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PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good afternoon and welcome to the Manulife Financial first-quarter 2015 financial results conference call for Thursday, May 7, 2015. Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

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

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our first-quarter 2015 financial and operating results. Today's call will reference our earnings announcement, statistical package and webcast slides, which are available on 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 speakers may make forward-looking statements within the meaning of securities legislation. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied.

For additional information about the material factors or assumptions applied, and about the important factors that may cause actual results to differ, please consult the slide presentation for this conference call and the webcast available on our website, as well as the securities 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 will ask each participant to adhere to a limit of one or two questions. If you have additional questions please requeue as we will do our best to respond to all questions. With that I would like to turn the call over to Donald Guloien, our President and Chief Executive Officer. Donald?

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

Thank you, Robert. Good afternoon, everyone, and thank you for joining us today. I am joined on the call by several members of our senior management team including Roy Gori, our new Asia General Manager. Roy will also be joining us next week at Investor Day.

This morning we announced our financial results for the first quarter of 2015 and we had a very good start to the year. We completed two key acquisitions in North America, announced an exclusive 15-year regional distribution agreement with DBS in Asia, and in the United States we launched Vitality, a forward thinking solution that rewards customers for healthy living and differentiates us in the marketplace.

Our businesses generate strong net income, double-digit growth in core earnings, robust sales growth and record assets under management. And the Board of Directors approved a dividend increase of 10%, the second increase in less than a year, bringing the total dividend increase to 31% over the past 12 months.

On slide 5 I will outline some of the performance and strategic highlights. In Asia, we delivered another quarter of very strong growth in insurance sales with record volumes in Japan and Mainland China and high-double-digit growth in Hong Kong and other Asia. We achieved wealth sales that were nearly double the same period last year, reflecting a continuation of the momentum built in 2014.

In April, we announced that Manulife had been selected by DBS as its exclusive provider of bancassurance solutions in Singapore, Hong Kong, Indonesia and mainland China. This partnership reflects the strength of Manulife's position in Asia and provides a platform for future long-term growth.

In Canada, we have been making excellent early progress on the integration of Standard Life's Canadian operations. We welcomed 2,000 employees and are focused on building relationships with our additional 1.4 million customers.

Our mutual fund business continues to grow strongly achieving record levels in terms of gross and net sales as well as assets under management. We reported solid group retirement sales and insurance sales were also strong driven by our large case Group Benefits segment where our competitive positioning improved.

In the United States, we generated solid life insurance sales as we continue to see momentum in the product enhancements we made last year. Growth of our mutual fund business continued to outpace the industry and, while we reported lower overall pension sales compared with last year, sales in the higher margin small case segment improved.

In April, we launched an exclusive partnership with Vitality to provide Americans with a forward thinking life insurance solution that rewards customers for healthy living and essentially reinvents the entire proposition of life insurance.

In terms of our global Wealth & Asset Management business, we achieved $821 billion of assets under management, our 26th consecutive quarterly record. Manulife Asset Management commenced the year with strong momentum securing significant new institutional mandates.

In aggregate our Asset Management and Group Retirement businesses around the world generated $6.7 billion in net flows in the first quarter. And we delivered strong investment performance at Manulife Asset Management with the majority of our public asset classes outperforming their benchmarks on a three- and five-year basis.

Turning to slide 6 and the financial highlights for the first quarter. On the bottom line we delivered net income of CAD723 million despite the fact that we had negative investment-related experience. This was attributable to double-digit growth in core earnings to CAD797 million even though there was no contribution from investment experience.

And let me remind you that since 2007 the average gain from investment experience has been well over CAD100 million a quarter. In fact, it is closer to CAD150 million a quarter. So if we had achieved our average gain -- only our average gain or capped it at CAD100 million as we do for core earnings they would have been CAD900 million.

On the top line we have generated robust growth in both insurance and wealth sales. Insurance sales grew 39% from the prior year and wealth sales were up 15%. We are making significant headway with our strategy, delivering strong and sustainable earnings and maintaining strong levels of capital.

The outlook for the Company remains very positive. All these factors made us feel confident proceeding with our second dividend increase in less than a year. With that I will turn it over to Steve Roder who will review our financial highlights and then open the call to your questions. Thank you.

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 first quarter of 2015. As you can see, our key performance indicators demonstrate positive trends.

We are delivering on our strategy with robust sales, growing and sustainable earnings, strong capital, reduced leverage and increasing dividends. We feel that retention of a strong capital base and reduced leverage is both prudent and desirable given continued economic uncertainty and our desire to fund strategic investments. But on the downside it also makes it likely that we will not attain our 13% core ROE objective.

We are among many financial institutions making this trade off and feel that it is well justified by both the financial flexibility and downside risk protection.

In the following slides, I will spend some time discussing our financial and business performance. So turning to slide 9, core earnings continue to demonstrate progress and this quarter included a highly satisfactory CAD19 million from the first two months post acquisition for the Canadian-based operations of Standard Life.

Core earnings also benefited from higher fee income from our growing Wealth & Asset Management businesses, improved policyholder experience, the impact of higher sales and favorable business mix in Asia on new business strain, and the strengthening US dollar.

And while lower interest rates reduced core earnings, this was partially offset by the impact of standardizing the methodology of attributing expected investment income on assets that support provisions for adverse deviation, which in some cases was previously reported in investment-related experience.

This quarter we had adverse overall investment-related experience, which meant we were unable to take any investment-related experience into core earnings. If we exclude the impact of core investment gains in the prior year and the CAD19 million contribution from Standard Life, we had a very healthy 16% increase in core earnings versus the first quarter of 2014.

Turning to slide 10, you can see that our reported net income was impacted by adverse investment-related experience charges of CAD77 million. In the quarter, the impact of continued lower commodity prices on our oil and gas related investments were more than offset by gains on our real estate and private equity investments.

However, updates to the cash flow projections required under the Canadian asset liabilities method, or CALM, and related to future tax impacts, which occur in the normal course, pushed the overall investment-related experience to a charge. All other items falling outside of core earnings netted to a small positive.

Slide 11 is our source of earnings. Expected profit on in force increased from the prior year period as the growth in fee income from higher assets under management and the benefit of standardizing the methodology for attributing expected earnings on assets that support our provisions for adverse deviation more than offset the impact of lower interest rates.

New business strain was largely in line with the prior year as higher acquisition costs in our wealth businesses were offset by the favorable impact of insurance sales volumes and business mix. Experienced losses largely reflect our investment-related experience which, as previously mentioned, was net negative.

Management actions and changes in assumptions this quarter reflect expected macro hedge costs, changes in actuarial methods and assumptions, the impact of reinsurance transactions and acquisition-related expenses. And earnings on surplus declined as higher core earnings on surplus were more than offset by increased mark-to-market charges.

Turning to slide 12 and insurance sales. Insurance sales increased 39% from a year ago. This increase reflects very strong sales in Asia driven by record volumes in Japan and mainland China and double-digit growth in all other key markets. Improved competitive positioning in large case Group Benefits in Canada and solid life insurance sales in the US driven by several product enhancements made last year continue to generate strong sales momentum.

On slide 13 you can see that we continue to achieve strong wealth sales. We have taken the opportunity this quarter to refine our definition of wealth sales to improve its relevance. Reflecting its growing scale and importance we now include Manulife Asset Management external institutional deposits in wealth sales. We also are no longer reporting Manulife Bank new lending volumes in wealth sales.

In the first quarter, wealth sales of CAD19 billion were up 15% from the previous year. In Asia, record sales nearly doubled the prior year reflecting double-digit growth in all key markets and record sales in mainland China. In Canada, wealth sales were very strong driven by the contribution from Standard Life products and record mutual fund sales which were a record even without the acquisition.

In the US, wealth sales declined 8% due to the soft close of the popular fund in several large institutional allocations which helped to boost sales in the prior year.

Finally, Manulife Asset Management secured significant institutional mandates which drove a 40% increase in institutional deposits. We also achieved CAD6.7 billion in net flows into our Asset Management and Group Retirement businesses in the first quarter showing good momentum from the second half of 2014.

Turning to slide 14, assets under management at the end of the first quarter were CAD821 billion, representing our 26th consecutive quarter of record assets under management. The inclusion of the Canadian-based operations of Standard Life contributed CAD63 billion to the increase.

On slide 15, you can see our capital position and leverage. Our regulatory capital ratio of 245% decreased 3 percentage points from the prior year quarter reflecting the acquisition of the Canadian-based operations of Standard Life, partly offset by the introduction of OSFIs 2015 MCCSR guidelines and capital raising activities undertaken in the quarter.

We ended the quarter with a leverage ratio of 26.6%, down 120 basis points from the prior quarter and 420 basis points from the prior year. Our leverage ratio benefited from the equity issuance related to the acquisition, higher retained earnings and currency, partially offset by the sub debt issuance.

Turning to slide 16, before I cover the performance of our operating division, I wanted to highlight the flagship bancassurance agreement with DBS that we signed in April which Donald has already mentioned. This partnership accelerates our Asia growth strategy, deepens and diversifies our insurance business and gives us access to a wider range of customers.

With this agreement we are deploying capital towards profitable growth and attractive shareholder returns. There is an initial $1.2 billion payment to DBS and it is our intention to fund this with internal resources. Other payments to DBS under the agreement are based on our success.

If things proceed in line with our expectations then these success-based variable payments will significantly outweigh the initial payment. The initial payment for this regional distribution agreement could reduce Manulife's regulatory capital ratio by 10 points in January 2016. The partnership is expected to become accretive to core earnings per share in 2017, the second year of the partnership.

Turning to slide 17, for those of you not familiar with DBS, DBS is a leading financial services group in Asia with a leading position in its home market of Singapore and a significant presence in Hong Kong. The agreement covers these two markets plus Indonesia and mainland China where DBS has ambitions to grow.

In these four markets, DBS has approximately 6 million customers. Roy Gori, CEO of Manulife Asia, will be talking more about the DBS partnership at our Investor Day next week.

Turning our focus to the operating highlights of our divisions, we begin with the Asia division on slide 19. Asia core earnings increased 15% on a constant currency basis driven by higher new business volumes and improved business mix, more favorable policyholder experience, increased fee income and growth in our in force business.

Insurance sales of $338 million increased 42% from the prior year reflecting record sales in Japan and mainland China, recent product launches in Hong Kong and the expansion of our agency force in Hong Kong, the Philippines and Vietnam.

Record wealth sales of $2.8 billion almost doubled the first quarter of 2014 reflecting double-digit growth in all key markets, record mutual fund sales in China and continued expansion of our bancassurance distribution reach for single premium product in Japan.

Turning to our Canadian divisions operating highlights. Core earnings increased 15% over the prior year driven by the impact of the Canadian operations of Standard Life and higher fee income and business growth, partly offset by unfavorable policyholder experience and the impact of lower interest rates.

Insurance sales of CAD214 million were up significantly from the prior year reflecting improved competitive positioning in the large case Group Benefits market. Wealth sales of CAD3.5 billion increased 27% versus the prior year and were up 6% including contributions from Standard Life products, largely due to record mutual fund sales, which were a record before the contribution of Standard Life products, and solid group retirement sales amidst normal variability in the large case size market.

Moving on to slide 21 and the highlights of the US division. Core earnings were $316 million, down 7% from the prior year, reflecting lower interest rates and less favorable tax-related items, partly offset by favorable policyholder experience including in long-term care and lower amortization of deferred acquisition costs on our variable annuity block.

Insurance sales in the quarter were $117 million, up 9% from the first quarter of 2014 reflecting several product enhancements made last year that continue to generate strong sales momentum. Wealth sales declined 8% reflecting the non-recurrence of large institutional allocations and the soft close of a popular fund in 2014. However, we achieved strong momentum in mutual fund sales which outpaced the industry. Retirement plan services sales declined but with a favorable mix.

So in conclusion, in the first quarter of 2015 we delivered strong net income, generated double-digit growth in core earnings, achieved strong wealth sales and robust insurance sales growth, achieved record assets under management, announced an exclusive bancassurance partnership with DBS, and the Board of Directors approved an increase to the quarterly dividend of 10% to CAD0.17 per common share.

Before we open the line for questions I want to remind you that we will be hosting our 2015 Investor Day on Monday, May 11. At Investor Day, we will launch new embedded value disclosures and supplementary disclosures on our wealth and asset management businesses. This will help investors better understand and assess the performance and value of two of our drivers of growth: Asia and Wealth & Asset Management.

And this concludes our prepared remarks. So, operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Aiken, Barclays

John Aiken - *Barclays Capital - Analyst*

Steve, I don't want to steal your thunder on Monday, but in terms of the contribution from the Standard Life Canada acquisition, it was higher than what I was anticipating based on guidance. Are we looking at a better than expected run rate level or was there something unusual that contributed to the earnings in the first quarter?

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

Thanks, John. No, I think it is very early days on the Standard Life acquisition. We have only been in the door as it were for two months as of the end of the quarter. The earnings for the quarter, the CAD19 million we quoted, was very much in line with our expectations and in fact slightly above our expectations. But I wouldn't read anything much into that.

I would point out a couple of things though. That CAD19 million is after the amortization of intangibles which is around CAD4 million. And also the funding cost on the CAD1.8 billion of cash that we put into the business, that constitutes about another CAD5 million. So if you gross up for those two items it would be around CAD28 million.

So that is a relevant data point, but I don't think at this stage there is a huge amount of change in our expectations. But as you say, Marianne will be able to give a lot more flavor around the deal on Monday, but it is early days and I wouldn't expected a lot more in the way of new data points.

John Aiken - *Barclays Capital - Analyst*

Great, thanks, Steve. Are you willing to give us any sense in terms of the absolute or relative contribution to expenses for the Canadian segment in the quarter?

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

I think at this stage probably not. I don't think we are giving that at this stage. I think as we go forward we can give better information. I think it is a little bit like the E&E program where as we go forward we will update the Street on our progress, but we probably won't to it in granular detail every quarter.

John Aiken - *Barclays Capital - Analyst*

Okay, understood. Thanks, Steve.

Operator

Gabriel Dechaine, Canaccord Genuity.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Just on the investment gains, so negative CAD77 million. Can you just help me with the reconciliation there? And is there a gross number of investment losses for the quarter and this actuarial change that impacted that as well? And because of that number being of a certain size you couldn't recognize CAD100 million of core investment gains? Just kind of conceptually walk me through that, please.

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

Yes, sure, Gabriel, thank you for the question. So within that investment experience number there are various components. In the quarter we, not surprisingly, had some adverse appraisal mark-to-market experience, if you like, in the oil and gas sector. That would have been in the region of CAD200 million.

That was in fact slightly more than offset by gains elsewhere in the investment portfolio. So we had strong gains in fact in relation to real estate appraisal gains and also some private equity gains. There are other components in there, so for example credit continued to be positive. Despite there being some bond downgrades in the quarter it was still positive.

And then the was a negative item which you could describe and I think one of our analysts described as actuarial noise, which is to do with the, if you like, the updating of assumptions made at the previous quarter end. And that is something of a random walk from quarter to quarter.

If you look back over the last four years in aggregate it comes to virtually zero. In any particular quarter that item can be positive or negative. 100 is quite a large number but it can go either way, and in the quarter it happened to be negative. So I think the actuarial noise is what it is.

In terms of the investment performance, the underlying investment performance, I think we had a really good experience from our portfolio approach to investment activity.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

So essentially the CAD77 million is kind of like a hole you needed to dig yourself out of. And if things fall into place, and Don gave the averages for the past several years of quarterly gains, we would expect to see something in excess of CAD100 million going through that core investment gain line over the next three quarters, right?

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

Well, okay, so I don't want to give you guidance on where we will end up for the year, but lets us go back to what we said when we allocated more into investment experience gains starting in the first quarter of 2016.

So looking back over several years of experience, we have come to the conclusion that allocating CAD400 of investment experience gains into core earnings per year, i.e. CAD100 million a quarter, was a reasonable thing to do, it was prudent but reasonable. And the mechanics of it are such that in any particular quarter we can effectively catch up to a run rate of CAD100 million a quarter.

So next quarter -- for example, if next quarter we had CAD110 million then that CAD110 million would find its way into core. If, however, we had CAD210 million, then CAD200 would find its way into core and CAD10 million would fall outside core. So we can't ever get ahead of the -- I'm sorry, if we had CAD210 million next quarter it would be CAD33 million that would fall outside core because we would be catching up to the run rate. Right, do you see what I mean?

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Yes -- I will --.

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

We can't get ahead of CAD100 million a quarter (multiple speakers) a bit of a challenge.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

My doodles have got that, okay (laughter).

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

I've got to ask myself why I picked 210, what a stupid number to pick (laughter).

Gabriel Dechaine - *Canaccord Genuity - Analyst*

And then just a follow-up on Standard Life. So if I picked that CAD28 million of earnings adding back the amortization of intangibles and then the financing costs and annualize that I'm still at around CAD160 million to CAD170 million.

And I just wondering -- that number is quite a bit lower than what I would have assumed from having looked at the regulatory filings of Standard Life Canada. And was that just a difference between core and reported earnings that we weren't -- or I wasn't aware of?

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

Okay, so I think there are two or three comments that needs to be made. First of all, Standard Life did not have a definition or a usage of core earnings, so that does make a difference.

Secondly, if you pick up the regulatory returns of Standard Life, within there -- and it is related, but within there, there would be potentially one-off items that would be within core earnings that when it came to our appraisal of this opportunity we'd have taken into consideration.

So it's quite difficult to read across from the regulatory filing and try and kind of reverse engineer to the earnings numbers that we are giving you here.

The other thing to bear in mind is -- and when we made the acquisition we did say that we expected to get some pretty significant synergistic benefits out of the acquisition, but they would take some time to come out. So you can pretty much expect that not very much has come out in the first two months.

And in fact, we've been very careful not to do anything that would undermine our ability to preserve the business and indeed keep up the very high persistency that we have experienced in the first two months of activity.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Should we expect that number maybe to go down as, I don't know, some attrition in the group pensions book takes place that you may have assumed and then over time it is replaced and then exceeded by some of the revenue and expense synergies? Is that kind of the trajectory you should have in mind?

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

Gabriel, I am going to pass you to Marianne on that one.

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

Hi, it is Marianne Harrison. So there is a possibility that it may go down a little bit because of some of the activity around our group business and being able to hold onto it. And we have taken that into account as we priced the deal as well.

But you will start to see those synergies starting to come through over the next few months. We sort of figured that it is going to take us over the next 18 months to really get through that. But you will start to see some of that. As of right now you really haven't seen anything because it is only been two months.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Yes, exactly. Okay, thank you, have a good afternoon.

Operator

Steve Theriault, Bank of America.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Maybe starting with a question on the US for Craig Bromley. Craig, sorry to pick on one of the few areas where sales haven't been as robust. But wanted to ask about, and Steve mentioned it briefly in his remarks, ask about the 8% decline in John Hancock investments. He mentioned the soft close of a popular fund last year.

So I guess questions would be -- the timing wasn't clear to me on when the soft close was. Does that have an impact now through this year or will that just be isolated to Q1? And then I was also wondering are there other funds in your arsenal there getting close to a size where you might need to consider either a soft or a hard close for them?

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

Sure, Steve, thanks. No, we are quite pleased with the sales picture and earnings picture overall for the US. So we don't really view it as soft. But just to answer your direct question on JH investments. The closing occurred in the first quarter last year but probably dribbled into second quarter as well.

And additionally as Steve Roder pointed out, there -- the institutional mandates that we get are often a little bit lumpy. So we had a pretty good first couple of quarters in that respect. The closing has occurred so that has impacted both third quarter of last year, fourth quarter of last year, and first quarter of this year. But what we are seeing is renewed momentum. So you are actually seeing growth off of that lowered base in that we can't sell that fund anymore.

So we are actually quite encouraged there. And we have made quite a few investments to actually try and take our sales level to -- up significantly in the latter half of the year and going into next year. If you recall, we have had some big jumps in our sales over the last few years and we have been able to sustain those jumps generally, but we want to go to the next level. So we made some investments there.

In terms of other funds that are getting close to being capped out, I mean there is always -- we welcome huge sales that would drive that outcome, but at this point there is nothing on the horizon that is in any way eminent. So we expect to just continue with our momentum we've enjoyed this quarter and get another boost from some of the investments we are making.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay, and while I have you, the long-term care offering -- you mentioned a new offering that seems pretty flexible. What are your expectations here? Sales have been pretty nominal in long-term care for a little bit now. Is this a meaningful push you expect result in a reacceleration of sales or is it something smaller?

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

Yes, I guess this is a product that we have launched that we are much less concerned about risk. So we are hoping that it will actually drive sales up, we are not hoping to keep at this low level. There is no meaningful impact at this point from that new product launch, it was launched late in the first quarter. So it is not impacting our sales result. But we hope it will, we hope it will impact it positively going forward. And we are quite comfortable with the risk profile of that product that we are offering.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Okay, and then lastly, I understand a flattening of the forward curve for the oil price was a driver of those -- some of the investment losses this quarter. Am I correct in suggesting if the curve steepens as it has quarter to date there would be some recapture coming back to your investment experience in relatively short order?

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

Yes, that is broadly correct. Warren may want to just add some color.

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

I think the front end clearly is going to be helpful. The long end of the curve though obviously is taking a little longer time to actually come down. So the two may somewhat offset. I mean again, it could be that we'd see the long end dropping off a little bit as prices stay lower longer, but the front end clearly is going to be backing back up into the present value of discounted cash flow. The higher prices in the front end will clearly help in the discounted valuation.

Steve Theriault - *BofA Merrill Lynch - Analyst*

Thanks for that.

Operator

Meny Grauman, Cormark Securities.

Meny Grauman - *Cormark Securities - Analyst*

First question is on expected profit. You noted the impact of lower rates, I am wondering if you can quantify the impact there.

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

Yes, we will ask Cindy to take that one.

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

Sure, Meny, it is Cindy Forbes. Yes, interest rates were down in -- actually in Q4. Earnings on inforce is impacted by the change in rates over the prior quarter versus the current quarter. So that impact declined by about 30 points, basis points in the fourth quarter and interest rates had about a CAD10 million, little less than a CAD10 million impact on earnings on inforce this quarter.

Meny Grauman - *Cormark Securities - Analyst*

Thank you. And then I just wanted to ask a question about Manulife Bank. You changed the reporting there and I am just wondering where are your views on this business going forward. I assume not terribly pleased and I am wondering what are the options there and sort of how do you -- how do you sort of analyze some of the difficulties that have impacted that unit?

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

So I will start and then I will pass to Marianne. So we changed the reporting because for -- historically we've reported Manulife Bank in a category that didn't make a hell of a lot of sense. So it will become clearer I think with some of the supplementary disclosures that we will give at Investor Day next week. But that presentational change is really just reflective of trying to be more transparent about the business and place it logically. But then I will pass to Marianne to talk about the bank itself.

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

Yes, I wouldn't -- I would say that -- I wouldn't say that we're disappointed with the bank. The bank is facing some pretty fierce competition these days and we have been spending a lot of time on the regulatory front in terms of trying to make sure that the policies and procedures were where they needed to be with some of the changes that have come down.

And we really have gotten through all that and we're actually pretty excited about growth opportunities as we move forward. So I would not say we have written this business off for sure, we are still quite excited about it.

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

We are very pleased with the bank.

Meny Grauman - *Cormark Securities - Analyst*

Thank you.

Operator

Humphrey Lee, Dowling & Partners.

Humphrey Lee - *Dowling & Partners - Analyst*

A question for Marianne. Just about the unfavorable policyholder behaviour you are experiencing in Canada. My understanding is some of it is related to group disability and some of it is related to a higher prescription drug costs related to the group plans. Can you give us some color in terms of how much impact were there in the current quarter?

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

Yes, so in terms of the -- you are absolutely right, that we did see poor policyholder experience pretty consistent with what we saw in the fourth quarter of last year. And the cost of the specialty drugs has been an issue for us as well as the industry. I think all of us have been facing the high cost specialty drugs which has been a component of it. And that was probably about under half of the policyholder experience that we had.

We also saw some experience on the long-term disability which was less than our expectations. And part of that is driven by the low interest rate environment and part of that was just incidents that some of that is based on timing as well.

Humphrey Lee - *Dowling & Partners - Analyst*

Okay and then with the strong sales that you have had this quarter, have you changed your pricing to account for some of the specialty drugs challenges that you are seeing?

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

No, we haven't done any pricing with respect to that because we just started to see that trend for the first time in the fourth quarter. And it does take some time to get through the pricing. It usually takes about a year to 18 months to reprice.

Really the sales side of it, as I would say, that last year was pretty competitive on the sales front and we weren't comfortable making any decisions from a margin perspective in terms of lowering our pricing on some of the deals and so we didn't necessarily win some.

So it really -- those large case markets, there is a lot of variability in them. And I would say that the market is starting to get a bit more rational again this year and we are starting to see the pricing come up to more in line with where it probably should be.

Humphrey Lee - *Dowling & Partners - Analyst*

Okay, thank you. And then one question for Craig. About the new US Department of Labor proposal on fiduciary duty, what would be the potential impact on your business in that US effectively in the retirement plan services?

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

Well, this -- these drafts have come out fairly recently and they are pretty lengthy so we have people going through this in conjunction with the ACLI. I think there are -- we don't expect big impacts, we don't know how these things will actually be implemented or if they will be implemented in their current form.

But from what I have seen so far it is going to make it more complicated and more difficult to sell products for a whole range of advisors. It is really not specific to us, we think that we have maintained great transparency and customer value, but it could have an impact on customers getting new products efficiently and cost-effectively. But that is just a preliminary view. We continue to do our analysis and make our comments to the ACLI.

Humphrey Lee - *Dowling & Partners - Analyst*

Okay, do you have a sense of what kind of percentage of your earnings coming up from US could be affected?

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

We don't know whether the impacts would be positive or negative. I mean, any change would provide potential issues or potential opportunity. We think we are fairly well-positioned but it is really hard to speculate on draft guidelines that haven't been approved and haven't been accepted. So I don't think I could really speculate on that.

Humphrey Lee - *Dowling & Partners - Analyst*

Okay, thank you.

Operator

Sumit Malhotra, Scotia Capital.

Sumit Malhotra - *Scotia Capital - Analyst*

First question is in regards to the distribution agreement with DBS. You have mentioned both when it was announced and on the call today that you expect it to be accretive to the Company in 2017. But of course this thing gets going to start 2016.

So I was hoping you could give us some flavor on what you are thinking in regards to DBS and how it affects the Company's earnings power and targets, anything like that, to start next year.

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

Yes, it is Steve here. I will start off and then I will pass to Roy. He would enjoy the opportunity to add to this, I am sure. So we are already in the mode of preparing in a major way for the start of the DBS project in 2016. But this is a 15-year deal and we would expect the volumes to go up significantly over time.

We will have some costs in 2015, which would probably come out -- most of it will fall outside core earnings. And then in 2016, it will take time for the thing to ramp up. So based on our analysis, we would call 2017 for accretion to commence.

We do think that this will become a major driver of growth in core earnings and core earnings per share. But I think in terms of when does that start to become meaningful, it is probably sort of 2 to 3 years out that I think it will start to be visible.

Why don't I pause there and pass over to Roy.

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

Yes, thanks, Steve. Look, I think you've hit the key points. Obviously, we're going to spend a little bit more time on this at investor day on Monday. But the impact to core earnings in 2016 is going to be quite minor. The focus for us in the next nine, 10 months is going to be around executing against that agreement and getting ready for the Singapore launch. We already do have agreements in both Hong Kong and Indonesia, and we will be working to see how we can ramp those up so that we hit the ground running come January.

Sumit Malhotra - *Scotia Capital - Analyst*

So if I paraphrase your respective comments, from a core basis maybe it costs you a couple of pennies in 2016, maybe it adds a couple of pennies in 2017. But the bigger picture here is what it does for the brand and the distribution of Manulife products going forward past just the next couple of years.

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

Yes. I mean this is a long-term game. And if you look at the history of major bancassurance transactions in Asia, it takes time for them to get momentum. You can't just flick a switch; you have got to work with your partner. It is almost like a sort of joint venture if you like to grow the size of the cake by looking at how you position products, educate your distribution folk, et cetera, et cetera.

So our expectations will be that this will become a major contributor as we go forward, but it will be a step at a time. So I wouldn't expect a huge amount of impact in the first couple of years.

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

It is probably worthy of noting that we will get a significant uplift in sales in the first year. Obviously, the financial benefits from that will materialize over time.

Sumit Malhotra - *Scotia Capital - Analyst*

Right, you'll have the strain that comes with it, maybe some setup marketing costs at the beginning.

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

Right.

Sumit Malhotra - *Scotia Capital - Analyst*

Thanks for that; we will talk more about that on Monday. And my final question for Steve or maybe Donald around capital. So you closed Standard Life this quarter and your capital position, your MCCSR, ended higher than you had initially targeted. I think at least one part of New York Life has closed. There is not much of an impact there, and you have told us that it is about 10% or 10 percentage points on the DBS.

So if I call it [235%] pro forma, I think that's a reasonable way to think about it. With the acquisition activity that Manulife has had over the past year, a few different transactions, a couple of dividend hikes as well; at a 235% pro forma level do you feel that Manulife is over-capitalized at that mark, number one? And number two, with acquisitions having been more active do you think that the deployment may turn more inward as far as investments in the business or maybe even considering share repurchases going forward?

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

So why don't I start off, and I am sure Donald will have some things to add. So the first thing to point out in that analysis is you are absolutely correct to point to the DBS bancassurance deal and the impact of that. So the first thing to say is we flagged a potential 10 point hit, if you like, MCCSR which will take place in January, 2016.

We think that is the worst-case, there is still some uncertainty about how this will be accounted for and treated and that is because the big four firms are also the getting their heads around how to deal with these large bancassurance agreements. It is possible we may have a more favorable outcome than that, but we are assuming that we will have a 10 point deterioration in MCCSR in that respect.

But the thing you missed in the analysis was the pre-financing that we have undertaken. So we've had a couple of issues which are effectively pre-financing maturities taking place in the middle part of this year and we can conjecture how much of that was true pre-financing. But it will be fair to say it is probably CAD1 billion. So that constitutes about another 6 points, maybe a bit more than that. So I think you have to factor that in as well.

So, I think on your pro forma basis you probably want to be looking at on the pro forma basis probably something like 228%. And I would say we regard that as a comfortable capital position which we are very happy with and then maybe I will pass it to Donald and see how he -- if he wants to add anything.

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

Yes, I think we are not unlike a lot of financial institutions around the world that are running with more capital than we probably think is necessary for a couple of reasons. Number one, there still is a fair amount of uncertainty. I mean those of us who follow what is going on in Europe are not always comforted by the developments there and that is going to seem -- it is going to stretch over a long period of time.

And if the wheels do fall off the bus, whether it is Grexit or some other things, the implications are probably underestimated by markets right now. And so we are very cautious of that.

Second thing is global capital standards are still being formulated and refined and I think everybody is going to err on the high side, regulators are erring on the high side there. So that is another thing. And we are not a global SIFI but that is reviewed every year, in some states somebody could decide to make us one, so we have to be conscious of that too.

I think you are right that we will be deploying -- number one, generating a lot of excess capital, that is clear. That will fund organic growth, but with some of the shifts in our business to more self-sustaining businesses that will be still generating excess capital. There is also a funding of acquisitions internally which we have done a fair bit of, as you noted, and also increasing dividends. And we would hope that this dividend increase would certainly not be the last for the next little while for our Company.

You mentioned stock buybacks. I think that is really well down our list. I mean I would never say never. We have no plans, we discussed that at the Board. We are not in favor -- we think periodic increases in the dividend scale are a much better way of distributing cash to shareholders.

But there could come a time, and when we look long enough at our really long-term capital plans, that you just generate so much excess capital that you can't deal with it that way. And so I would never say never, but it is certainly nothing on the near- or medium-term horizon as far as we are concerned. And again, we think we will probably have lots of opportunity to deploy the excess capital through acquisitions as well as regular increases in the dividend.

Sumit Malhotra - *Scotia Capital - Analyst*

Yes, I will pass the baton here, but that is really what I was thinking. Once upon a time this Company was a significant repurchaser of its stock and that hasn't been very high on your pecking order. I think candidly it has only been recently that we have been able to have that conversation. So it still doesn't sound like it is high up the food chain. So I thank you for your comments.

Operator

Tom MacKinnon, BMO Capital.

Tom MacKinnon - *BMO Capital Markets - Analyst*

I just want to continue that thread a little. And Donald, I would assume that one of the reasons you are not able to hit this 13 ROE would be because you are probably carrying too much capital. And when you have discussions with the Board surrounding both the dividend increase -- I assume that involves some discussions about what an optimal level of capital would be.

And then if we look at the payout ratio in the 30% to 40% range, it looks like the dividend increase kind of puts you more towards the higher end of that payout ratio range. And would we expect that you would be comfortable with running at the higher end of that range, especially given the fact that you've got probably more capital than you need? So there are some thoughts for you to elaborate on for us, please.

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

Yeah, well, I think your analysis is right, your arithmetic is right, but as you know -- sure, what is at the high end of the range this year presumes a certain level of earnings, right. And we look at a multiyear basis. We also do a sensitivity analysis of what happens if earnings went down due to certain factors that are outside our control, what if they went up and so on.

And any way of looking at it we feel pretty comfortable with the dividend increase that we had. And again, if I was -- not to bet the farm, but I am sure it is not going to be the last one.

We feel very comfortable at where the prospects for this Company are going and the dividend increase reflects that. When you look at the range people often ask us, is it based on core or is it based on net. The reality is it's based on both of them in terms of a forward forecast of where core and net are going to go. And over the longer-term the two actually look quite similar. Because we can't predict investment gains other than to reflect the kind of analysis that we have in the past.

So they tend to attenuate when you look out three or four years. And so I guess all I can say is, yes, it might look to be at the high end of the range, but we are extremely comfortable with it because we have a sense of what the earnings trajectory of this Company is. And your next question is going to be, can we share that with you. And the answer is, no, we are not going to give earnings guidance. So I am just guessing that might be the next question of you or another analyst, Tom.

Tom MacKinnon - *BMO Capital Markets - Analyst*

No. But I wouldn't mind you sharing what you think the optimal level of capital would be though. I mean the Street has one expectation, it's probably not as economical as it would need to be in terms of trying to hit an optimal ROE.

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

Yes, I think we are holding excess capital. But would we operate at what I think the optimal level of capital is right now given the economic uncertainty, regulatory posture, all the other stuff? We are going to err on the conservative side. And frankly I don't think that is any different than any other large financial institution anywhere in the world, right.

So, yes, it is more than -- and I guess the other thing is we have to demonstrate to -- I guess everybody has to get comfortable that the earnings trajectory, the span of outcomes have been reduced as much as we believe it has been. But I think with every quarter, whether you are regulators or rating agencies or other investors you get more comfortable that Manulife has attenuated an awful lot of its risks and that what we are producing is pretty regular steady earnings.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, and then one quick follow-up for Steve. On the Standard Life acquisition you had flagged transition costs and I think these transition costs were going to be a function of your CAD100 million after-tax cost save target. I didn't find anything that mentioned transition costs associated with the Standard Life deal in the press release. Are these going to be flagged going forward, are they or are they not going to be in core? Any thoughts on that?

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

Okay so there is no -- I can say there is no real change to our perception of transition costs, although we are managing, as I said earlier on, to ensure that we don't transition in a way that prejudices our ability to preserve the high level of persistence in the business.

The transition costs will actually be within core because they actually -- effectively they constitute costs that we believe we can eliminate but are core by nature. And therefore we have to account for them within core.

But I think as we go forward, Tom, as I mentioned earlier on, we will try and be transparent in terms of explaining that component of core so that you can understand how we are doing against what we said at the time of the acquisition. And I am not promising we will do that every quarter, but we will do it as and when it seems sensible and we have something sensible to say to you.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, so that would help us get a run rate post the complete integration of Standard Life?

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

Yes, that is right. And we said we thought it would take two to three years to get these costs out. So it is very early days at the moment.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, well I'll look forward to some disclosure on that going forward then. Thanks.

Operator

Daniel Bergman, UBS.

Daniel Bergman - *UBS Securities - Analyst*

It looked like you had lower US retirement plan sales in the quarter and I was just hoping you could provide some updated thoughts on the competitive environment in the business. There have been some recent news reports of a low cost provider making a push into the smaller case RPS market. So I just wanted to see if you would expect in a material impact from that or in general expect increased pricing pressure in this business. Thanks.

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

Yes, thanks, I will address each item separately. So, yes I guess that was a disappointing part of our results. We are down I think 3% year-over-year on our sales. And that is -- we have been down quite a number of quarters now. And we had actually -- we have done a lot of things to try and turn that picture around and we expected that it would show up in terms of dollars sales in the first quarter. Instead we had a slight contraction -- continued contraction.

The good news is I guess that we see a lot of momentum here and a lot of pipeline particularly in plan sales. So we I think had more plan -- sold more plans in the first quarter than we ever have. They've tended to be very small plans which is good for profitability, as you know, the margins are reasonably good in the small case market. But I guess looking forward we see further momentum and the second quarter is unfolding pretty much as we had hoped. So I guess looking at the sales picture, a little disappointment in the first quarter but really the story is turning around.

In terms of the overall market and the competitive environment, I think there are -- it is a competitive market, there's folks coming down into the small case market all the time, some of them succeed, some do not. We expect it to continue to be competitive and we will opt to manage our cost structure and offer some differentiated features if we would like to hold our margins and that is what we intend to do.

Daniel Bergman - *UBS Securities - Analyst*

That is great, thanks. And switching gears a little bit. I was hoping you could also provide some additional comments on your partnership with Vitality for new US life insurance product. And just any help in terms of how we should think about the market opportunity for this product and how long you expect before it might make a material impact on sales.

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

Yes, so we are obviously very excited about this partnership. I mean it was pretty amazing, the reception that we received by the media, by consumers, people just calling into our call centers saying how do I get this thing. Very unusual for a life insurance product launch, as you can imagine, it doesn't usually garner this type of attention.

So we are off to really good start here. Our partnership with Vitality, which is a subsidiary of Discovery, a South African Company, it's I think a great partnership. They bring a lot to the table in terms of wellness, we bring a lot in terms of our brand in terms of distribution. And we expect that this will be a real revolutionary step in US life insurance.

In terms of when all that shows up in terms of results, sales results, it is going to take a little bit of time. We are not licensed in all states yet, that is a commercial to those folks who haven't approved our product yet. And the distribution will take a little bit of time to get accustomed to a slightly different type of sale, a slightly different type of pitch, and a slightly different type of core audience that they might be pitching to.

So we think it is going to do great but it might take a little bit of time to sink in. That having been said, we have sold some product already even though we only launched I guess about a month ago today. And so, there clearly is legs here and we just look forward to finding different ways to incorporate what we think is a very forward thinking sort of approach into a whole number of our products in a whole number of our markets.

Daniel Bergman - *UBS Securities - Analyst*

Very helpful, thank you.

Operator

Doug Young, Desjardins Capital.

Doug Young - *Desjardins - Analyst*

I first just wanted to touch on the methodology change on interest on assets backing pfads. And I think I get the mechanics, but I just want to confirm. Essentially this is moving the earnings from experience gains up into the expected profit line. I just want to confirm that I have that thought process right.

And how does this impact your ability to generate or the history of investment gains? Because I guess that would kind of tie in here as well, unless I have got that wrong, and correct me if I am wrong. And I am just wondering what -- if you can quantify what the impact was from that methodology change in the current quarter.

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

Okay, let me start off and then see if Cindy wants to add anything, Doug. So we are only really talking about a very small amount here. It was really just a tidying up I would say of our methodology where it became clear to us that we were in a very sort of immaterial way inconsistent between various parts of our business in the way we allocated the investment income attached to the assets, as you say, backing pfads.

So it is geography between investment experience and expected earnings, so on the IFRS income statement core earnings and the benefit this quarter to core is in the region of CAD20 million.

Doug Young - *Desjardins - Analyst*

Okay, so not overly -- I mean this wasn't a real big material change then?

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

No, not a material change and we think that is a broadly -- a sustainable change, if you like, going forward. Now you could take the view that that makes it more difficult for us to dig our way out of the hole that was referred to earlier on in terms of investment experience. But when we originally decided that CAD400 million was a good number there you can expect that we had some tolerance for these sorts of items and we are still comfortable that CAD400 million is a good number.

Doug Young - *Desjardins - Analyst*

And just wanted to clarify, Steve, the CAD77 million, you've got to dig yourself out of that first before you put in in investment gains in core just to kind of tie in I think Gabriel's thought process. But that is -- you have to dig out versus the CAD77 million, is that correct?

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

That is correct.

Doug Young - *Desjardins - Analyst*

Okay. And then just lastly --.

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

Guys, I have got to jump in here. I hate this expression dig out of a hole. I mean that is really true when you do the Sudoku puzzle about what goes in or not. But just remember, right through the financial crisis, right through the teeth of the financial crisis the last eight years we have averaged investment gains of CAD150 million a quarter.

So what we have put in our estimate is CAD100 million, which is a pretty conservative view on that. And whether it comes back this year or not what you guys are trying to judge, if I am not mistaken, is the earnings potential of this Company, right.

So the information content of that one quarter is irrelevant. The earnings potential, whether it comes back this year or not, but if we get CAD100 million to CAD150 million a quarter shareholders are going to be happy. So that one quarter gives no indication. And we have said the same thing on the other side, right?

If you roll this call back to quarters where we had what -- CAD500 million of investment gains, we also said the same thing -- don't read that into that it's going to be CAD500 a quarter, guys. We are being very open and transparent. The average for the last eight years, which includes the financial crisis, has been CAD150 million.

If you take a shorter period of time it is closer to CAD250 million, but we think that would be misleading because it doesn't include the financial crisis and there is no guarantee a financial crisis wouldn't occur. So what we have done in terms of our interpretation of core is we've assumed CAD100 million. And I think that is probably what you guys should assume when you are modeling us and you know that is reasonably conservative.

Whether it comes back this year or not and we get CAD100 million a quarter for the next three quarters or get a little bit more than that that refills the bucket, shall we say, on the first quarter is irrelevant to the earnings potential of the Company. Anyway, sorry for giving that speech, but (multiple speakers).

Doug Young - *Desjardins - Analyst*

No, color is appreciated. You feel passionately, I see that.

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

Well, I used to buy stuff for a living so -- (laughter) so anyway, yes.

Doug Young - *Desjardins - Analyst*

And then just lastly on the DBS, because it has been discussed, and I do fully get that it is going to take time to ramp up to get scale. I'm just trying to think about how long does it take you to get up to a return on this?

Like what is the total return you are expecting to get on this investment in terms of ROE? Because I think Asia has always been thought of as a 20% ROE business. Does this fit within that and how long does it take you to get there? And I'm just trying to conceptualize that question. Thank you.

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

Doug, I think the way we look at this transaction is it's very similar to the way we look at any M&A transaction. So we would have looked at this in terms of the IRR that we thought we could generate on this transaction and judged it in accordance with all the parameters we previously laid out in terms of how we assess whether something is in the interest of our shareholders or it isn't. And there was no difference on this transaction.

If you look at the expectations and you can see a gradual increase in the sales and earnings coming from this transaction over 15 years. And frankly it is all about execution. And Roy will be able to talk a lot more about it on Monday. But I don't think I would add a lot more.

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

No, I think, Steve, I think you hit the key points. This is obviously a deal that we are very excited about, I think it does a lot for our business and talks to our growth opportunity in Asia. It diversifies our distribution quite significantly. We have got a very strong agency business and brokerage business. But this enhances our bancassurance capability.

It creates a more balanced portfolio for us in Asia. It puts Singapore on the path to being our third-largest business in Asia and that is I think obviously something that is very significant. It gives us significant scale. And then it also gives us great brand and market presence.

And then on the commercial side we think that this is going to be a significant play. The returns will take a little bit of time, we get significant uplift in sales in year one. And then obviously through the economics of new business that will come and pay dividends over time.

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

And maybe the last thing I would add, because I think this is really important to understand, is that the mechanics of the transaction are such that, and as I mentioned in my notes, but it is really important -- the mechanics of the transaction are designed to ensure that the two parties, i.e. DBS and Manulife, that our interests are very much in line.

So this is all about growing the pie and that both sets of shareholders benefit from growing the pie. And therefore, if we succeed jointly together then our payments to DBS will be significant and those success payments, if you want to term them that way, will dwarf any fixed payments.

That is really important because if you don't have that alignment, then you don't necessarily have the two parties pulling in the same direction to ensure the success of the partnership. That is a very, very important aspect of this deal.

Doug Young - *Desjardins - Analyst*

Thanks. I will wait for Monday to dig further, thank you.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *TD Securities - Analyst*

One just quick question about DBS. Are there any payments coming to the other side? If in fact this were a dud and the expectations that both sides had for the sales growth didn't pan out, are there any payments, any claw back of the $1.2 billion?

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

Obviously we are not going to get into the commercial terms, but what I would say is I guess a reiteration of Steve's earlier point. And that is a very significant component of financial value in this transaction is around alignment of interest and success sharing. So if we achieve the targets that we set there are significant payments that will be made and obviously DBS is very motivated towards that outcome.

Mario Mendonca - *TD Securities - Analyst*

No, I understand that part. I understand about the payments from Manulife to DBS, I am asking the other way, if in fact that agreement doesn't work out well.

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

Yes. So we obviously are not going to get into the specific commercial arrangements.

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

Mario, I'd give you a little bit of comfort though. We have a relationship with DBS, have dealt with them in other jurisdictions and have a lot of confidence in their ability to execute and our ability to execute with them.

Secondly, we have come to a very good meeting of the minds as to the direction we want this business to go for our collective benefit.

The third is DBS could have extracted from us or other people more money up front in all likelihood. But what they chose is a package that we work with them on that would give them greater value over the fullness of time and would have them directly incented to help us get the outcome that benefits us both.

In other words, they left money on the table in order to have a deal that is structured with a risk sharing to the benefit of both parties. That says a heck of a lot about their approach to partnership. And again, we weren't meeting them for the first time in this deal.

We've had extensive dealings with them and feel very, very comfortable not only at the most senior level but right on through with the quality of the organization and the dedication with them to approach this on a partnership basis. So I would not see quite honestly a lot of risk here.

Mario Mendonca - *TD Securities - Analyst*

Another sort of broad -- more broad question. So the reference to Vitality, that is the US product, right, the new one -- the very innovative new insurance product, is that right, is that what you are calling it, Vitality?

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

Yes, John Hancock with Vitality.

Mario Mendonca - *TD Securities - Analyst*

Okay. There have been a number of times -- I mean I think anybody who has been around insurance for a long time has heard a number of new products introduced with a lot of excitement around them only to find the insurance company apologizing five years later for having mispriced it and there is plenty of examples of that.

Maybe this question is for Cindy Forbes. How do you get comfortable around a product this different knowing that you are pricing it properly and that this isn't going to end up with some significant reserve build down the road?

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

I guess I will take a crack at this and maybe Cindy will want to add to it, it is Craig Bromley. We are working with Vitality and they have a depth of experience that goes back 18 years in terms of looking at assumptions.

That is what makes them very different than any partner that we could have chosen to partner with in that there are other companies that understand wellness, other companies who can figure out fit bits and things like that. But there are really no other companies that have that kind of experience, actuarial experience. This is an insurance company that offers this type of wellness benefit.

That is probably number one as to how we initially got comfortable. Then of course we had to go through all of our own studies of our own mortality experience and looking at the different factors that drive mortality in our own very extensive mortality book. And that was ultimately how we priced our products. But took a lot of comfort from their experience in South Africa and the UK, etc.

And then I guess finally we -- because they have this long-term experience there are reinsurance companies who are willing to support us should we choose to use them to actually put their money where their mouth is around the mortality experience and how wellness and Vitality impacts that.

So I mean, we are very confident that the pricing is sustainable. And that if people will follow the program that is being outlined that they will live a longer and healthier life. And at the end of the day that is the most important thing is that our customers benefit from this product as well.

Mario Mendonca - *TD Securities - Analyst*

Okay, thank you.

Operator

Asim Imran, Macquarie Capital Markets.

Asim Imran - *Macquarie Capital Markets - Analyst*

Just a numbers question to start off with. Would it be possible to provide some color on the trends surrounding dynamic hedging costs related to the Asian business and the other geographies?

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

Yes, I mean I think we've previously shown some of this, but -- well, two things have happened. First of all, we have seen over the last year or so quite a significant movement from macro to dynamic. And so the mix has changed. And then in aggregate the total hedge cost has come down somewhat if you add the macro and dynamic together. That is for the group as a whole. Maybe Cindy might want to comment on the Asian piece or Scott. You want to have that?

Scott Hartz - *Manulife Financial Corporation - EVP, General Account Investments*

In terms of the cost of it? I don't think they have changed materially. And I don't at my fingertips have the cost numbers there.

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

There really hasn't been a material change in the cost.

Asim Imran - *Macquarie Capital Markets - Analyst*

Okay, and just heading back to the DBS transaction for a little bit. Would it be fair to assume that Aviva gets to keep its back book and can continue marketing to its existing customers? And if that is the case does that limit the market for any specific kind of products that Aviva was strong in?

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

Well firstly, you are right, Aviva does get to keep their back book. And there is certain marketing rights that actually correlate to that.

Asim Imran - *Macquarie Capital Markets - Analyst*

But you wouldn't see any issues with respect to growth in any specific kind of product?

Roy Gori - *Manulife Financial Corporation - Senior EVP & GM Asia Division*

No, no.

Asim Imran - *Macquarie Capital Markets - Analyst*

Okay, thank you.

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

Well, and in fact we plan to move the product next to something different than what Aviva sold.

Asim Imran - *Macquarie Capital Markets - Analyst*

Okay, perfect. Thank you.

Operator

Thank you. We have no further questions at this time. I would like to return the meeting back to MR. Veloso.

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

Thank you, operator. We will be available for -- after the call if there is any additional questions. Please feel free to call me. Thank you and good afternoon, everyone.

Operator

Thank you. The conference call has now ended. Please disconnect your lines at this time and we thank all who participated.