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## PRESENTATION

### Operator

Please be advised that this conference call is being recorded. Good afternoon and welcome to the Manulife Financial third-quarter 2014 financial results conference call for November 13, 2014. Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

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### Robert Veloso - *Manulife Financial Corporation - IR*

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our third-quarter 2014 financial and operating results. Today's call will reference our earnings announcement, 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 remarks. 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 the making of 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 important 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 the security filings referred to in the slide entitled, Caution Regarding Forward-Looking Statements. We have also included a "Note to Users" slide that sets out the performance and non-GAAP measures used in today's presentation.

When we reach the question-and-answer portion of our conference call we would ask each participant to adhere to a limit of one or two questions. If you have additional questions, please re-queue as we will do our best to respond to all questions. With that I'd like to turn the call over to Donald Guloien, our President and Chief Executive Officer. Donald.

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Thank you, Robert. Good afternoon, everyone, and thank you for joining us today. This morning we announced our financial results for the third quarter of 2014. We had a very strong quarter overall.

Once again we delivered core earnings that were better than planned and we achieved outstanding investment results. And needless to say the charges associated with our annual actuarial review were also considerably lower than expected. All of these together led to a very strong net income and capital ratio for the quarter.

As outlined on slide 5, we made substantial progress on our Company's four growth strategies. We continue to develop our Asian opportunity to the fullest. We achieved record insurance sales on a constant currency basis. We had double-digit sales growth in Hong Kong, Indonesia and our other Asian businesses, as well as continued momentum in corporate product sales in Japan.

Our successful marketing campaigns and new product launches helped increase wealth sales by 10% over the prior quarter and 74% versus the prior year. Continued growth of our Asian franchise contributed to the very strong growth in core earnings over the prior period.

We continue to grow our wealth and asset management businesses around the world. Strong net flows in our asset management and group retirement businesses of over CAD15 billion, so far this year, drove our 24th consecutive quarter of record funds under management. We continue to deliver strong mutual fund sales in North America as well as in Asia. And Manulife Asset Management achieved record assets under management for the benefit of our external clients.

Our balanced Canadian franchise continued its steady progress, and in the third quarter we entered into an agreement to acquire the Canadian-based operations of Standard Life plc. This transaction further accelerates our strategy for our Canadian business.

We achieved solid sales and record funds under management in our Canadian mutual fund businesses and group retirement businesses. We continue to be disciplined in the face of competitive pressures in the large case Group Benefits market as well as the Residential Mortgage market, both of which impacted sales. But our recent actions to improve our competitiveness including the launch of a simplified universal life product resulted in a regained sales momentum in retail insurance.

In the United States, we continue to drive sustainable earnings and opportunistic growth. We achieved record assets under management in John Hancock Investments driven by continued strong net mutual fund sales. Our retirement plan businesses continue to face challenging competitive environment and sales were lower than plan in that segment. In our life insurance business recent product initiatives are bearing fruit and the momentum is improving.

Turning to slide 6 and the financial highlights for the quarter. On the bottom line we delivered net income of CAD1.1 billion reflecting strong core earnings of CAD755 million, which again was slightly better than plan, and outstanding investment-related experience.

On the top line, we achieved satisfactory overall sales results. Insurance sales grew 7% from the prior year driven by strong sales in Asia, wealth sales continue to be strong and were in line with the prior year. We also ended the quarter with a very healthy capital ratio of 248%.

In summary, our plan is unfolding very well and I am confident that our growth strategies will continue to deliver excellent results for our shareholders leading to the achievement of our 2016 CAD4 billion goal.

Now some of you will observe that the change to include our investment gains in core earnings should logically lead us to revise this goal upwards to CAD4.2 billion. And I would agree with that observation. You might also observe that we should reflect the Standard Life impact of the acquisition in this goal.

However, as we have said many times before, we do not intend to keep updating guidance against the 2016 target or targets before that date or earlier than that date. And while we feel confident about achieving that goal, the impact of Standard Life and other investments could affect the final outcome. What is important is the trajectory and the fact we are confident not only concerning 2016 but, more importantly, beyond that.

With that I'll turn the call over to Steve Roder who will review the highlights of our financial results and then open the call to your questions. Thank you.

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

Thank you, Donald, and good afternoon, everyone. Let's start on slide 8 where we summarize our financial performance for the third quarter of 2014.

As you can see our key performance indicators largely demonstrate positive trends, profitability continues to improve, we are growing our insurance sales, wealth sales continue to be strong, we achieved another quarter of record funds under management, and financial strength improved with our capital ratio rising while our leverage ratio declined.

Return on equity, however, has been impacted by the denominator effect as growth of our equity has outpaced earnings growth. We continue to look for opportunities to deploy our capital for the benefit of shareholders. In the following slides I will address each of these indicators and further detail.

Turning to slide 9. Core earnings continue to demonstrate progress towards our 2016 objectives and increased compared to both the prior year and the prior quarter. Compared to the prior quarter, core earnings benefited from improved policyholder experience, the favorable impact of higher sales on new business strain, and higher fee income from rising wealth assets.

Turning to slide 10. You can see that our reported net income benefitted from continued strong investment-related experience of CAD370 million, CAD50 million of which was included in core earnings. All other items, including the annual update to actuarial methods and assumptions, netted to a small positive.

Starting in 2015, we intend to increase the amount of investment-related experience gains included in core earnings to a maximum of CAD400 million per year reflecting our recent strong experience and positive future outlook.

And this bears repeating -- our CAD4 billion target for 2016 is not dependent on this change in any way. There is no fundamental change to our outlook. We're making this change because we want the core earnings metric to reflect the underlying earnings power of this organization.

Moving to slide in 11. In the third quarter, we completed our annual actuarial review, which covered more than 100 methods and assumptions and resulted in a net charge of CAD69 million. Updates to lapse assumptions resulted in a CAD329 million after-tax charge to earnings, driven predominantly by the impact of the macroeconomic environment on lapse experience in Canadian retail insurance and North American variable annuities.

Having now reviewed all material lapse and policyholder behavior assumptions over the past three years, our reserves reflect experience observed in the current macroeconomic environment. Changes to actuarial standards relating to our segregated fund stochastic valuation bond parameters

resulted in a CAD157 million charge. These charges were largely offset by updates to mortality assumptions and other annual updates, including the refinement of the models we use to calculate our future tax reserves.

On slide 12 is our source of earnings. Our expected profits on in force was in-line with the prior quarter and a constant currency basis, as higher fee income from rising wealth assets was offset by the impact of lower interest rates on our US insurance businesses. New business strain improved largely due to higher insurance sales and a more favorable product mix in John Hancock Life.

Experience gains reflect the favorable impact of our investing activities and market impacts. Management actions reflect the impact of the annual actuarial review and expected macro hedge costs, partially offset by the benefit of a reinsurance recapture transaction in Canada. And earnings on surplus declined reflecting lower mark-to-market gains than the prior quarter.

Turning to slide 13 and insurance sales. Insurance sales were up 7% from a year ago and, excluding Group Benefits in Canada, insurance sales were up 18%. This increase reflects very strong sales in Asia, which achieved 46% growth, and improved momentum in North American life insurance sales driven by recent product actions. Insurance new business embedded value of CAD183 million was up 12% from last year largely reflecting higher sales volumes in Asia.

On slide 14 you can see that we continue to achieve strong wealth sales. In the third quarter, wealth sales of over CAD11 billion were in line with the previous year. In Asia, sales grew substantially with double-digit growth in most territories, which was largely offset by a decline in new bank loans in Canada and lower US mutual fund sales as a result of fewer mandates from large wire house firms. Wealth new business embedded value of CAD115 million was in line with the prior year.

Turning to slide 15. Funds under management at the end of the third quarter were CAD663 billion representing our 24th consecutive quarter of record funds under management.

On slide 16 our regulatory capital ratio of 248% increased 5 percentage points from the prior quarter, reflecting our strong third-quarter results. We ended the quarter with a leverage ratio of 27.1%, an improvement of 110 basis points from the prior quarter.

Moving on to slide 18. Turning our focus to the operating highlights of our divisions we begin with the Asian division. Asia core earnings increased 18% over the prior quarter driven by improved policyholder behavior, the favorable impact of higher volumes on new business strain, and increased fee income due to rising wealth assets.

Insurance sales of \$352 million increased 46% reaching record levels for the Asia division on a constant currency basis, reflecting very strong growth in Hong Kong, Indonesia and other Asia, as well as the continued success of corporate products in Japan. Wealth sales of \$2.2 billion increased 74% relative to the prior year reflecting successful mutual fund product launches in Japan and China, a successful marketing campaign in Hong Kong and improved investor sentiment in Indonesia.

Turning to our Canadian division's operating highlights on slide 19. Core earnings increased 5% over the prior quarter due to higher fee income from rising wealth assets and lower expenses partly offset by higher new business strain.

Insurance sales were CAD143 million, down from the prior year, reflecting competitive pressures and our disciplined approach to pricing in the large case Group Benefits market. Excluding Group Benefits, insurance sales in Canada increased 5% from the prior year largely due to the successful launch of a simplified universal life product.

Wealth sales of CAD2.6 billion continue to be solid but declined 15% versus the prior year largely due to lower new lending volumes at Manulife Bank reflecting the slowdown in the residential mortgage market and normal variability in large case group retirement sales. Mutual fund sales, however, remain strong and were in line with prior year levels.



Moving on to slide 20 and the highlights for the US division. Core earnings were \$314 million, up 4% from the second quarter, reflecting the impact of favorable product mix on new business strain, and increased fee income from rising wealth assets, partly offset by unfavorable policyholder experience and the impact of lower interest rates on our life insurance business.

Insurance sales of \$124 million were down 19% from the prior year reflecting slower industry sales in the estate planning market. However, recent product enhancements are gaining traction and resulted in a 10% increase in life insurance sales relative to the prior quarter. Wealth sales declined 6% reflecting fewer new mutual fund mandates from wire house firms. This was partly offset by improved sales momentum in retirement plan services.

So in conclusion, in the third quarter of 2014 we generated strong net income and core earnings, achieved strong wealth sales, delivered (technical difficulty) strong insurance sales, achieved record funds under management and strengthened our capital ratio.

This concludes our prepared remarks. Before we open the line for questions I want to provide a quick update on our announced acquisition of the Canadian operations of Standard Life plc.

Since our announcement the shareholders of Standard Life plc have approved the transaction and the waiting period under the Competition Act has expired. However, the closing remain subject to the approval of the Canadian Minister of Finance and certain securities regulators. And therefore our ability to answer questions on this transaction remains very much constrained. Operator, we will now open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Steve Theriault, Bank of America-Merrill Lynch.

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### Steve Theriault - BofA Merrill Lynch - Analyst

So, Steve mentioned the ROE pressure and the desire to deploy excess capital. So maybe, Don, I wanted to ask are you any more inclined than when we polled you last quarter to consider share buybacks or is that still not likely on the table near-term.

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### Donald Guloien - Manulife Financial Corporation - President & CEO

Well, I can't speak for the Board, but suffice to say that between discussions of the management and the Board, share buybacks does not figure higher on the list. Our order of priority is to first use it -- the excess capital and organic growth; secondly, in acquisitions that make good business sense and have high return expectations with moderate levels of risk; and thirdly, with increasing the regular dividends paid to shareholders.

The outlook is pretty strong in terms of capital ratios, so I think it is safe to assume that after appropriate discussion with the Board we will be doing all of the above. Hopefully we won't have to consider share buybacks but, if we can't find other better shareholder friendly uses, we will have to consider them.

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### Steve Theriault - BofA Merrill Lynch - Analyst

Okay. So I think we are telling us is you are not ready to make -- you are not ready to rule it out, but it doesn't sound like that is being considered near-term. Is the leverage ratio a constraint when it comes to -- like would you like to see -- all else equal, would you like the leverage ratio closer to 25% before you start thinking along those lines or is that not a constraint?



**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Are you talking -- it would not be a constraint in terms of the deployments that I talked about. If you are talking share buybacks that would be a consideration I suppose. But again, that is our lowest priority. Organic uses of the business would not be a constraint -- that would not be a constraint.

Acquisitions -- as we've shown with the Standard Life acquisition, we could have funded that to lower the leverage ratio even more, we did not feel that was a good thing or necessary. And the same would be reflected, we increased the dividend, we could have again chose to deploy that capital to reduce the leverage ratio but thought that would be better deployed -- returning it to -- some portion to our investors.

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**Steve Theriault** - *BofA Merrill Lynch - Analyst*

Okay. Thanks, Don. For Marianne, and just going to the Canadian business for a moment. We've heard you reference sales ex group benefits I think the last couple of quarters in Canada, and in the notes today I see you mentioned stepping back a little from that product due to it sounds like price competition.

Can you talk a bit about how long the heated competition has been going on? How much share you may have ceded in that business? And if you are considering a response here near-term in terms of pricing or otherwise or if you're happy to let it sort of run its course?

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**Marianne Harrison** - *Manulife Financial Corporation - Senior EVP & GM Canada*

So I would say that we have been seeing competitive pressures on our Group Benefit side pretty much all through this year. And we have made some recent changes that I think will make us a bit more competitive on that front.

But we have always been very cautious in terms of making sure that -- we wanted to have the right cases at the right margin for our businesses. So some changes we've made recently I think will have an impact, but it is quite competitive out there and we have seen that pressure for most of this year.

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**Steve Theriault** - *BofA Merrill Lynch - Analyst*

So, is there any sort of seasonality to this, so you made some changes in pricing, will we see that start to come -- or some changes of some kind, maybe not pricing. But will we start to see that come through the results sooner rather than later or is it more of a next year impact?

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**Marianne Harrison** - *Manulife Financial Corporation - Senior EVP & GM Canada*

It is probably a little of both. You know, the large group cases are sort of I'll say volatile in terms of how frequently we get them. So those things move around on a more frequent basis. We have seen on our small to midsize groups though increases there. So we have been pleased with what we have seen there.

It is really the group that there is a bit more depending on the time of year when the cases are coming up that you start to see that thing moving around a little bit. So I would say probably a little bit in the fourth quarter, but probably more so next year.

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**Steve Theriault** - *BofA Merrill Lynch - Analyst*

Thanks very much.



**Operator**

Gabriel Dechaine, Canaccord Genuity.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

So, Donald and Steve, I just want to make sure I understand your messaging here on this change in the investment gain assumption. So the CAD4 billion target, you are still on track, you are still confident in that figure. The CAD200 million pickup in investment -- expected investment gain, that's gravy, it could be looked at that way potentially. Is that what message you are trying to deliver here?

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Yes. But, Gabriel, you have got it right, your logic is impeccable. But again, we do not intend to be reissuing earnings guidance. As I've said repeatedly, it doesn't come out of a lack of confidence in the goal. But if we see the opportunity to do a deal and it means that something is going to get expensed in the fourth quarter of 2016, I'll be damned if I will let the target of CAD4 billion hold us back from doing something that is in shareholders' interest, right?

What we should all care about is the momentum that we have going through 2016. But that should not be read as any lack of confidence in the goal. That is just we don't plan to keep reissuing guidance and saying, yes, the inclusion of investment gains should take the goal up to this. And then reflect the integration costs of Standard Life, that should take the goal up to this and then down to this, and making all those adjustments on a quarterly basis, advising you with a permanent look ahead.

That is just not a constructive use of our time and will subject us to all kinds of challenges. So we don't plan to be updating guidance, but your conjecture that one could safely add it is not an unreasonable conclusion to draw.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

All right, thanks for that. And then just another earnings question. I guess at lifecos these days it is always tough to know which one matters most, reported or core. But last quarter you indicated that the reported figure is definitely the one that drives your dividend outlook.

The increase in expected investment gains, it wouldn't quite bring you up to the CAD0.57 from the CAD0.39. I'm just wondering how you -- between the -- there's a pretty wide margin between those two numbers. Like what do you consider to be the true earnings of this quarter? Is it CAD0.57 and -- because it has a big impact on the payout ratio?

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

Well, let me have a go at that. I mean I think, as we've said repeatedly, these measures are both important. The reason core was introduced was to provide a stable earnings figure which we could use to explain the underlying earnings power of the organization and I think it has been very successful in that.

And when the two started to diverge very significantly because it became clear to us that the allocation of investment experience into core was insufficient, then that started to give up this -- if you like, this difficulty in that the two payout ratio started to be very -- almost predictably rather different.

So what we have done today is bring -- is indicate our intention to bring those two back closer together again by increasing the amount of investment experience in core.



Now we are bound to have volatility and fluctuation in investment experience because that is how it works. But if you look back over the last several -- last three years and three quarters, we have averaged somewhere in excess of CAD100 million per quarter in each of those three years and three quarters. So we're trying to bring the two back close together.

I guess one of the references to the importance of net income however is it is net income that actually produces distributable earnings. So we can't really get away from either of these.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

And then just the last one if I can sneak in there. The E&E, can you tell me -- I think CAD500 million were expected to hit the bottom line this year, what was the actual number in the quarter of E&E in your earnings?

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

Right. So what we said is we will give an update on E&E every six months. So we gave an update at June. There is no change to the guidance on E&E. We will give a full update at the end of Q4, but I can tell you fundamentally we are still very confident of achieving what we said we would achieve at the end of Q4 this year.

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**Gabriel Dechaine** - *Canaccord Genuity - Analyst*

Okay, thank you.

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**Operator**

Robert Sedran, CIBC World Markets.

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**Robert Sedran** - *CIBC World Markets - Analyst*

I would like to start with just a geography question I suppose. If -- and it comes down to the securities gains. If you have, Steve, a quarter in which say it is CAD80 million, would you show CAD100 million in core and negative CAD20 million in non-core or would it be CAD80 million falling into core?

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

It would only be CAD80 million falling into core, but there is a sort of carry forward mechanism. So basically, yes, CAD80 million into core. But if we've got enough surplus from previous quarters in the year we can use that to top up that quarter where we've fallen short of the CAD100 million effectively, Rob.

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**Robert Sedran** - *CIBC World Markets - Analyst*

So it is a bit of an annualized look then?



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

Yes, it is. So what it does mean is we may have a little bit more volatility in core because we may have the odd quarter where we fall short of the CAD100 million. But looking at the performance in each individual year 2011, 2012, 2013 and so far year to date we have made CAD400 million a year in each of those years.

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**Robert Sedran** - CIBC World Markets - Analyst

Okay. And just on the CAD69 million reserve addition I guess. I mean it is encouraging that it is a small number in the context of where it has been. I guess a little discouraging the fact that lapses in policyholder behavior still seems to be such a large number.

Steve, I guess based on your commentary in your prepared remarks, you're comfortable now or the team is comfortable now that the experience of the last several years is now captured in the reserve. And if similar -- if a similar environment persists for the next two or three years we are not going to see big experience gains or losses around lapse?

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

Well, let me just start off and then I will pass to Cindy. I mean I think we have had a very transparent process around the annual review of assumptions. We don't want the sort of black box approach in this organization.

So the proposals that Cindy has put forward have been through a full review process with the executive committee and taken through the Board. So I think we are all very comfortable with where we have ended up. And I think we're also very comfortable that we sort of started to constrain the fan of outcomes, if you like, and the amount of noise in these numbers has started to die down somewhat. But I will stop there and just pass to Cindy.

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

Thanks, Steve. Yes, Rob, over the last three years we have reviewed all of our material lapse and policyholder assumptions. And so they have been updated to reflect current experience. So as you said, if future experience is in line with our reserve assumptions we wouldn't expect to see material changes.

But there are instances where we don't have credible experience at longer durations. And there we may get additional insights as we accumulate more experience -- insights that we haven't had to date.

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**Robert Sedran** - CIBC World Markets - Analyst

And has there been any adverse experience in the last say four quarters that is now going to go away with this charge?

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**Cindy Forbes** - Manulife Financial Corporation - EVP & Chief Actuary

Our -- actually our experience over the last four quarters hasn't been -- we haven't seen large charges due to lapses. We do see quarter-to-quarter variability, but we haven't seen large charges due to lapses. So I don't think you will see a noticeable change in our experience gains and losses.

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**Robert Sedran** - CIBC World Markets - Analyst

Okay, thank you.



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**Operator**

Peter Routledge, National Bank Financial.

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**Peter Routledge - National Bank Financial - Analyst**

A question on page 12 of the press release, just can't reconcile two bullet points. When you say the Standard Life transaction will be CAD0.03 accretive, and you've been very clear about that, and that will be CAD0.03 each year over the next couple years, so your EPS will be CAD0.03 higher.

Then you said the deal will enhance your ability to increase dividends in the future, which to me it seems like if all you are getting is CAD0.03 out of that, I don't know how that enhances your dividend paying ability. So what am I missing there?

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

Okay, so let me start off on that, Peter. First of all, I think what we are trying to say by these comments is that the Standard Life deal will increase -- or should increase, obviously should increase our core earnings and our net income. And it is net income out of which we are able to pay dividends. And the fact that this is an acquisition in the Canadian market is also helpful because we don't have to worry about some other regulatory constraints.

So from that point of view the message we were trying to give with the comment about ability to pay dividends was that this acquisition is no way a constraint on what Donald referred to earlier on which is hopefully a progressive dividend record going forward. That is what we're trying to say.

On the accretion, the other thing I would just try and reiterate here is that that CAD0.03 that we quoted was after the amortization of intangibles. Now we haven't really been too specific on the quantum of the amortization of intangibles because we've still got a lot of work to do on finally quantifying the division between goodwill and intangibles.

And based on my remarks about where the transaction stands, our ability to complete that analysis is still limited. But that was -- there was an assumption baked into the CAD0.03 figure. The other thing about the CAD0.03 was that it virtually excluded anything in relation to revenue synergies because we assume that those revenue synergies didn't really come through until sort of year three on, if I recall correctly.

So again, the reference to future dividend increases and ability to pay dividends is also looking out beyond and to what we see is a very attractive transaction once we've got the -- got it fully integrated including the revenue synergy opportunity.

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**Peter Routledge - National Bank Financial - Analyst**

Right. Thanks for that. And then just maybe a question, not so much a follow-up. But your MCCSR has been quite high for some time now. I don't want to jinx this and say we are out of the woods in terms of the volatility in the markets, but it seems really high.

And the question I have is just why are you keeping the MCCSR at your OpCo so high? Is it just holding capital in advance for maybe an opportunity you see coming? Or is there a regulatory reason like a stress test that may be requiring the OpCo to have more capital than in the past?

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**Donald Guloien - Manulife Financial Corporation - President & CEO**

Well, I think it is actually a combination, not a particular stress test that we are worried about. We feel pretty comfortable, as we talked about in the last quarter, about where global capital ratios are going and where the Canadian system is going.

The risk hasn't gone out of the system, we still have a reasonable exposure, so we are going to err on the conservative side in terms of what we hold. I think that is consistent with what other companies are doing. You'll find that most Canadian companies are holding capital ratios quite a bit higher than what they used to hold in the past. And I think that is a general statement in that direction.

But the other is true, we don't want to have to go to market unnecessarily in order to fund opportunities that we want to execute on a quick basis. So there is a certain amount that is being retained for that. And we see a fair number of opportunities that we could take advantage of.

So it really is a combination of both those things, a healthy dose of conservatism which our regulator certainly encourages and is similarly exhibited by other Canadian life insurance companies. And also opportunistic -- allowing for opportunistic acquisitions.

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**Peter Routledge** - *National Bank Financial - Analyst*

Okay, thanks.

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

Maybe if I could just add a couple of things. First of all, don't forget we still want to get the completion of the Standard Life deal and we haven't finally locked down how we would fund that. We wanted to see how Q3 played out and we would like to see how Q4 develops. But we'll hopefully get through that completion in Q1 and that will also influence how our MCCSR develops.

So that is one thing. And then the other thing that I would just remind people of is that we have a lot of -- quite a lot of debt maturing next year and preference shares that we may want to redeem. So there is all those considerations as well out there so I would just remind people of that.

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**Peter Routledge** - *National Bank Financial - Analyst*

Thanks, that's really helpful.

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**Operator**

Mario Mendonca, TD Securities.

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**Mario Mendonca** - *TD Newcrest - Analyst*

Steve, just a follow-up on that last point. You referred to a lot of debt maturing in 2015. But also in the 2013 annual report the Company referred to about CAD5 billion and capital that had been raised at the holding company downstream to the operating company. Can you give us an update on what that number is now?

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

I don't think I am in the position to do that now, but I think Cindy may be able to offer some help.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Yes, hi, Mario, it is Cindy. I don't know off the top of my head what that number is. I think we could give you an update off-line. I just don't know off the top of my head.



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**Steve Theriault** - *BofA Merrill Lynch - Analyst*

Would it be fair to say it is less than CAD5 billion? Like the number is going down, not up I would guess.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

I don't know how many maturities there have been in the last two years or last year and a half of senior debt, that is what I don't know off the top of my head.

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**Mario Mendonca** - *TD Newcrest - Analyst*

Okay. A different type of question, one for Warren. I think I understand what drives those investment experience gains. You have given us good descriptions in the past. What would be helpful though is if you could describe environments in which those gains would be higher and conditions under which they might be lower.

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**Warren Thomson** - *Manulife Financial Corporation - Senior EVP & CIO*

Well, the key drivers there obviously is our ability to originate assets that deliver returns with respect to our reserve assumptions that are in excess of the base level assumptions. So obviously having spreads wider, being able to originate assets at returns that are greater than what are priced for in the assumptions will give you greater gains. When things compress and/or we have the inability to actually source assets that would result in lower gains.

The core things that we do look at each quarter, credit has been positive for several quarters now, so credit but it is a more modest item in the global scheme of things. But again, if things were to get more adverse obviously you'd expect credit to stop being a positive and potentially become a negative.

Similarly our fixed income trading, which is sort of the core replacement of the government of Canada's, US Treasury's, the government securities that we'll typically buy when the funds first come in when we replace those with spread product. As we put that on that also gives rise to gain. So again, it just depends on the level of the spreads that we are seeing.

Finally, it is the actual results of the -- one of the other big pieces is both our origination of all the assets, so the pace at which we can source assets in the marketplace, so when things are a little more running in our favor.

So this -- we've had some better acquisitions on the real estate front recently, we've had a number of things come through so then it's again worked in our favor. But things can get tight and we had periods like back in the probably 2005 to 2008 time frame where we acquired very little real estate because we didn't like where the pricing on transactions were.

So really again we are sort of looking at our ability to originate assets through the cycle. And at this particular moment we do think risk premiums are pretty compressed. A lot of the alternative long-duration assets are being fairly fully priced.

So it is becoming more difficult to discern value, but we do feel very comfortable that in the current environment we are going to be able to achieve the CAD100 million a quarter go-forward given all the different things that are at play here.

Again, it is the diversity. Again, you've got to remember we've got not just the fixed income assets on the balance sheet, but we've got six different alternative long-duration asset classes and we have the opportunity to access any one of those classes in any given quarter. So our ability to move where we see opportunity or value is very helpful to maintain our flexibility.



**Mario Mendonca** - *TD Newcrest - Analyst*

So your last couple of comments really hit on where I was going with this question. So you made the point, and I have observed this as well, that spreads are tight and that some of these alternative assets, the pricing is getting tight as competition has picked up for those assets in the low rate environment.

How do you match that up again -- match that up with having essentially like a record quarter for these investment experience gains of -- I forget the number now, but CAD300-million-some-odd after-tax. How did those two statements come together?

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**Warren Thomson** - *Manulife Financial Corporation - Senior EVP & CIO*

Well one of the items, we had a very strong quarter in our private equity book, as a for instance. So again, it is a good time to be realizing if you've got investments in private equity in a compressed valuation environment, it's a key time to be taking money off the table.

So again, sometimes it is from the actual income being generated by the alternative assets and sometimes it is by the origination of the alternative assets. And again, it is that whole diversity which is really giving us more confidence around our ability to generate these numbers on an ongoing basis.

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**Mario Mendonca** - *TD Newcrest - Analyst*

Okay and then just, sorry, one final question on expected profit in the US. Wealth expected profit flat year over year even though funds under management are up 8% and assets are up CAD25 billion. And expected profit in the US again, insurance down 10% year over year, even though there has been a good level of insurance in P&D -- sales in P&D. So I'm not sure I understand why expected profit in the US, both wealth and insurance, would not have shown more momentum given the backdrop.

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM US*

Well, maybe I will start. It's Craig Bromley. Hi, Mario. On the wealth side, I will start there, we have taken some pricing actions on our in force and RPS, which actually lowers the profits. And I respect that actually that will normalize because we made the changes that we're going to make and that further growth in AUM would continue to drive higher expected earnings on in force.

On the insurance side it is a little bit more complicated, and actually maybe Cindy is probably better to explain some of the non-obvious factors that are going into that compression.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Hi, Mario, it is Cindy. Certainly on US insurance particularly quarter over quarter, but we see this really every quarter, is that earnings on in force are impacted by the level of risk free rates and credit spreads. So we get some volatility or variability in the earnings on in force on US insurance because of that. And the impact this quarter -- the decline was driven by that impact of interest rates.

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**Mario Mendonca** - *TD Newcrest - Analyst*

Okay, thank you.

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**Operator**

Sumit Malhotra, Scotiabank.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Back to the question around core earnings and I don't want to tie you down too directly here, but just want to make sure I understand this. So the CAD4 billion plus the extra CAD200 million or so on the Standard Life deal and the extra CAD200 million or so from the investment gains, you talked about the fact you don't want to be hamstrung if an opportunity comes up and say, hey, we've got to hit the target so we are not going to do this.

But if we are looking at something like CAD4.4 billion give or take right now, have you already identified some additional investments that the Company will now make, Donald? Or should we think about there's an extra CAD0.10 of earnings as a result of the investment gains and maybe they'll spend some of that somewhere else, maybe they won't?

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Yes, I think the second characterization is closer to -- I'm just trying to be open and honest with people that frankly I think too many companies are run by quarterly earnings and a desire to meet a target.

We set that target way back when in 2010, we had to talk to people about our revised expectations for the Company which were roughly half in terms of earnings capacity and a reasonable timeframe to rebuild that back to a level that shareholders might feel more comfortable with. And we set that target way back when and it was a reasonable thing to do.

But I don't want to be so beholden to a target that we will make sacrifices with respect to the long-term health of the business in order to meet that target. I mean I get bonused against that target so it is very important to me, right.

The Board holds me accountable for delivering that and my whole management team are bonused in terms of medium-term and short-term and long-term is essentially tied to that as a realization. So we are very committed to it. But this is not the kind of management team that is going to sacrifice the long-term in order to make the target.

So given that we don't want to be communicating to the Street about things that we are thinking about doing, we don't want to have to be updating the outlook to that target which would naturally reflect the timing of those activities.

So there is no lack of confidence in the target, as you say CAD2 billion or CAD2 billion adding the additional -- CAD4 billion adding the additional CAD200 million rising from investment gains in core. The logic of that is impeccable, we are just saying we're not so beholden to that target that we will be embarrassed if we miss it by some small amount for a good reason.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Not to press this too much, but the Company has made reference on a couple of occasions to the fact you're likely going to have an Investor Day sometime early in 2015. Do you think, given some of these moving parts that have been discussed, it would be reasonable to expect an update at that time or are you saying we put the target out there and that is it?

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Well, yes, we will certainly talk about developments with respect to some of the initiatives and how they are going and so on and how they could affect us. But we are not planning to renew guidance, we are not -- Manulife historically hasn't done that, we did it for a very good reason that we

needed to communicate directly with shareholders about the revised position of the Company. But we do not plan to be issuing guidance for 2015, 2016, 2017 on a rolling basis.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Okay, thanks for that and I will move on to something else. This is for Steve or Cindy on the actuarial assumptions and specifically on one that I don't think was there this quarter, that is long-term care. It's obviously been a topic of conversation in the market again over the last week or so. And you had provided some commentary last quarter on the fact that you had seen, since the last review in 2013, you had seen claims losses tick up in some quarters and in other periods it had been a benefit to Manulife.

Maybe bigger picture because I don't think you're scheduled, if that is the right word, to review this business in your actuarial review for some time. Is there anything that has changed in how you are thinking about the actuarial position of the Company in relation to LTC? And obviously I say it has been a topic of discussion over the last little while.

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

So it is Steve here, let me just start off and then I will pass over to Cindy. So I mean, as you correctly point out, this has been a topic of a lot of conversation in the last week or so for reasons that everyone is familiar with. And as part of the assumption update we would of course have looked at Long Term Care not in the same detail as we did a year ago.

But it is also fair to say that having looked at what was published by one of our competitors this week, there is nothing in that that makes us change our view at all in terms of the adequacy and appropriateness of the assumptions we have made. So I will just say that and then I will pass to Cindy.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Thanks, Steve. Yes, as I said on the last call, we do see claims gains and losses vary quarter to quarter, but they are overall, since we updated our experience and our assumptions in 2013, in line with our reserve assumptions. And under Canadian IFRS reporting we update both our active life reserves as well as our disabled life reserves when we update our reserves. So we adjusted all our reserve assumptions for LTC in our last review in 2013.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Thanks for your time.

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**Operator**

Meny Grauman, Cormark Securities.

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**Meny Grauman** - *Cormark Securities - Analyst*

This is the second quarter now where you talk about core EPS coming in a little bit above plan, even though the numbers did miss consensus. And I'm wondering what is the Street missing. Is it just a case that expectations are linear to 2016 and the reality is that it is not that case. I am wondering if you could add any insight into that.





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

Okay, let me have a go at that. I mean first of all there was I think CAD0.01 miss to the consensus. We actually beat several analyst estimates. We were shy on several analyst estimates and we were in line with a couple of analysts. So it doesn't sort of feel like much of a miss, but it was a narrow bead of our own plan.

And I think it is down to the way you would draw the curve from today to 2016 and people are doing that slightly differently and that accounts for the range of expectations from the analysts.

So the reasons which we stated before, but I will just restate, as to why the progression isn't entirely linear. So first of all would be the benefits coming out of the so-called E&E project, the efficiency and effectiveness project. The way that plays through into the bottom line is not linear and that is because there are something like 300 plus projects in the program.

And as you complete certain programs you are still investing in other programs. So it takes some time once you start a program like this for the annualized run rate savings and the bottom-line impact to sort of trend together. And in fact they trend together and come together probably more like 2017, something of that order. So there is definitely not a linear progression in that particular aspect.

Another that we've spoken about before is in relation to Wealth Management and the scale benefits of the business that we built out successfully over the last several years. To a large extent that infrastructure is built out and we can see in our plans what we expect to be a widening of our margins as we go forward. So again, that is not an entirely linear thing.

And I guess the third factor would be the growth in insurance sales and the way we have to account for acquisition costs. And as insurance sales grow, again, it is not an entirely linear trend. So there are various factors why there is a nonlinear and slightly back end loaded projection between now and 2016. Those would be the ones I'd highlight.

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**Meny Grauman** - *Cormark Securities - Analyst*

Thanks, that is very helpful. And then just a final question. I'm wondering, you made the change to what you will include in core with respect to investment-related experience gains. I am wondering if there are any other elements in your definition of core earnings that are subject to change that when you discuss maybe have -- maybe it would be appropriate to change at some point. Are there any other elements of that definition that would be -- that you would define as such?

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

Okay, well the first comment I would say is that we don't want to be changing this definition very often. I don't think that's something that will be helpful to investors. So by and large we will not be changing this definition.

I think if we are in a world in let's say two years time where again we're in a situation where the allocation of investment experience to core earnings isn't doing justice to the underlying earnings power of the organization, then we may make another change to the allocation. But it would be something of that nature rather than a fundamental change to the definition.

The other sorts of things that could lead to a change which I wouldn't be shy about would be obviously changes in accounting standards. So when IFRS 4 is introduced one day, assuming it is, and we've been waiting now for a very long time, but once that gets introduced we're going to have to look at our definition of core earnings and how that plays out against IFRS 4, so that would be one obvious thing. But by and large there is nothing else on the horizon at this moment.

**Meny Grauman** - *Cormark Securities - Analyst*

Thank you very much.

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**Operator**

Tom MacKinnon, BMO Capital Markets.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Most of the questions have been asked and answered, but maybe a question on the basis changes. Cindy, does that at all alter the emergence of profit, the basis changes that were put in place? Does it really extend the time for the profit to emerge at all? And I have a follow-up.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Okay. Thanks, Tom. Each basis change does have some impact on the emergence of future profits, but overall I would not expect a material change as a result of this year's review.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

And when you talked about the expected profit on the US insurance side and talked about it being driven by interest rates, just in terms of the calculation of expected profit for the third quarter, is that based on the interest rates at the end of the second quarter or at the end of the third quarter? It is hard to call an expected profit based on something that happened at the end of the quarter.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Yes, it would be based upon where we started the quarter.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Okay, so --.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

(multiple speakers) calculation of the earnings on (multiple speakers).

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

So almost like -- that number is almost a bit of a quarter in arrears, isn't it? The movement from the first to the second quarter in interest rates would determine the way the expected profit moved from the second to the third quarter.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

That is correct, Tom.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Okay.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

And there is something else I should have mentioned when I was responding to Mario's question and that is especially quarter over quarter, the impact of foreign exchange changes had an impact on earnings on in force for both the US and for Asia.

And that is because Aussie has a methodology which requires you to use the beginning of quarter balance sheet foreign-exchange rates to determine your earnings on in force. So that is also one quarter late and we will reverse in the fourth quarter.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Okay. And then just as more of a comment in terms of a bit of a disconnect, if you will, between your view, Donald, on the way core earnings are progressing and perhaps the Street's view. I think we can kind of get a bit of a feel for the hockey stick nature of the E&E.

But in terms of the scale benefits with Wealth Management, I think any additional things you can do to help us with respect to that would be good and perhaps some of the other growth of the in force business as a result of insurance sales would be helpful too. And I think that would help us better understand the growth towards hitting whatever it is that new target is going to be.

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Yes, it's -- you have given me a good podium to talk about. I think a lot of discussion is sort of fixating on a CAD0.01 miss against a consensus that doesn't come from Manulife but is a Street consensus. And you guys have a tough job to do, trying to figure out what our earnings are going to be. But CAD0.01 doesn't mean a hill of beans in the running of an insurance company.

The underlying story is very strong and the outlook for earnings going forward is very strong, driven by a big increase in sales, it's actually been quite a continuous pattern now coming from Asia, which is our highest ROE source of business across the enterprise. Very strong net sales leading to stronger assets under management which flows right to the bottom line especially as we get closer and closer to a greater scale. So that will back in.

Terrific return on investments from the investments that we have made in E&E projects, which actually causes us to want to invest more in E&E projects. Where we're automating certain processes and can cut out significant costs associated with that and get a good payback on that, our predilection is to do more of that rather than less of that, which is another reason that I am very guarded about trying to beat a number in 2016.

The underlying results are very good. I think people are perhaps missing, the real underlying message is our stock price is roughly the same as where it was at year end. But core earnings are up 13% year to date versus last year. Net income is up 56% from the first three quarters of last year.

We have got a very strong capital position, we raised our dividend 19%, we've done a very strategic investment, we have gone past the date when the competition review has now expired. So with a lot of confidence, we would hope that that deal would close somewhere early in the first quarter of next year. It is the 24th consecutive quarter of funds under management now CAD663 billion, and that is growing very strongly.

So, the thing I worry about least is a CAD0.01 miss on core. And, as Steve has explained very well, look, if I did your job I would be doing it the same way you do and assume a fairly linear growth pattern. But we are doing it on a little bit more granular basis in reflecting exactly when we think the benefits of things like E&E and the scale associated with the investment operations will come into play.

But we have more information than you have, so you can't be expected to figure that out from the outside. But that is why we've actually started talking to the Street, and our biggest investors actually take a lot of comfort from the fact that it is ahead of our plan, because they know that we have a plan to get to 2016.

And if we ever have a quarter that we are not achieving plan, we will tell you that with the same degree of transparency as we have when we have done better than plan. Does that answer the question?

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Thanks for the color.

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**Operator**

Darko Mihelic, RBC Capital Markets.

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**Darko Mihelic** - *RBC Capital Markets - Analyst*

I wanted to dig away at expected profit a little more, because this is one of the areas, Donald and Steve, that strikes me as one of the most bizarre in the sense that if we look at it year over year on a constant currency basis, it's only up 1%. Your assets under management in a constant currency basis are actually up 9%. If I look at it year to date, it's only up 1%. And on a constant currency basis year to date, it is actually down 2%.

So what -- and I appreciate some of the help you gave earlier on Mario's question with respect to the US, but I think just holistically the issue is you are the only insurance company with zero growth in expected profit, effectively, year to date. Yet somehow you are above plan.

And so what would be helpful is, A, why is it not growing? And then, B, of the three benefits that you cite for the slingshot effect or so-called back ended earnings, how do they come into expected profit? Or is this just simply interest rates and that is basically what the driver is? Any help would really be appreciated on the expected profit front.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Sure, let me try, it is Cindy. Certainly, quarter over quarter, as I said, the changes in foreign-exchange rates did have an impact and we show that on the slide in the analyst deck in terms of the normalized impact of currency. I'm not sure exactly where you are getting the constant currency year-over-year numbers from, but you probably -- maybe you --.

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**Darko Mihelic** - *RBC Capital Markets - Analyst*

No, actually, they are in your supplemental pack.

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Okay, all right, I apologize. In terms of the trend in earnings on in force, there have been a number of drivers. Certainly the increase in assets under management has been a positive for the wealth businesses. But likewise there have been some negatives as markets have improved.

The release of provisions for adverse deviation on variable annuity business has diminished because as markets improve, the provisions for adverse deviation go down. They release when markets go up and therefore future releases are smaller than they were. So that has been a headwind from an earnings on in force perspective.



In addition, the fact that as we've hedged more business, put more business inside the dynamic hedging program, as well as implementing the managed volatility program, that has also had an impact on our earnings on in force year over year in terms of reducing the release.

So I think what you're seeing is -- you are seeing positives from one side as well as interest rates. You're seeing positives from growth in AUM, positives from growth in the business and it's being masked by the headwinds from lower interest rates, so on earnings on in force, the impact of more hedging when you go year over year and the impact of rising interest rates in terms of the releases from the VA business.

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**Darko Mihelic** - *RBC Capital Markets - Analyst*

Okay and, Cindy, perhaps maybe just -- I mean from a quantum perspective are those three sort of equal? And I guess at some point the hockey stick -- your confidence in earnings has obviously shown through in this conference call. So the question is which of these things sort of stops becoming a drag on expected profit and what slingshots expected profit on a go-forward basis?

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**Cindy Forbes** - *Manulife Financial Corporation - EVP & Chief Actuary*

Right. I guess in terms of the quantum or the relative weighting, I couldn't confidently say exactly what the relative weighting is. They are all quite material in terms of their contribution. And I think in terms of when they stop being a headwind, certainly hedging -- the impact of hedging will reduce like on the comps year over year.

Interest rates of course will be what they are, so I can't really predict that. That is a quarter-to-quarter impact, if interest rates go up we would have improved earnings on in force. If they go down then it would have a negative impact. And managed vol is included in the numbers now when you are going quarter over quarter.

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

Darko, it is Steve here. The quantum on the hedge geography issue, I believe, year on year is CAD23 million.

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**Darko Mihelic** - *RBC Capital Markets - Analyst*

Okay. And -- okay, maybe I will follow up on that, that's helpful. Thank you.

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**Operator**

Doug Young, Desjardins Capital.

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**Doug Young** - *Desjardins Securities - Analyst*

Just hopefully Bob is there. Just wanted a little bit of color on Asia. You've shown some really good core earnings momentum, as Donald mentioned. I mean excluding the noise, was up 12% in Q2, up 18% Q3. Just thinking about this, was there anything unusual? How sustainable do you view this? And just would like some color on what the different drivers are specifically.

And then if you can give a little color, especially on other Asia which obviously we don't get a lot of color on. And then secondly, just there was a recent transaction in the mandatory Provident business recently, the view was that you would have been interested. Just thoughts on that transaction and how that impacts your business and impacts that particular business line. Thank you.



**Bob Cook** - Manulife Financial Corporation - Senior EVP & GM Asia

Yes, let me start on the first one and then Steve may want to add to it. I guess what I've said pretty consistently right from the beginning of the year is that the key driver for us to increase core earnings both short-term and in terms of meeting our long-term objectives is to drive insurance sales.

So the success that we started in the beginning of the year in Japan and now basically are seeing from all our territories is probably the main driver both for the natural margins it produces but also helping us spread our expense base over a larger volume of business.

I will see if Steve wants to add to that before I answer your second question. No, okay.

So the second question on the MPF, I mean I think without our usual caveat of not commenting on specific transactions I think it's a natural question to ask, given our very strong market position would make us a natural player in a business where consolidation might be occurring.

Having said that, our business, our MPF business is growing extremely well from pure organic growth. We are continuing to build market share strictly from organic growth. And so, we are very happy with its performance and expect that to continue going forward.

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

Yes, I can just add a little on that one, Doug. On the MPF business, you could take a view that there are others who didn't have scale who may need to do deals to obtain scale, that is certainly not the case with us. As Bob said, we are number two in that market in terms of assets under management, and we have around 18% of the market, and this data is publicly available.

I think currently on a month-to-month basis we are -- the most recent stat I saw, I think, was that we were garnering 23% of the cash moving in the market. So we are increasing our market position. So we didn't have to do a deal to get scale, others may have been in a different situation.

And I guess the interesting thing for us is, if you happen to be a believer in sum-of-the-parts valuation, you can do a read across from the valuation on this business, which is pretty interesting. So we are pretty happy with that.

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**Doug Young** - Desjardins Securities - Analyst

And just another discussion of fees in that business, Steve or Bob, and is there anything further in terms of margin expectation on that business in terms of pressure?

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**Bob Cook** - Manulife Financial Corporation - Senior EVP & GM Asia

There is nothing particularly new in the marketplace. There is a desire on the part of the regulator to have lower fees for the customers over time. And the industry is committing to deliver that as the scale of the MPF industry grows to match some of the systems in other countries that they are prone to make comparisons to.

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**Doug Young** - Desjardins Securities - Analyst

Great, thank you.

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

Doug, just flipping back to the first question, it is probably just worth saying one of the main components in the growth was improved policyholder experience compared with the previous quarter, and quite a lot of that came out of Japan. And that was because of some product and tax changes that took place in Q2. So that would've been a specific. So I don't think we are expecting 17% growth every quarter, but we are expecting ongoing and solid growth in the Asian market.

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**Doug Young** - *Desjardins Securities - Analyst*

Okay, thank you.

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**Operator**

Daniel Bergman, UBS.

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**Daniel Bergman** - *UBS - Analyst*

Most of my questions have been answered, but just to follow up on the question on US long-term care earlier. I appreciate your thoughts on the recent performance of the book that you gave, but I was also hoping you could give some high level comments around your go-forward strategy in that business, both in terms of new sales and also seeking price increases on your older business. Thanks.

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM US*

Hi, it is Craig. I will take that. First of all, I guess I would just make a point. I know that people have obviously watched Genworth's experience and maybe questions are coming out of that call. So first of all, I'd just make the point that the products that we are selling today in long-term care are very, very different than what were sold in the past, where we had pricing issues and were required to do re-rates. That is sort of the fundamental.

The reality is, as well, that we are selling very small volumes. But there is a huge demand for this product and we intend to try and stay in this business and figure out a way where we could solve more volumes with much less risk. And we are working on product designs that would deal with that risk. And if we can find the right products then we think that there is great demand and limited supply in that market.

So our current belief is that we will be able to crack the code on that and move forward with a viable business proposition. But for now, as you can see, our sales are quite modest.

In terms of the in force re-rates, we don't do state-by-state updates or anything like that. We are on track with our expected approvals and have no reason to believe that our assumptions made in the last basis change would be any different than what we made. Does that answer your question?

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**Daniel Bergman** - *UBS - Analyst*

Yes, that's great. And I guess just one quick follow-up. I just wasn't sure, I mean in your sense of these discussions with the states, do you feel that your kind of continued writing of new long-term care business, is that a positive factor in your ability to get these rate increases or is it kind of a separate issue?

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**Craig Bromley** - *Manulife Financial Corporation - Senior EVP & GM US*

We believe it is, I mean certainly to be an active participant in the market increases our credibility with all of our relations with the regulators.

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**Daniel Bergman** - UBS - Analyst

Okay, great. Thank you.

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**Operator**

Robert Sedran, CIBC World Markets.

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**Robert Sedran** - CIBC World Markets - Analyst

There is an awful lot of activity going on in Japan right now from a monetary policy perspective. It has created a fair bit of volatility. I'm wondering if you can comment on what it has done to both the near-term operating environment and what you think it might do to the medium-term operating environment for you in Japan.

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**Bob Cook** - Manulife Financial Corporation - Senior EVP & GM Asia

Maybe I will comment from the business side and then maybe the investment guys can comment from their side. I think the primary impact on the forces you are talking about are on the sales of wealth products, not insurance products. And what they tend to do is put different kinds of products in favor at different points in time.

So a number of the wealth products that we sell are foreign currency denominated and some of those have come in and out of favor as the macroeconomic environment has adjusted in Japan. But that is the kind of major impact on the business side. I will turn it over to Warren to make a comment on the investment side.

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**Warren Thomson** - Manulife Financial Corporation - Senior EVP & CIO

In terms of where we are active right now, obviously our wealth business is somewhat active in Japan. And the flows that we are seeing into our Manulife Asset Management strategies are very much dependent on the market sentiment at the retail level.

So when things have been tougher in respect to the Japanese equity market, things did slow down a little bit. As things have been better -- and this is going back over the last six, eight quarters -- generally when you've seen strong quarters in terms of how the TOPIX is performing, we've had very strong flows into our retail wealth products, and that is both products in Japan as well as some of the international products we offer on that platform.

In terms of our general book though, we are generally hedged for the most part in Japan. So again, the general movement in rates and markets is not a significant impact for us.

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**Daniel Bergman** - UBS - Analyst

Okay, thank you.

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**Operator**

Tom MacKinnon, BMO Capital Markets.





**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Just a follow up here. Steve, I think you mentioned something, year on year the impact of the dynamic hedging being CAD23 million. Is that -- did I hear that correct or was that overall or was that in one jurisdiction?

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

Post tax, that was the geography quantum on the dynamic hedging, Tom, yes.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

So that is on a consolidated basis, right, post tax?

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

Yes.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

So the -- that would have been the impact on the post tax expected profit, right, I guess if we had to tax the expected profit?

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

Yes, that is correct.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

So -- and then the decline in the expected cost of macro hedges was CAD40 million, so you really spent CAD23 million to make CAD40 million in saves, is that the way I think of that?

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

Yes.

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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Yes. Okay, great. Thanks.

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

Operator, I think we're going to take one more question from I think Mario.

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**Operator**

Mario Mendonca, TD Securities.

**Mario Mendonca** - *TD Newcrest - Analyst*

Donald, you made the point that the stock is essentially flat even though earnings are up this year. But I think we can all appreciate that if earnings expectations for 2015 keep declining, which is what they have done, it is hard for the stock to move higher.

So the broad question here is, until expectations are recalibrated, the stock may not work very well. So the question is at the Investor Day are you open to providing a little bit more -- a bit of a runway that shows how things improve throughout 2015 and in 2016? Or is the goal -- the objective is just a 2016 objective without any clues along the way?

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Well, you make a really good point. We would like to provide more. But what we want to steer clear of is guidance, Mario, because if we give you a number for 2015, we are going to have to be updating that every quarter how we are doing against it.

And you know the way this business works, at the start of a quarter it can look dire because markets are down or interest rates are down and by the end of the quarter it can look really positive, where we are contemplating a systems expenditure or something like that.

So we don't want to be in that business, but we can give you a little bit more sense of the shape of the trajectory, so to speak, to help you get your models more consistent with ours.

The bottom line message is I think you are really buying a company with a long-term trajectory of earnings and you should care a lot -- sure 2015 is important, but you hear a lot of confidence around 2016 and most importantly the velocity going through to 2017 and beyond. I think you are not just buying 2015 earnings or this quarter's earnings, you are buying a stream of earnings that are going to continue on into the future, and that is the way we manage the Company.

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**Mario Mendonca** - *TD Newcrest - Analyst*

Post 2016, are you out of the business of providing this type of guidance or outlook?

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**Donald Guloien** - *Manulife Financial Corporation - President & CEO*

Yes. Yes, we never did it before. We got into it for a very specific reason. After the financial shock, we had to talk to people openly and honestly about reasonable expectations in the medium-term and also the action on dividends. So we had to give some guidance in that perspective. But we don't want to be in that game because, again, you are obligating yourself to very frequent updates if circumstances change.

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**Mario Mendonca** - *TD Newcrest - Analyst*

Thank you.

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**Operator**

Thank you. There are no further questions registered at this time. I would now like to turn the meeting back over to Mr. Veloso.

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**Robert Veloso** - *Manulife Financial Corporation - IR*

Thank you, operator. We will be available after the call if there is any follow-up questions. Have a good afternoon, everyone.

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**Operator**

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

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