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PRESENTATION

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay, I think we will get started with our afternoon session here, if I can get your attention, please. I would like to welcome Steve Roder to the stage. Steve is a Senior Executive VP of Manulife and its Chief Financial Officer. He joined the Company in 2012 bringing a long history of experience in Asia in various finance functions at some very large companies as well. So brought a lot of experience to the Company in a business that is very important to the Company. So we are glad to have Steve here.

I would like to kick off -- I have a list of questions, but something happened earlier today that prompts me to ask about the management announcement today where your Head of Asia, Roy Gori, has been promoted to President of the Company with oversight over a much broader set of businesses. So if you can give a sense of what was behind that decision and what it means for the Company, that would be great.

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

Sure, yes, so Roy joined the Company in early 2015; he was a Citibank executive in Asia, had a variety of roles there with some senior roles in retail banking primarily. And he has the experience of living in multiple jurisdictions, so he lived in Singapore, Hong Kong and Thailand.

And I worked very closely with Roy since he got on board. We actually negotiated the DBS deal together and were closely involved together on our Standard Chartered deal in Hong Kong as well. So he is a great guy.

I think the issue here is that the Board is always thinking about succession planning and they need to make sure that candidates for succession are ready, if you like, for succession. And in Roy's case he is moving to Toronto, although in theory the job he has just been given he could probably do it from anywhere. But he is moving to Toronto because he doesn't really have much in the way of experience regarding North America.

So, he will be moving to Toronto with his wife and family and I imagine they are scouring the streets for Canada Goose jackets actively. And he has carefully timed his arrival for June which is probably a better idea than January. So, yes, he is going to oversee basically the operating division, so that will be Canada, the Canadian division, US division, the Asian division and the investment functions basically.

And then the finance, legal and some of the other group functions continue to report to Donald. There is no statement about any succession. There is no -- Donald has not indicated there is any change in his arrangements. And we will see how we go.

Gabriel Dechaine - *National Bank Financial - Analyst*

I guess he is used to expensive real estate in Hong Kong; he will make the transition to Toronto pretty well.

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

I think he will probably find Toronto pretty trivial by comparison, I have to tell you. Yes, I mean Hong Kong real estate is something a bit special, that is for sure.

Gabriel Dechaine - *National Bank Financial - Analyst*

So a big topic for Manulife is the ROE, and it is a pretty important target for the Company to get to a low teens ROE, 13% I believe. How much of a tailwind does the current rate environments -- it must make your job a little bit easier to get to that 13% ROE. Or is it even that much of a tailwind?

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

It is a bit of a tailwind because we try to make our income statement, if you like, our core earnings to a large extent excludes the direct impact and markets, etc. But core earnings does benefit from increases in interest rates. So we think that over time, based on the movements that took place in Q4, I think we said that the quarter-to-quarter benefit ought to run at about $15 million. So it does have a benefit over time and it should be helpful.

And if it goes hand-in-hand with a better -- or a greater degree of confidence in the economy generally then that is also helpful because people are probably allocating more towards equity-based mutual funds and the like rather than fixed income. So all those things are probably helpful to us. So, yes, it will be helpful. But it is probably not the main issue for us.

I mean I think the main things we have got to do are -- first of all, we have got to make the transactions that we have carried out over the last 2.5 years pay their way in accordance with the business plans that we had at the time we did the deal. So, the two transactions we did in North America, the Standard Life acquisition in Canada which was really about the pension and retirement business and then the pension business of New York life.

Those two are getting well embedded but they are not quite done yet. There is a bit more to go, but they are well advanced. Whereas the two Asian teams, that is the bancassurance deal with DBS, which is focused on Singapore but covers three other markets. And the Standard Chartered deal in Hong Kong. Well, the DBS deal we have only been at it one year, it is on track, it is on plan, it has been a terrific success, but it has got a long way to go to be up to run rate, if you like.

And then the Standard Chartered deal, we paid for that in Q4 -- it completed in Q4 but has no effect basically on 2016. And we have got to make that properly accretive as well. So that is one big component. The other is we have got to continue to grow the businesses that have the highest ROEs.

And so effectively shift the weighting of the ROEs towards those high-growth businesses. And that is primarily Asia and it is primarily the global wealth and asset management businesses. And most of the Asian business, most of the wealth and asset management businesses have very attractive ROEs, so we have just got to keep focused on that.

And then the third component would be continuing to grind expenses out of the organization. A lot of low hanging fruit has been grabbed but we are getting into more sort of I'd say challenging surgery that needs to be done in the organization. But we are doing some really good things. But it takes time to necessarily turn those into sales. But those are the real drivers I would say of ROE expansion but, yes, interest rates will certainly help.

Gabriel Dechaine - *National Bank Financial - Analyst*

So if I look at the flowchart from your 9% to 10% ROE now to the 13%, there is a organic or momentum component then -- the squeezing more out of acquisitions. Can you give an example of -- I mean, DBS, I can figure that out myself, sell more and you start making more money over time. But the other acquisitions that you have made several years ago, how do you make them more profitable essentially? What is behind that?

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

Okay. So the -- well, they are all slightly different I'm afraid. So it may be a slightly longer answer. But bear in mind the Standard Life deal was somewhat 2014, so it was not that long ago, 2.5 years and we have got four transactions. The Standard Life deal, there was quite a significant expense synergy component to that, but there were also other benefits.

So, for example the Standard Life distribution is benefiting -- we are benefiting from putting a lot more of our product through those distribution channels. So that sort of expense synergies and it is -- I would say it's revenue side as well. We are in long way through that, but you have to kind of invest to get the saves out. So we are not all done but we are well advanced.

New York life, it is probably fair to say, was more an expense synergy, although it did enable us to increase our presence in the so-called midmarket of 401(k). So that will be kind of 50 to 200 employee type organizations. We were number one or number two depending on which quarter you look at in the small case size market. And we had some presence in the midmarket but we're not very strong there. So it has given us a better market presence there. But that deal is to a large extent about expense saves.

DBS -- DBS we didn't actually acquire anything at all. So we have paid out a fixed component on the DBS deal. And this is all about building distribution. So it is almost like a quasi joint venture you could say. And the art of that is to make sure that the two organizations define success the same way frankly. And then they execute against it at agreed business plan.

So, so far so good. We are very, very happy with that transaction. But it is still relatively early days and the plans we built with DBS would see us grow those volumes, obviously grow the in force book, and also over time add additional products and higher margin products to the mix.

And then Standard Chartered is going to be partly -- will be partly about expense synergies, but it is also a exclusive distribution deal for pension products, which means that we can take our pension products, which we believe have some superior features to most in the market -- whether that is to do with our technology or whatever else -- to Standard Chartered's corporate -- largely corporate client base.

And they are a very, very significant bank in Hong Kong, as many of you will know. And at the time of the original launch of MPF whenever that was, 2000 I think, they didn't come out anywhere near as well as say HSBC. So I suspect they just didn't get quite as well organized or focused on it or whatever, I don't know.

But there is a big opportunity to take what we believe is a very, very good product to their customer base. So that is quite a lot of the component of that deal. So they are all little bit different and we have to hold the businesses accountable for delivering against those plans.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay, that is a great overview. The other ROE concept I guess that -- it goes back to a slide in one of your presentations a year or two ago where you show the breakdown of your businesses. Asia and the global wealth businesses is earning 20% plus ROEs and then everything else.

It is great that you have the Asia and the wealth, the everything else is pretty much what is depressing ROE. Hence you have outlined the balance sheet optimization strategy. And update us on that, where you are. Is the current market environment more conducive to essentially exiting some low return businesses, addition by subtraction? And is there any urgency to do this? Because it is an element that is in your control that you can hopefully move the needle on your ROE.

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

Yes, so just for clarity, the expansion from what last year was core ROE of 10.1%, prior year was 9.2% -- so 9.2% to 10.1%. And they are moving to 13%. That does not assume any inorganic deals, either acquisitions or balance sheet optimization type transactions. There is no assumption that any of that takes place.

So in a way you could say this is about could we accelerate that movement in ROE. We started to talk about it a bit because I had an impression that some investors thought we'd didn't sort of have a focus on ROE and that maybe we hadn't talked about it enough or whatever. And we want to just let the market note that we care deeply and we spend a lot of time talking about ROE and talking about some of these in force blocks, to your point.

I think the world has changed a bit. If you go back two years ago, if you wanted to have a discussion about long-term care I think you could have tried very hard for a very long time and had absolutely no discussion whatsoever with anyone. Whereas today you see the bid for Genworth and then you hear about one or two private equity funds being formed to try and buy long-term care blocks.

And there are at least some signs that some people are believing that perhaps the data associated with long-term care allows a level of certainty that may have not have been there two years ago. So who knows, at some stage maybe there is a conversation.

We did stop writing standalone long-term care. The business itself, it was negligible really in the sense of our overall portfolio in terms of the new business. And it was -- the product was very different from what we used to write. It was largely a pass-through product.

But through the course of this year's planning process I basically said I have lost count of the number of times I have to tell investors this product isn't the same as the old product and it is just noise that we don't need. So we stopped selling long-term care, good call, and most people said that was the right thing to do.

Variable annuities a sort of similar story but I would say a bit more advanced. Two years ago if you spoke about variable annuity you could have some conversation, but they tended to be pretty short because people would want to use discount rates that made the whole thing kind of totally impractical.

So we kind of have slightly better conversations about VA these days. But again we haven't got to a point where we've been able to transact on anything. So the way I look at this, and those are the big blocks, they are the ones that get the most attention. There are other closed blocks of business.

We have had some extensive discussions around some of those other closed blocks. We haven't got to a point where we have been prepared to transact because we haven't thought it was in our shareholders' best interest to do so. If there is a point where it is in our shareholders' best interest, well then maybe it is a different story. And we have to think about it from a shareholder value creation point of view I think.

So what does the Company look like after and before and then how does that change the perception of the Company from a sum of the parts kind of perspective? And does that mean that you would be prepared to take some sort of earnings charge? Well, to some extent maybe. If I told you we were going to take a sort of multibillion-dollar charge you would probably think I had lost my sense.

Gabriel Dechaine - *National Bank Financial - Analyst*

Not necessarily.

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

Not necessarily. So these are the sorts of trade-offs we need to think about. And so, I don't think of it as a point in time analysis; I think of it as a continuous analysis. And, if you like, something where we just continue to have dialogues with people and try and stay close to the way these things are developing.

And to your point, interest rates increasing helps in that discussion potentially. So we will see. But at the end of the day we don't have to do a deal, that is the point. So we made it very clear we are doing this from a position of comparative strength. Our MCCSR ratio is at 230 at the end of the quarter, so we don't have to do this. Therefore we are not going to do a deal that doesn't make sense for our shareholders, that is the bottom line.

Gabriel Dechaine - *National Bank Financial - Analyst*

The trade off would be whatever charge you would incur, but -- on the negative side. On the positive side management resource is freed up, you don't have to worry -- well, assuming it is a large enough business and de-risking, create capital, minimum capital requirements would be going down as well, so that is --.

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

That is exactly it, yes, that is the trade off. More than likely anyone who wants to do a deal will probably be using assumptions that may be different from whatever we are using. So therefore there may be some sort of, who knows, probably some sort of charge. But there are benefits. So that is the trade-off that we have to think about.

So absolutely, yes. But these deals are easy to talk about and they are less easy to bring about. Having said that, the New York Life transaction, we actually paid for New York Life largely through a reinsurance of a closed block of life business in the US. So it shows you the art of the possible.

Gabriel Dechaine - *National Bank Financial - Analyst*

The other question not related to balance sheet optimization, we will switch over to I guess rate sensitivity, macro sensitivity. And post crisis Donald's message was Fortress capital and de-risking the Company, reducing downside risk, very valid reasons to do so. Where we are at the point now where there is virtually no -- or at least the sensitivity disclosure indicates there is no short-term impact from interest rate moves.

If blue-sky scenario we get gradually increasing interest rates, are you in a position or do you have levers you can pull to reverse some of that so you can recapture some sensitivity to the upside?

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

Well, we manage the balance sheet and the sensitivities in accordance with the risk tolerance limits effectively laid down by our Board. So we put in place targets for sensitivities, I believe they were put in place in 2010 and we achieved the targets in 2012 and 2013. So that is what we manage to.

Now it is always open to the Board or management to recommend to the Board that we relax those, that is a possibility. But right now I think -- and we go through the process of considering what they should be every year. And we think about how much volatility are our investors prepared to tolerate in our quarterly earnings essentially. So that is what we are really managing to.

The virtually zero sensitivity to interest-rate has a very important caveat attached as we discovered -- or we all discovered in Q4. So that sensitivity is to parallel shifts in the interest rate curve. And if we are exposed we continue to be exposed to widening and narrowing of corporate spreads and swap spreads, and we are also exposed to changes in the shape of the interest rate curve.

Now our view is that the corporate spread point is pretty much a random walk and over time it is probably a sort of zero sum gain. The shape of the curve issue, that almost by definition has to be a zero sum game because you can't keep steepening forever and you can't keep flattening forever.

The one where I guess in theory you'd say today swap spreads are still relatively narrow, so that is probably -- I think if you're even handed you would probably say well there may be some more downside rather than upside risk attached to that. But a lot of it is just sort of mark-to-market accounting noise that over time tends to wash out.

So if you look at the year as a whole, the actual impact from markets in aggregate was pretty small, but on a quarter-to-quarter basis it can be quite volatile, which is a challenge. And there is not a huge amount you can efficiently do about it given the nature of those very, very long-term cash flows we have.

So, Q4 was a really odd quarter. We think it was a 2- and 30-year event where corporate spreads narrowed, swap spreads widened and the curve steepened and all of those basically came up red for us. So it was a very, very unusual quarter. But, hey, I guess that is why we invented core earnings at the end of the day. And thank heavens we did because how you would explain our income statement without core earnings I am not quite sure.

Gabriel Dechaine - *National Bank Financial - Analyst*

Speaking of -- well, the distinction in core earnings and IFRS earnings, what is the basis for your dividend policy then?

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

The dividend is set based on --.

Gabriel Dechaine - *National Bank Financial - Analyst*

This past quarter you had diametrically opposed outcomes --

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

Yes, correct.

Gabriel Dechaine - *National Bank Financial - Analyst*

-- and you raised the dividend.

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

Right. So we set the dividend based on our outlook for core earnings. It is based on our look ahead of how we feel about core earnings. And 30% to 40% of our outlook for core earnings is where we set -- well, I should say that is the recommendation we as a management team make to our Board, 30% to 40% of the outlook for core earnings.

Bear in mind at the start of the year the outlook for core earnings and net income, virtually the same. I think there are two technical differences. One is we that bake up to $400 million of investment experience gains into core.

Well, if we think that actually we might do a bit better than that than anything in excess of $400 million would fall outside core. And I think the only other thing we have to worry about is preference share -- preference dividends. But other than that at the start of the year that two are pretty much the same.

Gabriel Dechaine - *National Bank Financial - Analyst*

That is the way it looks in my model.

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

There you go. So we don't want to be blown off track based on the volatility in the income statement arising from the direct impact, because that could go either way for us. So equally, in 2013 and 2014, when net income was significantly higher than core earnings we did not use that as an excuse to take dividend actions, not at all.

Gabriel Dechaine - *National Bank Financial - Analyst*

Moving on to investments, we have got a big capital regime change in 2018, so it is just around the corner. Your investment strategy is well-known to be different than your peers in the sense that the alternative long-duration asset portfolio, timberland, agriculture private equity, real estate, etc., bigger component of your invested asset mix than some of your peers.

Those types of investments should become more capital intensive under the LICAT than they are under the MCCSR. Is it -- are you spending more time thinking about that strategy and what makes sense under the LICAT versus -- is it going to have an impact on your investment strategy?

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

Okay, so fundamentally we manage the Company based on what we think is the best asset mix to match the cash flow -- liability cash flows we have. So we make use of these long-duration assets at the 20-year plus, largely 30-year plus cash flow point. And we think that they give us a better return over time than say public equities.

So that has been our -- and also better than non-investment-grade fixed income. And that is because we have deep expertise in these categories. We are not typically having these sub advised. We operate and manage some of these asset classes and it is based on decades of experience. So we see it as a competitive advantage.

So, we are not dramatically -- thinking dramatically about changing our asset mix. When it comes to LICAT, there are all sorts of pluses and minuses within the draft LICAT regime. Just to remind everyone, the regulator has said that they believe that the capital in the industry is adequate. Did I say more than adequate, I think they said adequate.

Gabriel Dechaine - *National Bank Financial - Analyst*

Adequate.

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

Adequate, yes. We didn't manage to get more than adequate.

Gabriel Dechaine - *National Bank Financial - Analyst*

I don't think regulators (multiple speakers) bullish.

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

They don't say that, no, you are right. So they said they believe it to be adequate and we are a pretty significant proportion of that so that is a good starting point. Our relationship with OSFI is very constructive, we have very regular dialogue. So there is still some way to go; this thing has to get calibrated properly. But I take comfort from what they said publicly and I take comfort from the process so far which has been very collaborative.

But there is a way to go. The calibration is quite tricky. And so what is going to happen is they are going to publish this note fairly soon and then we are all going to be spending lots of time working on the quantitative study again to make sure that the calibration is right.

And then, so we will probably not be able to say a huge amount about the -- what we believe the true impact to be until probably Q2 -- I think maybe we can say something at Q2, maybe. It depends how things play out. So I wouldn't expect anyone to say anything very helpful at Q1, maybe Q2.

Gabriel Dechaine - *National Bank Financial - Analyst*

So for now you don't anticipate a major impact on your investment strategy?

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

No, not as of now.

Gabriel Dechaine - *National Bank Financial - Analyst*

I just want to remind everybody if there is a question from the crowd, please raise your hand and -- no.

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

I would say, Gabriel, the Company has changed dramatically in the last five or six years. So we have been shifting away from capital intensive product. We have been selling a lot more low capital or capital light product. We have been growing our wealth and asset management businesses very fast that don't typically have a lot of associated regulatory capital.

So in terms of a strategic imperative arising from LICAT, we have sort of been doing it already to a large extent. But obviously we have to keep under review whether there is any specific actions we need to take around the margin. I would characterize it that way.

And to remind people, the vast majority of our book is fixed income, it is government debt and it is investment-grade corporates. And in fact, if you look at where do our investment gains come from quarter to quarter, something like 70% on average is all about fixed income, it is the ability to redeploy out of government debt and into corporate debt -- investment-grade corporate debt, that is where most of our investment gains come from.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay, just switching over to the Asia business. We expect to see higher growth rates out of it obviously. But how do you see the mix within the region shifting from an earnings standpoint considering such things as DBS, growth in Indonesia and maybe no growth in Japan, something along those lines? Currently I believe you are around 90% Japan/Hong Kong earnings?

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

In terms of earnings, yes. I think again the in force obviously plays a key role there. So, there is a very large in force in Hong Kong and in Japan.

Gabriel Dechaine - *National Bank Financial - Analyst*

Right.

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

But what you are seeing is a significant shift in the sales mix. So four years ago it was absolutely right to say well, Manulife has got a large diverse Asian platform but it is very dependent on Hong Kong and Japan. Today it is a lot less the case. And if you look at the sales growth and the growth in new business value associated with insurance it is much more diverse. And there are really two reasons for that.

The first is the DBS transaction, which is focused on Singapore. It is not the entirety. It also covers Hong Kong, Mainland China and Indonesia. But DBS is the big kahuna of Singapore. I hope they doesn't mind me calling him that, they will probably read that. Anyway, they are the powerhouse of Singapore.

And so we have gone from being a pretty insignificant player in Singapore to number one in bancassurance or a number two life co in Singapore basically in a year. So that is good because it is diversification of footprint.

The more exciting story -- well, the other exciting story is really these emerging economies. So some of these emerging economies have GDP growth rates that are in the sort of 6%, 7% -- and I am talking here really about Vietnam, Philippines, Mainland China and Indonesia, which has sort of come back economically now. So those are the four that are really driving us.

And it is not just the case that the GDP growth is taking place, it is that the middle class is emerging. So it is not linear, it is sort of logarithmic because as people get to a certain level of income they get to some people would say $10,000, some people would say $12,000 a year, then that is when people start to think about retail financial products.

And so, we are seeing phenomenal growth in some of these locations, well north of 30%, in some cases double that and more in terms of premium income. And if you go there and you experience what is going on on the ground, which I do frequently, I am out there about eight times a year, you just can't help getting infected by the energy and the buzz around the whole thing.

We are going very, very well in Vietnam, we are going very, very well in Mainland China. We have changed a lot of the leadership in Asia in the last four years. I changed to CFO probably nearly three years ago. Roy came on board two years ago. And then we refreshed a lot of the leadership, including one or two of the country leaders. And we have a Mainland Chinese national running Mainland China.

Well, I can tell you that is a pretty sensible thing. We have a Vietnamese Canadian running Vietnam, that is a pretty sensible thing. So the quality of leadership and management is very, very important in that region, because the ability to attract and retain talent is a crucial part of the battle because there is ever increasing demand for talent and there isn't enough of it.

And in fact the supply is decreasing because the populations of the city states -- I'm sorry, I should not refer to Hong Kong as a city state anymore. It used to be. It is a special administrative region of the People's Republic of China. But Hong Kong and Singapore are basically not growing in terms of population -- not naturally anyway. Singapore is growing through immigration, so that is helping.

China is actually shrinking, not many people know that, that is because of the one child policy. So, the (inaudible) in Shanghai is acute. And so, if you can't attract and retain talent you have got a real problem. And so, that is also why DBS is so important because it really set Manulife up as a winner. And our ability to attract and retain post DBS is clearly superior to what it was before.

Roy and I both started receiving emails from all kinds of people post DBS saying, looks like Manulife has woken up. Anything I can come and do? Well, that didn't happen before. So we are perceived now as sort of a bit of a winner in the region. But these are the reasons why people talk about Asia. Unless you are really there, I don't know, it is really hard because how are you going to attract or retain talent? And that is the biggest challenge.

Gabriel Dechaine - *National Bank Financial - Analyst*

So aside from the earnings, what about the remittances? We have had a bit of a swing in how much the Asia segment has been able to remit from really high levels to last year it was a little bit on the low side. I think capital was required to be retained in Hong Kong because of low rates and that sorted itself by year end?

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

Yes.

Gabriel Dechaine - *National Bank Financial - Analyst*

And you have said around 50% is the normal.

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

Yes. Yes, so the headline story is we think we ought to be able to turn 60%-65% of core earnings into free cash. And that is sort of based on North America; maybe we should be able to get to 70% and maybe Asia is 50%. But in any particular year you are going to get swings and ebbs and flows in that whole thing.

The other thing to bear in mind is when we started this disclosure back in 2014, I think it was 2014, that year we turned 82% of core earnings into cash. And I think I said at the time don't read this across into the future because my view was that as an organization we have been a little bit sloppy about forcing the remittances.

When I joined the Company four years ago we didn't have -- there were not enough specific targets in people's individual scorecards and the like. So holding people accountable for cash remittance was more difficult than it should have been. So we have kind of fixed all of that up, but there has been an element of catch up I would say over 2014-2015.

Now the challenge in 2016 is indeed Hong Kong or very largely it is Hong Kong. The Hong Kong regime is still based on the 1965 UK Department of Trade & Industry regulation, which kind of is a bit out of date. But it is very factor based and it is very sensitive to prevailing interest rates. So you can get a lot of volatility in your ability to remit out of Hong Kong.

And in fact, during 2016 until very late in the day we remitted nothing out of Hong Kong and then interest rates increased in December. And I am on the phone pretty fast extracting $400 million or whatever out of Hong Kong in December. So that regime will be updated under the new independent authority at some point. And we have to continue to sort of manage our way around that.

But I am pretty happy with our overall remittance picture, but we will get those fluctuations. But bear in mind that Japan and Hong Kong, which on the one hand you sort of say well, they are rather mature, etc. Yes, but they produce a lot of distributable earnings because they have a big in force block. So they have actually been able to fund the Asian growth story without much in the way of capital injection from us. If you leave aside DBS; DBS we clearly have to fund from center largely.

Gabriel Dechaine - *National Bank Financial - Analyst*

We have one question we can sneak --.

QUESTIONS AND ANSWERS

Unidentified Analyst

Maybe just one question on when you are looking at the changes coming to LICAT in terms of (inaudible) is that going to become harder for you to (inaudible) LACAT or (inaudible)?

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

I have to say, I mean the treatment of the various asset classes and how they tend to require us to hold capital, I think some of it is still somewhat up in the air and there are certain categories of asset that will be more penalized under LICAT. And there is others that could actually -- could get more favorable treatment.

So I wouldn't want to get too specific on that at the moment. We clearly have to keep that whole portfolio under review. I am not suggesting we are not looking at our asset mix, but I didn't want to leave you with an impression that there is a massive step change about to take place, that was really my answer to your question. Yes.

Gabriel Dechaine - *National Bank Financial - Analyst*

Then one more.

Unidentified Analyst

(Inaudible - microphone inaccessible)?

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

Yes, but nowhere near as much as most of our competitors. So when the story first broke I think it broke in the context of Prudential PLC. And that day I think their stock went down -- fell 7%. I think ours fell 6% which was a bit painful. They stated at the time that something like 50% of their Hong Kong sales were to mainland Chinese residents.

So these are people who basically get a two day travel permit, come to Hong Kong and I mean the big joke is that they come, they buy a handbag in Prada, they buy an iPad in the Apple Store and then they buy a life policy somewhere. I don't know if that is absolutely the case, but there is an element of truth to it. So they came out with 50%, AIA came out with 40%, I think AXA said 70%, we said 15%, 1-5 percent. So historically --.

Gabriel Dechaine - *National Bank Financial - Analyst*

And just of sales?

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

Of sales, of sales. So historically we have been very cautious about the thing for a couple of reasons. Firstly, if you push your agent -- your Hong Kong agency too hard on Mainland Chinese sales the fear would be that they must be doing some form of marketing in Mainland China which is illegal, by and large it is illegal.

So you can't have Hong Kong agents wondering around Guangdong province marketing a Hong Kong Company. And you run the risk of getting into trouble not just with the Hong Kong regulator but also with the Mainland regulator which will be potentially a very bad thing for our Mainland business. So hence we would not have wanted our Mainland proportion to be that high.

And secondly, the mainland authority can turn those travel permits on and off. So during the SARS crisis for example a few years ago, they stopped issuing travel permits so there were no Mainland visitors. So it is sort of a bit uncomfortable to have -- I would say to have a very large proportion of your business tied up in Mainland Chinese sales. So for us the issue has been sort of almost immaterial if you compare it with some of the growth rates in sales we've got across Asia as a whole.

In terms of collecting premiums and the like, the vast majority of these policies are at a premium level which were not subject to the restriction. The bigger cases, which in theory were subject to the restriction, they buy and large belong to people who are wealthy and have set up a residence in Hong Kong. So they probably own a property in Hong Kong, they have probably got a bank account in Hong Kong and they will find a way to pay in Hong Kong.

So we haven't typically experienced a problem in that sense. Full disclosure, the 15% has increased, but that is because of the sort of surge in demand from Mainland Chinese visitors who are trying to get ahead of any further restriction in regulation. So I think our 15% probably ended up closer to 30%. But I think it may have come back down again a little bit.

Gabriel Dechaine - *National Bank Financial - Analyst*

Well, okay, Steve, thank you so much for your time.

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

Thank you. Thank you very much. Thank you.
