different issues. Currency can play some havoc with that. We have now got the -- There are a lot of moving parts around interest rates and equity markets. We have got, for example, the investment gains for -- the realized capital gains for the surplus bonds. We have got investment gains from the change in the mix for the assets backing the liabilities. Again, there are just a number of different issues that are impacting those numbers.

The adjusted earnings from operations is calculated consistently with the definition that we defined back at the beginning of July here in 2009. So we have kept that definition as consistent as possible, but I think there are other moving parts that are playing havoc with that.

Robert Sedran - *CIBC World Markets - Analyst*

So some of those items that are on slide 8 may well be in expected profit or earnings on surplus or somewhere else as well?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Again, it is probably worth having some discussion offline to talk about some of the geography issues.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Robert Sedran - *CIBC World Markets - Analyst*

And just very quickly, lastly, I gather the full CAD2 billion in new holdco debt that was downstreamed -- was downstreamed during the quarter. Can you tell us how much of the CAD5 billion in long-term debt on the balance sheet might be sitting in MLI as equity? Should I assume most of it is?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, Robert, the vast bulk of it. It is literally not every penny, but the vast bulk of it.

Robert Sedran - *CIBC World Markets - Analyst*

Okay, thank you.

Operator

Mario Mendonca, Canaccord Genuity.

Mario Mendonca - *Canaccord Genuity - Analyst*

Good afternoon. In previous calls, the idea that the Company might be a little more aggressive in hedging equity markets or interest rate exposure, when that was proposed, there was a sense of almost fatality to it, that it would result in very significant charges, it would affect your expected profit going forward, might have to raise capital. Those are some of the things that were brought up.

This quarter, this has a sort of feeling of something for nothing to it, that there is a lot of hedging that you are proposing that you have done and will do, but yet when you talk about your expected profit going forward or your normalized earnings or core earnings going forward, it doesn't sound like there is much of an effect that you are suggesting. Am I misreading it? Is there much of an effect going forward?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

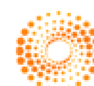
Well, yes, there is an effect, Mario. The big difference, and you are one of the smartest guys out there, so I apologize if it sounds too basic, but is where equity markets are and we have seen a huge move in equity markets since July and we are going to take advantage of that.

The other thing that is associated with it is, and we are going to be managing the interest sensitivity on both scores, but it is a second or -- this is a little bit more tricky and that is there is many different approaches to hedging.

The one that we have been using up to now has been dynamic hedging, which is a fancy word for shorting the futures and since that gives rise to a certain amount of interest rate sensitivity in the settlements, you basically put on a swap to take away some of that interest rate sensitivity.

When interest rates are low, swap rates are low, particularly, that makes that more expensive to do. And so what we are looking on is macro hedges, which is like a macro call, like a CIO saying I just want to lessen my exposure to overall equity markets not related to any individual policy or any group of policies, any cohort of policies. It can be equity risk giving rise from fees on mutual funds, fees on variable annuities or even balance sheet holdings of equities, but I want to reduce my equity risk.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



You put that on basically by shorting futures. There is less of an interest component embedded in it. And in a situation like now where equity markets have gone up, but swap rates are low, I am not sure it makes a lot of sense to put on the swap leg. So maybe we just short the future, which is called in the parlance of macro hedge.

And that is probably more of what we are likely to be doing in the short-term, although the stuff that we did today was the more conventional dynamic hedging because at the level that the cohort of products was at, we could put on the swap and even with low swap rates be effective.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

So Mario, it's Mike. Just to add a couple of additional factoids. First, as we have talked about before, a reasonable rule of thumb for the dynamic hedging that we have been doing in the last year and a half is that for every CAD1 billion of guaranteed value that we have been hedging when it is pretty close to at-the-money under the dynamic hedging approach, that costs us approximately 50 basis points after tax in earnings going forward.

So as an example, the CAD26 billion of in-force now that we have hedged since June 30 of 2009 would cost us CAD130 million of after-tax earnings going forward. That is the rule of thumb we have given you in the past and that continues to be a reasonable one.

I think the point that Donald is making, and I will invite Bev to add here if she would like, is that, as we look at different approaches to accelerate that hedging, including possibly going to a macro hedge kind of approach, we may have to update that 50 basis points. Again, we are evaluating a number of different options and we will be back to you.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

But every indication is it's roughly -- if it is 52 or 48, we are not going to quibble, but and it actually depends on the circumstances, roughly in line with the same cost.

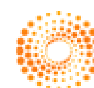
The other thing I want to say that people sometimes miss is we are ahead of our hedging targets, right? At the end of the first quarter, we are 18 months ahead of the glide path that we had established for ourselves. We have never been behind of that.

You go up a quarter, when the markets were down like the second quarter, everybody panics and that is going to continue forever. And I will make a very simple point, but a subtlety that seems to get lost is that if you told me with perfect certainty that the equity market was going to be the same and four years from now, the level of the S&P, the same as it was today, I would make you a huge bet that at some point along that path it's higher and another point that it's going to be lower because of the inherent volatility. And we are going to take advantage of those swings and go aggressively in when markets are a little higher as they are now and pull back as we did in the second quarter when markets are lower. And that is 100% in shareholders' interest. Sometimes the rating agencies get annoyed at that approach, but it is a good approach.

On the other hand, some of our investors say, and I want some certainty that you will get to the endpoint, and so what we are also sort of committing to is a time-based minimum to be measured on a progress basis, on a to-date basis. Not to say that every quarter we will have to do some hedging, but we are going to measure ourselves against a time base to make sure that we are always ahead of the vector described by that.

So our investors can have comfort that, by the end of the four years, we will meet those targets come hell or high water, but we are going to be opportunistic about the rate at which we progress in any given quarter, if that makes any sense.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Mario Mendonca - *Canaccord Genuity - Analyst*

Okay. So if I could take this just one step further then. If you were to reduce your equity market sensitivity to 60% by the end of 2012, what would that imply? What would the effect be on your expected profit from where it stands today?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Bev, why don't you answer that?

Bev Margolian - *Manulife Financial Corporation - Executive Vice President & Chief Risk Officer*

Probably about perhaps CAD100 million.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Additional?

Bev Margolian - *Manulife Financial Corporation - Executive Vice President & Chief Risk Officer*

Additional.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Additional to what you would have done today.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Although, again, and very importantly, Mario, that will depend upon exactly what tools we use, where markets are at the time. So again, we will give you further updates on that.

Mario Mendonca - *Canaccord Genuity - Analyst*

Just to be clear here so --.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

And so I needed to say one other thing. That does mean I need to correct the answer that I gave Darko. That is obviously something that would impact the run rate on expected profit from in-force that I wasn't thinking about when I answered his question. I assumed his question was not including the impact of the hedging. So just a clarification there for you and Darko.

Mario Mendonca - *Canaccord Genuity - Analyst*

Now, that CAD100 million, you are referring to that on an annual basis, pre-tax on your expected profit from going to 60%?

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Importantly, that would be after-tax.

Mario Mendonca - *Canaccord Genuity - Analyst*

After-tax.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

And again, that would be the equivalent, if you will, of the drag we would expect from hedging CAD20 billion of guaranteed value at the money. And again, there are a lot of moving parts that would impact what that ultimately is.

Mario Mendonca - *Canaccord Genuity - Analyst*

And I'm sorry for (multiple speakers)

Bev Margolian - *Manulife Financial Corporation - Executive Vice President & Chief Risk Officer*

It's Bev, I would just like to add that that CAD100 million is -- there is a range, there is a range around it. We can't predict exactly what it will be. It could be higher or could be lower depending on when we actually hedge along the way, but it is in the range.

Mario Mendonca - *Canaccord Genuity - Analyst*

I think all we are trying to do though is get a sense for like there is a cost to everything. If there wasn't a cost to this, you would have done this ages ago.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

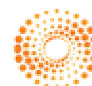
The biggest cost, Mario, and I think we have been clear. Bev estimated before -- I can't remember exactly what the number was -- but the full cost of getting to our target at the end. People asked about it. But what she underlined importantly that assumes that we are doing sort of at-the-money or whatever, it is that timing of when you execute.

The biggest cost is the opportunity cost of putting on the hedges too early. I mean if you do the math, there were a lot of people around in May and June of 2009 saying hedge the stuff, get it behind you. We didn't do that. We took a lot of pain. We had to cut our dividend, we had to raise equity and so on. We have made billions by deferring to this time and we have a really good plan and we are going to follow it.

Mario Mendonca - *Canaccord Genuity - Analyst*

Okay. And all I am trying to do is just try to understand the numbers. I am not opining on whether it was a good call, bad call or anything. CAD100 million after-tax over a full year to get to that 60% target and then to get to the 75% target, I believe, would that be say another CAD100 million on top of that?

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.



THOMSON REUTERS

Bev Margolian - *Manulife Financial Corporation - Executive Vice President & Chief Risk Officer*

It would -probably be another CAD150 million after that. But it is a range, it is really a range and it really depends -- it could be another CAD150 million to CAD200 million because it really depends on what markets are at when we do that and what swap rates are when we go there and what has happened in between with the volume of our business. So it is quite a range.

Mario Mendonca - *Canaccord Genuity - Analyst*

No, I appreciate that. And then maybe finally a question for you --

---

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, the other thing -- Mario, because you are asking some good questions. The other thing that would happen is if we put it on, for instance, now using dynamic hedging with low swap rates, we would take an earnings charge in addition to what Bev described, which is the ongoing run rate. You would have an upfront earnings charge and no offsetting credit in the capital for hedging at this time. So we wouldn't view that as necessarily the right thing to do.

Mario Mendonca - *Canaccord Genuity - Analyst*

Right. So I just want to follow along with this something for nothing kind of idea because I don't believe that that is what you are actually saying. I think I'm quite --

---

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

No, no, quite the contrary.

Mario Mendonca - *Canaccord Genuity - Analyst*

No, not at all. When you take trigger gains in your AFS book to reduce the effects of declining interest rates, is it fair to say that those are gains now that just -- they are gone, they are used, you can't use them again. So are you giving up some future earnings in your earnings on surplus as a result?

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Well, Mario, it's Mike. It obviously depends upon how we reinvest those proceeds. As I mentioned on one of the earlier answers, we went longer with the reinvested proceeds. And therefore, it was really a de minimis impact on overall interest on surplus expectations going forward. So again, that is not always going to be the case. What we view as being the more permanent ongoing item is this is a natural hedge, a natural partial hedge to the interest rate sensitivity that we have on the liabilities. That is really the main point.

Mario Mendonca - *Canaccord Genuity - Analyst*

Mike, I understand the interest argument that you are using there. What I am referring to is, as you said yourself, AFS is not mark to market. So once you have marked it by selling it, those unrealized gains are now realized so they are gone forever. Is that true?

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Yes, yes, I think that is a fair comment, Mario.

Mario Mendonca - *Canaccord Genuity - Analyst*

Okay, and then finally --

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Mario, just so everybody understands, I think you have got it, but there are other people on the call, that gain was never finding its way to the capital calculation. It was a bigger gain than many companies would have. There is a whole story there about why it wasn't marked to market historically, but that big gain is there. We are not getting any capital credit for it whatsoever, so it is a latent item.

We are making it a real item, but we are also reinvesting in long bonds in the surplus, so we are reloading. Because the yield curve is now so steep, the carry difference between writing the old bonds that obviously had a higher coupon and the new bonds being reinvested because of the steepness of the yield curve, there is not as much give on the carry as one would assume, and people talked about contingency plans on our last call. What are your contingency plans if interest rates go lower? Well, we had a multiple of things that we could do and this was a highly palatable alternative.

Mario Mendonca - *Canaccord Genuity - Analyst*

I totally get it. Now finally, Donald a final question then. Now that the company is taking, it would appear, some of the downside risk off the table and that's probably a good thing. Investors are sort of reacting to it positively. Does this change your perspective on what Manulife's long-term ROE capabilities are?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, we are hoping to improve Manulife's long-term ROE capabilities and let me be clear here. Not through the goodwill write-downs.

Mario Mendonca - *Canaccord Genuity - Analyst*

No, no, I know that.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

We are not that kind of people that take credit for lowering the denominator. But yes, we are trying to do -- and you may be able to see -- this is very transparent what we are doing. Again, timing is very essential here and we are taking the risk off at the most appropriate times.

So no, I don't think it diminishes the ROE potential. In fact, we are enhancing the ROE potential through the other changes that we are making to the business mix as evidenced by all of our comments on the growth in the adjusted earnings for operations.

We have been dedicated to, and it is a pretty simple story, but we have executed well, is a couple of things. Number one, we recognize that we wouldn't be able to control equity markets and interest rates and how they buffeted our income statement.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

So we want to focus on growing earnings adjusted for those factors, grow the core earnings, if you will, as aggressively as we can.

The second thing we want to do is make sure that we are shifting our capital allocation to products that have the highest ROE potential and the lowest relative risk potential. And we are doing that and we are doing it incredibly successfully. And if we keep doing those things, and opportunistically hedge away some of the other risks, we will end up with a more stable income stream than before, a higher ROE than before and a very nice earnings growth. And so far, we are executing.

Mario Mendonca - *Canaccord Genuity - Analyst*

Thank you very much.

Operator

Colin Devine, Citigroup.

Colin Devine - *Citigroup - Analyst*

Good afternoon. I have a couple questions. I guess, first, Don, just to be very clear, with S&P's action because certainly it seems, at least to me, they replaced the capital pretty quickly that the Company lost in the second quarter that if it comes to a downgrade, you are not prepared to raise common equity to avoid that. I think everybody would feel better getting that clarified.

Second, with respect to -- if I look at the long-term care line and I am trying to understand exactly what has gone on there over the past year and I am looking at how much the assets backing that line are up. Is the bulk of what has been, I don't know, almost a 50% increase, how much of that is coming from reserve adds?

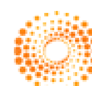
And then finally, with respect to interest rates, if I look at the hedging you are doing this quarter finally, is it fair to conclude that Manulife has worked out that it is, in fact, perhaps more sensitive to interest rates than it is to equity markets?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, let's see, you had a series there. The first one is easy to deal with. S&P didn't ask us to raise equity. It didn't suggest it, at least to my knowledge, in any of the discussions I had with them and they knew what the answer would be. We don't intend to do that. We don't think this is necessary.

Again, let's be clear. This whole interest rate thing is a mark to market and these are very long liabilities. And if you believe that rates will eventually go back to more normal levels and quantitative easing will stop, which you have to believe if you believe in the future of the global economy, it is not going to be a long-term problem. But under Canadian GAAP, we are mark to market and people have reacted to that and so we understand it, but it is a mark to market.

The same is true -- these VA liabilities don't come due I think on average for something like 15 years. The earliest it comes due is the Japan block in seven years. Again, very substantial reserves inside that. The odds are that markets will go up and that we will make a profit on those businesses, but we have got a very heavy mark to market on those businesses. And as indicated by our comparison between U.S. GAAP and Canadian GAAP, a much more heavy mark on Canadian GAAP than would be true on U.S. GAAP. So those things.



THOMSON REUTERS

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

I think rating agencies and others react to that, but that is not the thing that you go and raise equity for unless you really get up above the wall. And as we said in our last call and have indicated in this quarter and other quarters, we do have other things that we can pursue to restore our capital position if we found it necessary.

The other thing is, again, the opportunistic hedging is going to reduce the sensitivity of those things. The relativity, Colin, it depends on what happens, right? As rates go lower due to convexity, the interest rate sensitivity goes up and as equity markets go lower, there is something comparable that occurs there.

So it depends on what the situation is. If rates went back up, you would find our interest rate sensitivity diminishes quite a bit and if equity markets go up, our equity sensitivity diminishes. It all depends on what happens, but I think the most important thing to remember is both of them are mark to markets.

Colin Devine - *Citigroup - Analyst*

And Don, I guess two points we need to clarify. One, variable annuities do not have a maturity. The benefit is triggered by the age of the policyholder as to when they can use it. So it is not a question of five years or six years or seven years, it is when they hit the age. And I think frankly you misspoke because once, if they do start systematic withdrawals then you are looking at a life annuity at that point.

The second thing, while you took great credit earlier that you did not hedge the equity exposure when the markets were down, and that has made Manulife billions, I guess it seems to me that the decision not to hedge declining interest rates, such as some of your peers did, whether it is Sun Life or Met, by buying floors, why wouldn't I conclude that that has cost Manulife billions looking at the losses over the past year? Why is that an unfair conclusion?

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, I think I think it is fair to say that interest rates fell more than I guess a lot of people expected. People who bought floors I think did really well with those floors. Again, it is a mark to market call and I mean -- but in 20/20 hindsight, there is a lot of things you could have done. That is a fair comment. But it is what it is. We are dealing with it and we are very comfortable with a certain amount of interest rate risk, again, with a view, but people's view of how long this thing is going to last has changed.

Our view certainly has and at the end of the day, you can have all kinds of bets on that work, but if a bet goes against you, the obligation is to close off the bet at some time, not to take unlimited amount of risk and that is what we are doing.

Colin Devine - *Citigroup - Analyst*

A question with selling the bonds out of the corporate surplus and I certainly appreciate why you did that, but why hasn't that been extended to your real estate properties? I would assume the same rationale would hold. And frankly, as I look at it, Manulife seems to be really the last major North American life company to have a significant owned real estate portfolio. I just have a tough time believing that your liabilities are so different versus everybody else's.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, everybody might not be as capable of managing real estate.

Colin Devine - *Citigroup - Analyst*

You are a life company, Don. With all due respect, you are not a real estate company. You are a life insurance company.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

We manage real estate as well as anybody, but that is the minor point. The more major point is --.

Colin Devine - *Citigroup - Analyst*

With a CAD6 billion portfolio, it's not, Don.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Okay, Colin, just let me finish. The more major point is I defy you to name a company, any sizable company that has performed better on their general account assets than we have and the reason for that is the highly diversified portfolio.

Colin Devine - *Citigroup - Analyst*

MetLife has. I will tell you right now. So has Pru frankly. But I guess we will have to agree to disagree.

Donald Guloien - *Manulife Financial Corporation - President & Chief Executive Officer*

Well, Colin, I think you have to look at not net unrealized losses, but gross unrealized losses, right? The fact that interest rates have gone down don't necessarily skate you onside with respect to credit problems. And I am not speaking of either one of those companies specifically, but I think you have to look at that.

If I have got a bond that is worth 60% of par despite the fact that interest rates have come down and I have got another bond that is a government bond that is worth 120% of par, just because interest rates have gone down, adding the two together to say I have got a net gain is hardly informative to anybody. I think you understand what I am saying there.

Our portfolio is -- read the S&P analysis very well and the real estate -- a funny thing happened during the recession. The tenants kept paying, so it kept the yield up on those assets and they are marked to market. They are marked to market on a rolling basis. So Colin, if we sold them, there wouldn't be a big staggering gain because they actually are marked to market right now. And that's why we actually took some losses, very minor losses relative to the size of the portfolio on the real estate last year when the mark to markets were in the negative direction. They are coming back now. In fact, we tried to buy real estate at those prices. So we like real estate as a part of a highly diversified portfolio. Warren, do you want to add?

Warren Thomson - *Manulife Financial Corporation - Senior Executive Vice President & Chief Investment Officer & Chairman, MFC Global Investment Management*

I think you have captured all the key points there, Donald. I think the key point is the real estate is, in fact, marked to market, whereas the surplus bonds were not. We had to sell them to realize the gains.

Operator

Peter Routledge, National Bank Financial.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Peter Routledge - *National Bank Financial - Analyst*

Hi, good day. I will be quick because I know it is getting late. Just on the assumption changes, there is CAD2.8 billion pretax this year, CAD1.9 billion last year and kind of provokes a question, is it over? And I guess the area of concern that I would have would be in the Universal Life where, by your own actions, increasing the price 13% would tend to suggest there may be some latent reserve risk. And I wonder if you could comment on that and could you put any or could you quantify any potential risk as a percent of liabilities backing Universal Life policies? Thanks.

Michael Bell - *Manulife Financial Corporation - Senior Executive Vice President & Chief Financial Officer*

Peter, it's Mike. I will start and I will ask Cindy to add. On your specific question on Universal Life, the increases there have been primarily due to the drop in interest rates. And so I would not conclude that there is some correlation between the UL price increases and a coming basis change, other than the second order impact that we mentioned and that is the ultimate impact on the ultimate reinvestment rate, which in some sense has some correlation. But other than that, we are not aware of anything at this point on the Universal Life block and I wouldn't try to correlate it to the rate increases.

On your more general question, again, we have got a huge balance sheet and it is a very complicated portfolio of products that we have actuarial liabilities set up for. So it is not surprising that, in any given year, there are going to be changes in those assumptions that get leveraged because these are long duration liabilities.

The long-term care is the obvious one that has the uncertainty for all the reasons that Jim Boyle described a few minutes ago. That is one we will provide updates as we have them. Whether that ends up being a positive or a negative is impossible to tell at this point. We have given our absolute best shot, including that independent review. Cindy, anything you want to add?

Cindy Forbes - *Manulife Financial Corporation - Executive Vice President & Chief Actuary*

No, that was a good answer, Mike. Just I guess one thing to add is, for Universal Life, the price increases are on new business and they are related to the fall in interest rates in terms of what we would be investing new assets at for new business. So no issues with respect to mortality or that sort of issue or lapses on the in-force business.

Peter Routledge - *National Bank Financial - Analyst*

There was certainly some let's call it risky pricing or risk rating practices in that product line industry wide over the last couple of years. And this feels like what we went through with long-term are over the last couple of years. And so it sounds to me like you can't really rule it out.

Paul Rooney - *Manulife Financial Corporation - President & Chief Executive Officer, Manulife Canada Ltd.*

It's Paul Rooney here. Jim might want to chime in as well. You are correct; there were some practices in the marketplace. I think you were referring to underwriting practices or aggressive table waiting programs. We did not participate in those in Canada.

Peter Routledge - *National Bank Financial - Analyst*

Not in Canada, but in the U.S., did you or did you not?

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jim Boyle - *Manulife Financial Corporation - President, John Hancock Financial Services*

No, I don't think that you are going to see the emergence of the issues that you are describing in your question. Frankly, this quarter, we had claims gains in our US life insurance business. We did see some lapse losses in the early duration in the last couple of years, but we believe that was a bit of an anomaly driven by the economy. We have priced this product with very little lapses, 1.5% grading down to less than 0.5% over time. So we are pretty comfortable with the in-force block.

Paul Rooney - *Manulife Financial Corporation - President & Chief Executive Officer, Manulife Canada Ltd.*

I will say the same for Canada.

Peter Routledge - *National Bank Financial - Analyst*

That's it. Thanks.

Anthony Ostler - *Manulife Financial Corporation - SVP, IR*

Great, well, thank you, operator. We will be available after the call if there are any follow-up questions. Have a good afternoon, everyone.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.

©2010 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS