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MFC.TO - Q4 2015 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2016 / 7:00PM GMT



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## PRESENTATION

### Operator

Please be advised that this conference call is being recorded. Good afternoon and welcome to the Manulife Financial fourth-quarter 2015 financial results conference call for Thursday, February 11, 2016.

Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

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

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our fourth-quarter and year-end 2015 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 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 webcast slides for this conference call 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 ask that each participant to adhere to a limit of one or two questions. And if you have any additional questions please requeue and 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 2015 financial results. We've delivered strong top-line growth for the full year, most of it coming from businesses that generate our highest returns. And I commend you to look to our additional disclosures this quarter on ROEs across the various businesses so you can see evidence for that statement.

Insurance sales increased 24% from the prior year, driven by another year of record sales in Asia which contributed to a 35% increase in new business value. On the wealth and asset management front we delivered strong gross flows, up 46% compared with 2014 and net flows of CAD34.4 billion which was simply outstanding, up CAD16 billion or 72% with positive flows in each division across the world and record institutional flows, net flows.

Thanks to the trust our customers place in us we now manage and administer CAD935 billion in assets of which CAD511 billion relates to our Wealth and Asset Management businesses. We delivered strong core earnings of CAD3.4 billion which rose 28% for the year before giving effect to investment-related impacts. This result was ahead of plan and highlighted Manulife's powerful operating momentum.

Including investment-related experience core earnings increased 19% versus 2014. From a macroeconomic perspective 2015 was characterized by headwinds which included persistently low interest rates, the impact of a very sharp drop in energy prices and concerns about the global economy. The mark-to-market impact of the decline in oil and gas prices in particular diminished an otherwise great year and contributed to a disappointing year in terms of net income.

As you know I have repeatedly cautioned that while Manulife has enjoyed a very positive trajectory in net income that it would be overly optimistic to assume that this would continue unabated because expected market volatility and experienced gains and losses could be expected to materially impact those results. In 2015 that is exactly what happened, resulting in full-year net income attributable to shareholders of CAD2.2 billion.

It is worth highlighting that excluding the impact of continued lower commodity prices on our oil and gas investments that factor alone 2015 net income would have been almost CAD900 million higher. Despite these macro challenges, we strengthened our financial flexibility by significantly lowering our financial leverage by 4 percentage points to 23.8%. We've also maintained a strong capital ratio of 223%.

Our underlying business continues to perform well and on this basis we once again raised our dividend today marking our third increase in less than two years. This decision reflects management and the Board's confidence in our capital position, our ability to sustain underlying core earnings growth and the significant progress that we're making on our strategic plan.

Turning to slide 6, we review our accomplishments during the year. Throughout 2015 we made important progress on our ambitious customer-centric strategy. We capitalized on growth opportunities that have developed in each of our businesses and we continue to innovate to ensure that we remain relevant and agile in a rapidly changing world.

By keeping the customer at the center of everything we do and by innovating to create new and extraordinary customer experiences we are on track to set ourselves apart from the competition becoming a leading disruptor in the industry.



In Asia we delivered a 28% increase in insurance sales with double-digit growth in most territories and a 56% increase in gross flows in our wealth and asset management businesses driven by mainland China. It's interesting there's a lot of concern about the economy of China. We're not seeing it in our mutual funds flows or our insurance sales in that country.

We entered into a flagship 15-year bancassurance partnership with DBS, providing exclusive distribution rights in Singapore, Hong Kong, Indonesia and mainland China. While it's still very early, we're encouraged by the seamless transition and the initial sales.

We announced a 15-year exclusive mandatory Provident fund distribution partnership with Standard Chartered Bank as well as an agreement to acquire Standard Chartered's existing pension business in Hong Kong. We launched ManulifeMOVE in Hong Kong and Macao, a wellness initiative that rewards customers for active living. And we successfully initiated insurance sales through WeChat in mainland China, one of the country's most popular messaging and payment apps.

In Canada we achieved record gross flows with both mutual funds and group retirement businesses achieving record levels before giving effect to a recent acquisition and retail sales grew 8%. We completed the acquisition of the Canadian-based operation of Standard Life, made progress ahead of plan on the integration and delivered better-than-expected earnings accretion. We launched the DrugWatch program, an innovative solution designed to ensure group benefit clients get value for the money on higher cost drugs.

We enhanced our customer service experience and now our customers in Canada can use their voice as their password in interacting with us. And we added more than 800 automated banking machines across Canada to provide our customers with more convenient access to their bank accounts.

In the United States we delivered our sixth consecutive year of record mutual fund gross flows. They were up 14% from the prior year and that included strong sales from our acquired pension business. We successfully completed the acquisition of New York Life's retirement plan services business and the related reinsurance transaction and sales to date have been strong and exceeded expectations.

We entered the exchange traded mutual fund market with six offerings -- the exchange traded fund market with six offerings which track underlying indices designed by Dimensional Fund Advisors, a pioneer in strategic beta investing. We launched John Hancock Worldwide Investors, a platform focused on expanding our reach to non-US domiciled retail investors. And we launched exclusive partnership with Vitality to provide Americans with a forward-thinking life insurance solution that rewards customers for healthy living and essentially reinvents the proposition of life insurance.

In terms of our global Wealth and Asset Management businesses, we surpassed CAD500 billion in assets under management and administration, lifting our total Company figure to CAD935 billion. We delivered strong investment performance at Manulife Asset Management with the majority of public asset classes outperforming their benchmarks on a one-, three- and five-year basis.

We launched a new fund structure to support our institutional asset management expansion into Europe in the global market and we expanded our liability-driven investment capabilities significantly with the successful integration of the Standard Life business.

In summary, we're pleased with the strategic progress that we have made throughout 2015. However, we expect some of the macroeconomic headwinds and energy price volatility will persist into 2016 and that unless oil and gas prices strengthen it will be difficult for us to achieve the CAD4 billion core earnings objective that we have set for 2016.

Putting aside the external factors which impact our investment experience we have never felt more confident about the underlying fundamentals, the momentum and the long-term strategic positioning of our Company. With that I will turn it 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 fourth quarter of 2015 and the full year. In the fourth quarter we delivered outstanding growth in net and gross flows and a strong increase in both insurance sales and new business value. Core earnings were also strong but net income was negatively impacted by charges resulting from fair value adjustments related to the continued decline of oil and gas prices and other factors.

For the full year of 2015, core earnings rose 19%, reflecting the strength of our Asia and wealth and asset management businesses. We were, however, similarly impacted by fair value losses related to oil and gas investments throughout the year and charges related to our annual review of actuarial methods and assumptions which led to lower net income.

It's worth highlighting that excluding the impact of continued lower commodity prices on our oil and gas related investments, 2015 net income would have been almost CAD900 million higher and core earnings would have included CAD346 million in investment-related experience. We further improved our financial flexibility by reducing our financial leverage and generating remittances of CAD2.2 billion while maintaining a solid capital ratio. We achieved excellent top-line results driven by our insurance businesses in Asia and outstanding net flows in our wealth and asset management businesses globally despite heightened market volatility.

Return on equity was below where we would like to have seen it. However, we expect core ROE expansion over the medium-term as we execute on our strategy and as investment experience normalizes. I will come back to this point later in the presentation.

Turning to slide 9, we continue to demonstrate solid progress on core earnings despite not having recorded core investment gains. Core earnings increased to CAD859 million in the fourth quarter, up 20% versus the prior year and reached CAD3.4 billion for the full year, up 19%. As Donald just mentioned, excluding core investment gains our core earnings would have been up 28% for the year.

These results were driven by contributions from our recent acquisitions, strong sales and improved product margins in Asia, higher fee income in our wealth and asset management business and the strengthening of the US dollar. Unfortunately, continued volatility within the commodity space resulted in investment-related experience losses in the fourth quarter and therefore we were unable to recognize any core investment gains in this quarter or for the year.

Turning to slide 10, you can see that our reported net income in the fourth quarter was impacted by adverse investment-related experience charges of CAD361 million primarily due to the continued decline in oil and gas prices. The favorable impact of equity markets was more than offset by charges from interest rates resulting in a net charge of CAD29 million.

We also recorded a number of other charges this quarter including a CAD97 million net charge as a result of actuarial model refinements, CAD39 million in integration costs related to our recent acquisitions and an CAD87 million net charge for other items which included the impact of recapturing a reinsurance treaty.

On slide 13 is our source of earnings. Expected profit on in-force increased 14% from the prior year, primarily due to recent acquisitions, actuarial refinements and higher fee income on WAM businesses due to higher assets under management and administration. The impact of new business improved versus the prior-year quarter, reflecting higher insurance and other wealth sales volumes and improved product margins in Asia partially offset by lower sales and a less favorable business mix in our US insurance businesses and higher non-deferrable acquisition costs in WAM businesses due to higher gross flows.

Experience losses reflect fair value losses in oil and gas from lower commodity prices, the adverse impact of interest rates and unfavorable policyholder experience. This quarter we incurred a pre-tax CAD97 million and post-tax CAD50 million charge for policyholder experience as adverse experience in the US was only partially offset by favorable experience in Asia and Canada.

Management actions and changes in assumptions reflect changes in actuarial model refinements, the expected cost of our macro hedging program, a charge from the recapture of a reinsurance treaty and integration expenses from recent acquisitions. Earnings on surplus increased primarily due to higher interest earned on higher asset levels and we had a tax credit this quarter, reflecting the mix of gains and losses in our various tax jurisdictions.

Turning to slide 12 and insurance sales, insurance sales in the fourth quarter increased 22% over the prior year, reflecting record sales in Asia with double-digit growth in most territories and normal variability in large case Group Benefits sales in Canada, partly offset by lower US insurance sales due to competitive pressure in the Life market and lower long-term care sales. Full-year insurance sales increased 24% from 2014.

On slide 13, you can see that both net and gross flows in our wealth and asset management businesses continue to be strong despite a challenging macro environment in 2015. Net flows of CAD8.7 billion in the fourth quarter were up CAD5.9 billion from the previous year due to strong asset retention and gross flows of CAD31.1 billion which were up 53%, reflecting solid gross flows in Asia driven by mutual fund launches in mainland China and pension sales in Hong Kong, strong gross flows in Canadian mutual funds and group pensions, record flows in the US driven by robust mutual fund flows and contributions from our recently acquired 401(k) business and continued momentum for institutional asset management where gross flows more than doubled. For the full year we achieved net flows of over CAD34 billion and positive net flows in all divisions despite volatile markets.

Moving to slide 14, other wealth sales were up 80% in the fourth quarter compared to the prior year and 89% on a full-year basis, reflecting very strong sales in Japan driven by expanded distribution and new product launches and contributions from our recent acquisition in Canada.

On slide 15 is our new business value which increased 33% from the same quarter one year ago and for the full year increased 35% to over CAD1 billion. The increases were largely driven by strong sales and higher product margins in Asia.

New business margins in Asia increased to 34% in the fourth quarter, up 3 percentage points from the prior year. This was most notable in Japan which saw its margins increase almost 7 percentage points to 27%.

Turning to slide 16, our assets under management and administration or AUMA at the end of the fourth quarter reached CAD935 billion, up CAD244 billion from the prior year. The increase was largely driven by recent acquisitions as well as currency movements and consistent net policyholder inflows. Our wealth and asset management businesses achieved AUMA of CAD511 billion, up CAD196 billion from the fourth quarter in the previous year driven by similar factors.

Slide 17 summarizes the capital position for the Manufacturers Life Insurance Company and our financial leverage. The regulatory capital ratio remains solid at 223%. The 3 percentage point decrease from the prior quarter reflected a reinsurance recapture in Canada and growth in required capital that outpaced earnings partly offset by a subordinated debt issuance of CAD1 billion.

We ended the quarter with a leverage ratio of 23.8%, up 110 basis points from the prior quarter but down 400 basis points from the prior year. We're very pleased with the reduction in our leverage ratio when compared to the fourth quarter of 2014. That being said, our leverage is influenced by our financing activities and currency movements and therefore we do expect variability from quarter to quarter.

Moving to slide 18 and an update on our recent transactions, the Standard Life integration is proceeding well and both run rate savings and integration costs are developing in line with our expectations. The deal has been favorably received by the market with gross and net pension flows exceeding our deal expectations.

And in the first 11 months the transaction was CAD0.05 per share accretive to core earnings excluding transition costs. This compares quite favorably to the marginal accretion we expected at the time of the deal.

Our New York Life pension acquisition is also progressing well. We have met or exceeded all our integration milestones and are on track to complete integration efforts this year.

In addition, we are generating strong new business and have a growing pipeline. Our thorough preparation and strong partnership with DBS resulted in a problem-free launch in all four markets with sales momentum building through January.



Moving to slide 19 and an update on the E&E initiative, in 2012 we launched the efficiency and effectiveness initiative or E&E to better leverage our global scale and capabilities and achieve operational excellence throughout the organization. Since then the E&E initiative has become a way of life at Manulife and is now ingrained into the corporate culture.

The results to date have been impressive and as you can see general expenses as a percentage of both assets under management and administration and premiums and deposits have steadily improved. We delivered approximately CAD350 million in net pre-tax savings in 2015 which is ahead of our previously communicated forecast of CAD300 million and are on track to exceed CAD400 million in 2016.

Moving on to slide 20 and a closer look at ROE expansion, since the start of 2014 our core ROE has been impacted by an unfavorable economic environment characterized by a strengthening of the US dollar and declining interest rates and commodity prices. And while the stronger US dollar provided a tailwind to core earnings it concurrently resulted in an increase to our equity base due to an increase in the Canadian dollar value of our foreign subsidiaries. The net effect of the macroeconomic environment was a negative impact to our core ROE despite the solid performance of our underlying businesses.

Despite these recent challenges, we expect core ROE to expand towards 13% over the medium-term. Our investment expense in 2015 was negative due to lower commodity prices which resulted in fair value charges to our oil and gas investments. However, had we recorded investment-related gains in line with our through this cycle expectation of CAD400 million core ROE would have been more than a full percentage point higher.

We are executing on an ambitious organic growth plan focused on less capital intensive and higher ROE businesses such as wealth and asset management and our Asian operations which should contribute to core ROE expansion along with contributions from recent major acquisitions and partnerships as well as additional savings from our efficiency and effectiveness initiative. As we are still in the process of integrating our acquisitions and investing in the buildout of our partnerships we expect the core earnings impact of our transactions to almost triple over the medium-term from their 2015 levels and after that to continue to grow driven notably by long-term strategic partnerships in Asia and revenue synergies.

In addition, there are a number of other levers to further improve core ROE including balance sheet optimization. We are reviewing blocks of business with suboptimal ROEs and are actively exploring options which could provide additional upside for core ROE.

And from a capital management perspective we continue to generate substantial remittances which can be profitably be redeployed. As mentioned earlier the challenging macroeconomic environment which is beyond our control has created a drag on core ROE in recent quarters.

However, should circumstances improve over the medium-term or over time the impact of these factors could reverse, providing additional support for core ROE. We have prepared a more fulsome presentation on core ROE expansion which you can consult on the investor relations section of our website.

Turning to slide 22 and the operating highlights of our divisions we begin with the Asia division. In the fourth quarter core earnings were \$264 million, up 18% from the previous year due to improved business volumes and product margins, partially offset by expenses related to growth initiatives.

On a full-year basis, core earnings were also up 18% when compared to the prior year. Insurance sales reached record levels for the fourth quarter and the full year. Fourth-quarter insurance sales of \$416 million increased 20%, reflecting record sales in Hong Kong driven by recent product launches and sales campaigns and double-digit growth in Japan and Asia Other.

Full-year insurance sales of \$1.5 billion were up 28%. WAM gross flows of \$2.5 billion in the fourth quarter increased 7% driven by strong mutual fund flows due to growing demand for wealth management solutions in Mainland China and higher pension gross flows in Hong Kong. On a full-year basis, WAM gross flows were up 56%.



Turning to our Canadian division's operating highlights on slide 23. In the fourth quarter core earnings increased 58% driven by contributions from our recent acquisition, in-force growth, the benefits of standardizing our methodology for attributing expected investment income on asset supporting provisions for adverse deviation and improved policyholder experience.

On a full-year basis, core earnings increased 36% when compared to the prior year. Fourth-quarter insurance sales of CAD303 million increased 76%, largely reflecting normal variability in large case group benefits sales.

Full-year insurance sales of CAD825 million were up 43%. WAM gross flows of CAD3.9 billion increased 45% in the fourth quarter, driven by a strong mutual fund product lineup and solid group retirement flows which benefited from the recent acquisition. On a full-year basis, record WAM gross flows were up 57%.

Moving on to slide 24 and the overview of our US division, fourth-quarter core earnings of \$262 million declined 12%, reflecting reduced new business gains in insurance due to business mix and unfavorable policyholder experience, partially offset by higher fee income from higher assets under management and administration. Full-year core earnings declined 4% mainly due to unfavorable policyholder experience.

Insurance sales for the fourth quarter were \$127 million, down 17% due to competitive pressures in US life insurance more than offsetting momentum in our Vitality products and lower long-term care sales as we continue to transition sales to our innovative performance long-term care products. Full-year insurance sales of \$488 million were down slightly from 2014.

Record fourth-quarter WAM gross flows of \$13.3 billion increased 50% versus the prior year, reflecting record mutual fund flows driven by a strong product lineup and solid investment performance and solid retirement plan services gross flows which benefited from the recent pension acquisition. On a full-year basis we achieved record WAM gross flows of \$47.2 billion.

Turning to slide 25 and the highlights for the Wealth and Asset Management businesses, fourth-quarter core earnings of CAD157 million increased 22%, reflecting the strengthening of the US dollar, contributions from our recent acquisitions and higher fee income from higher assets under management and administration, partly offset by higher nondeferrable acquisition costs from higher sales volumes. For the full year the Wealth and Asset Management businesses generated core earnings of CAD639 million, representing an increase of 27% compared to the prior year.

Record assets under management and administration of CAD511 billion were up CAD196 billion from the prior year, reflecting CAD109 billion in contributions from our recent acquisitions, the strengthening of the US dollar and strong net flows. We achieved net flows of CAD8.7 billion in the quarter, more than triple the prior year, largely due to strong mutual fund and pension inflows across all regions and record net inflows in institutional advisory assets. On a full-year basis we achieved very strong net flows of CAD34.4 billion despite volatile markets.

So in conclusion, while net income was disappointing in 2015, Manulife generated strong core earnings, achieved strong growth and record levels in net flows, gross flows and insurance sales, achieved record assets under management and administration, announced two strategic transactions, maintained solid capital levels and reduced leverage and increased the dividend for the third time in less than two years.

This concludes our prepared remarks. Operator, we will now open the call to questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Humphrey Lee, Dowling & Partners.

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### Humphrey Lee - Dowling & Partners - Analyst

Good afternoon. Thank you for taking my question. Just a question about the block optimization assessment that you are planning.





I saw it on your start of the presentation mentioned that the top five priority blocks totaled approximately CAD15 billion in reserves. Can you provide some additional color in terms of this exercise and maybe talk about in terms of potential timing of these executions?

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

Thanks, Humphrey, yes, for sure. So we're always looking at our mix of business but we are putting some particular attention on looking at some in-force blocks that don't meet our return requirements and where we think there may be other people who may have a different view of risk or different return requirements and where we may be able to reach some sort of agreement.

So it's relatively early days on that. I mean clearly some of these transactions will be easier to execute than others. Currently we are prioritizing a small number of relatively small transactions that we would like to be able to progress but we will keep the street informed as that project progresses.

I guess the point we wanted to make really was we are concerned to expand our ROE. And we will be looking at various actions that we can take to do so.

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**Humphrey Lee** - Dowling & Partners - Analyst

Okay, got it. And then just a question related to your unfavorable policy experience in long-term care in the US. Maybe can you provide some additional color on what you're seeing and what were the major pressure points?

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

Yes, sure. I think Cindy is probably best placed to answer that one.

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

Sure, thanks, Steve. Hi, Humphrey. We are seeing some adverse experience on the LTC block in the current quarter and over the course of this year on benefit utilization as well as on lapse and on mortality.

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**Humphrey Lee** - Dowling & Partners - Analyst

Okay. And then given you are triennial review is coming up in the third quarter how does the experience over the past several quarters affect how you are going to approach the review this year?

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

The review will be done as it always is. We look at all of our experience over the last three to four years and assess our assumptions, our current assumptions against that emerging experience. So it will be the same process.

Our LTC claims losses for the year are about CAD50 million. So that's the magnitude of the adverse experience for this year.

And I note as we have had and as we have said in the past that the translation from the source of earnings analysis, claims losses to our the impact of our annual review it's not -- you can't really project from one to the other. So at this point in time it's early days. We don't have the results of our experience review and so don't really have insight as to what the impacts might be of this year's review of assumptions.



**Humphrey Lee** - *Dowling & Partners - Analyst*

So just to clarify, so it was CAD50 million adverse in 2015 and then I recall there was some kind of adverse experience in late 2014 as well. Is there any way to kind of give us a sense of the accumulative adverse experience relative to when you revised your assumptions back in 2013?

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

It's probably in the neighborhood of the CAD50 million because for the prior two years we had positive quarters and negative quarters and it pretty much offset.

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**Humphrey Lee** - *Dowling & Partners - Analyst*

Okay. And then in terms of that CAD50 million unfavorable impact this year, would you say utilization was more adverse or versus the other two? Which one is the main driver?

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

Actually, Humphrey, I don't really recall in terms of the relative magnitude of each of the factors.

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**Humphrey Lee** - *Dowling & Partners - Analyst*

Okay. All right.

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**Operator**

Steve Theriault, Bank of America Merrill Lynch.

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

Thanks very much. A couple of questions. First, Don, I wanted to go back to something that you said, never felt more confident outside of the questions around investment gains.

But I would think it's not just all about energy certainly. And I'm thinking about rate, so you're obviously much better hedged than last time the US 10-year was around these levels, but how much does the fact that the US 10-year is back to right around 2012 lows, how does that affect your outlook for the ability to get to your CAD4 billion next year?

If I do the math on your sensitivities I may be not as worried about rate swaps and spreads in terms of the mark to market. That could easily prove a wash but what about the core business and the risk to core earnings with rates going back down pretty precipitously in the last little bit?

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

Well, you're right, Steve. And from an overall perspective I mean that is a bit of a headwind. And the question is does it persist or continue to get worse?

From a macro perspective we have offsets. As rates go down things like real estate tend to go up. So we have that but that doesn't affect our core earnings as you well know.



On the macro side there's a lot of volatility out there right now that quite frankly I don't understand. You've got the US economy doing pretty well. You've got the Chinese economy doing pretty well.

You've got India doing pretty well. You've got Europe and Japan with some challenges, that's for sure. But when you look at falling energy prices the principal beneficiaries of lower energy prices are the big energy importers which is Japan, China and Europe.

So that impact people are typically hedged out 12 months or so but that impact is going to start to be felt and I think it will be salubrious for the global economy. So despite the movement in the market today, in the overall market sentiment that seems to prevail I'm certainly not pessimistic the rates are continuing to fall.

But as you said we have way more hedging programs in place than we ever had before and have some protection against rates falling further but obviously not absolute protection and it will as you identified affect core earnings. That's one of the reasons that we're being cautious on our guidance. That and energy prices.

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

I definitely appreciate the cautionary tone in your statements and in the press release. It's a tough question but are you trying to telegraph to us that with energy prices where they are that that 2016 target is still doable but challenging? Or are we in more of the category of it may not be realistic with oil at \$25?

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

No, I think we basically count on CAD400 million of investment gains in looking at that. So if you assume that oil prices stay where they are now there's very little possibility, I can never say never, but extremely low, low, low possibility of us getting that CAD400 million a gain.

So with CAD400 million of headwind that sets you back CAD400 million against the target of CAD4 billion. There are other things as Steve and I have explained that are going really, really well in terms of operating performance. But it would have to go unbelievably well to overcome CAD400 million of headwind.

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

Okay. Maybe that segues --

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

With the core growth I mean we're going to get there. It might be a year later and I guess I've sort of said before we're not going to be so fixated on that number that we're going to do anything stupid to get there. But clearly we're on a path to achieving that target from our core operations and it's very unfortunate what happened to energy prices but that will happen from time to time.

We're also not panicking with respect to that asset class. I'm sure somebody is going to ask the question are you planning to get rid of oil and gas? And on the contrary this is a time to perhaps load up the truck.

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

Well, I won't waste my second question on that then. But kind of a segue into coming into the quarter looking at what happened to the oil futures curve it looked like across the curve prices were down about 10%, that resulted in a CAD250 million charge this quarter.

And as I think of Q1, and we're early days here but it's hard not to think of how it's going to plant given the volatility, but the quarter ended today spot is down almost 30%. And I haven't done the calculation across the curve, across the forward curve but let's say that's 20%.

How linearly can we think about 10% down in the futures curve in Q4? Is CAD250 million charge and if it's CAD20 million in Q1 it could be a CAD500 million charge. So maybe someone can just help me with how we should think about that math.

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

It's a great question, Steve, and I'm going to pass over to Scott Hartz.

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

Sure, thank you Donald and thank you Steve. Yes, you can't just look at spot prices. Obviously oil prices, lower oil prices are going to drive down valuations.

But we're really trying to value a long reserve life here so it's a function of what prices are expected to be in the future. And spot oil prices we're not actually that optimistic about. A lot of people have called for \$20.

With storage getting full that's certainly a possibility or even lower. I think what we have much greater confidence around as does the market is that ultimately prices have to go up in order for us to produce enough to meet demand. So it really is that forward look that's the most important, not the current spot price and so there's a couple of elements there.

One is that, yes, there is a five-year strip you can look at where there is some but not much trading in the market. And so if you look at that you see that that this quarter has not come down nearly so much as spot prices have but has come down about as much or maybe a little bit more than we saw in the fourth quarter. But then the other element is that for our Canadian oil and gas operations that's valued by an outside appraiser and so it's also a function of what the outside appraiser is expecting for prices and our outside appraiser is pretty much in line with what most appraisers would do in the market.

And there I think in the fourth quarter we got a little bit whacked by the third quarter was down a lot and the appraisers sort of delayed a little bit bringing their curve down. They brought it down more than the market did in the fourth quarter.

So in the third and fourth quarter we had about the same amount of hit to our oil and gas even though market prices were down more in the third quarter. So we had that catch-up and yes if prices stay where they are this quarter we're going to take another loss. But it's probably more in the realm of what we saw in the fourth quarter and not a bigger number than that.

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

Okay, that's helpful. Thank you.

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**Operator**

Peter Routledge, National Bank Financial.

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

Hi, just follow on from Steve and just the core earnings momentum. I'm kind of surprised you're stepping off the CAD4 billion although you've been clear about the reasons for why and I don't quibble with that.



Just the momentum in your core business is so strong it seems like you're awful close to CAD4 billion even if you don't get any investment-related gains in core earnings this year. So if I were to promise you or guarantee to you would get CAD200 million which you got in 2014 could you get CAD4 billion?

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

Well you know I admire your entrepreneurial style here and I suspect whatever I answer is going to be then you will ask for 100 and 300 and parse it that way. But seriously, so you're saying CAD200 million of investment gains if we got that?

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

Yes.

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

Okay in that hypothetical, which is extremely hypothetical, I just want to be honest with people, right, because given oil prices where they are today and again they can go up to \$100 tomorrow but that's not our expectation but in that hypothetical it would be different. It might be a different answer. You're quite right that the operating momentum is incredibly strong.

I think the likelihood of operating momentum alone getting us that extra CAD400 million is remote and we have to be conservative on that view and appropriate. As you get it to a different number, sure, there's some number that if you said investment gains of CAD399 million I don't know what I'd have to say.

But I think I'd say that it's not in jeopardy. But anyway between those two there's a big gulf and I guess the expectation is we don't think anybody should be baking in CAD400 million of investment gains. So your hypothetical is extremely hypothetical.

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

And Peter, just to follow on from that if I may. It's Steve. Bear in mind that we have an obligation to set out risks to the market.

So we just felt that we ought to highlight the risk associated with that CAD400 million and almost just sort of pure math leads you to believe that would put the CAD4 billion at risk. But you know, those statements don't really fundamentally mean that we have any different opinion as to our sort of underlying earnings power. So I look at it that way.

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

And I guess another question that one might ask when somebody, we make that pronouncement are we giving up the ghost or something like that. No, we're driving our organizations to deliver that number despite the investment impacts. We're just saying there's a really good chance that that will not get us to that target.

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

Right. The other I think issue pressing on the stock is Asia and what's going on in China. So apologies, it's another hypothetical, but China devalues from 650 roughly to 8 yuan or renminbi, pardon me to the dollar. What happens to your Asian business in that scenario?



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

Well, our Asian business there's always currency translation gain or losses. But in any fan of outcomes on the Chinese currency in relation to the Canadian dollar it's going to be small and earnings from China are small. I think as it relates to Manulife China, ex-Hong Kong. But the concern about China is one of this huge fear of China slowing down. And I guess I'll remind people that while the manufacturing sector is slow in China, the services sector is incredibly robust and it's approximately 50% of the economy right now, and consumer spending is high.

Robert, our life insurance business in China alone is up --

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

35%.

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

-- 35% and our wealth business, the mutual fund flows?

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

Well, the growth flows were up well over 100%.

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

And those products are denominated in renminbi?

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

Yes, those are renminbi products, so 35% and over 100%. So I guess when I read the newspapers about China slowing to a halt, I kind of find it hard to relate to. If you look at BMW, their sales of cars into China, you look at a lot of indicators. There's no indication that China is coming to this screeching halt which half the world seems to think is factual.

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

Just to add to that, Peter. In 2015, we had record insurance sales in just about every location in Asia. I think there were two exceptions to that, and they were both smallish locations. And in the fourth quarter we had record insurance sales, including -- in four locations, Hong Kong, Vietnam, Singapore and even Malaysia.

Now Malaysia is probably one of the economies supposedly most impacted by the China slowdown, because it's an export economy to China. And yet we're still seeing very strong insurance sales. So the core earnings growth year over year 18% in Asia, and the earnings translation risk associated with the renminbi is not material at all.

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

Okay, thank you.

**Operator**

Robert Sedran, CIBC World Markets.

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

Hi, good afternoon. Just curious about what you think the impact is of the recent changes by the Chinese authorities in terms of the ability to purchase -- for mainland Chinese to purchase insurance contracts in Hong Kong. And not just the impact of that, but if there's any other similar issues that perhaps aren't obvious today but that you might be concerned about from a regulatory or political perspective in China?

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

Okay, so why don't -- let me take that, and then I will pass it to Roy and he can give you some more color. So yes, look, actually Manulife has a very diverse business in Hong Kong. Our exposure to what we call mainland visitors if you like is relatively low compared to the market as a whole and so this is not going to be material to Manulife because the sales from Mainland China to Hong Kong represents less than 1% of our group sales.

But let's ask Roy to give you a bit more color.

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**Roy Gori** - Manulife Financial Corporation - President and CEO, Manulife Asia &

Yes, thanks. Robert, I think Steve covered the key point and that is that firstly our Hong Kong business is a very strong business, it's well diversified. Not only have we got a strong insurance franchise here but we also have a very strong wealth management business and that is focused in on our NPF or retirement pension business where we are the second largest provider and the largest in terms of new flows.

In terms of the Union Pay regulation change that we saw announced recently Mainland Chinese visitors really only account for about 15% of our sales in Hong Kong and that's much less than many of our competitors. And therefore that segment represents about 4% of our total Asia sales. So quite honestly we really don't see this change to be very material to our business and again as highlighted earlier our total insurance sales for the year are 28% and our other world sales are north of 100% for the full year.

So we see very solid momentum, very optimistic about the progress we're making and that we will continue to make. And the regulation is one that obviously is going to have somewhat of an impact on markets, Limited for us and quite frankly I feel still very optimistic.

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

Okay and just a quick one on Japan, or maybe not a quick one on Japan. But obviously the country has been dealing with very low interest rates for a very long time but are there any further implications to a negative interest rate policy on your business, in any aspect of your business whether just technical accounting or actual operational implications to the business?

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

So well let me have a go at that and again I'll pass to Roy. I think the low interest rate environment in Japan is obviously being perceived as being potentially a negative to the Abenomics success if you like.

So perhaps the biggest risk to us is that it slows down the behavioral changes we've seen in Japan. Having said that we have seen some significant changes starting to emerge in Japan with a move on personal balance sheets away from bank deposits into mutual fund products and other wealth products. So we have been benefiting from that.





And beyond that we have some new products and new distribution in Japan which have gained a lot of traction. So in fact Japan for us in 2015 was a raging success story and we have a lot of momentum in our business there. So maybe Roy may want to talk about more about some of that success in Japan.

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**Roy Gori** - *Manulife Financial Corporation - President and CEO, Manulife Asia &*

Yes, let me just add to the comments that Steve has provided. I think the first comment I would make is that not all of our products are interest sensitive and we reprice regularly. I think that would be the deciding comment.

We're really quite happy with our progress and momentum in Japan. We have expanded distribution quite extensively throughout 2015. In fact, we've got 13 new bancassurance partnerships and that's contributed significantly to our sales momentum and obviously we have also expanded our product range.

So obviously interest rates are a factor. But we obviously keep a very close eye on that and we reprice accordingly.

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

Thank you both.

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**Operator**

Meny Grauman, Cormark Securities.

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

Hi, good afternoon. Just to follow up on Rob's question about negative rates, you answered it in terms of Japan but in your view would there be significant disruptions to your business with negative rates if they came to North America? Is that something you've thought about at all?

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

Well Meny, Don wants to get in here. Negative rates I mean typically are at the short, right, created by central banks trying to stimulate the economy. What is really relevant to us is rates out at the 10-, 20- and 30-year tenor, not at the short end.

Now and you see instances I think recently when the Fed increased short rates and the long rates came down I think a lot of people thought our stock, and it did go up for period, but that's not a good thing when long rates come down. It's really the long end of the curve. I mean if people institute negative rates and that gets the economy in the right direction it's a very positive thing for us. But what really counts is what's happening at the longer end of the curve.

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

Thanks for that. And then I just wanted to ask a question about the dividend and just curious about your response to maybe some criticism that given the kind of uncertainty and the moves that we're saying that you should have held off on a dividend hike to kind of wait for the dust to settle.

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

Well, we're long-term thinkers. We take a long-term view of the business. The core earnings, the growth has been fantastic.

We're projecting that despite the headwinds that we've talked about in this call we feel pretty good about that going forward and that's the base on which the decision is made. I mean oil prices may remain depressed for the rest of the year and other things could happen that would be negative but our capital is strong and our outlook for core earnings growth is strong and outlook for longer-term net income hopefully some reasonableness will prevail. I guess we have the view that when things look dire, look low, they are seldom as bad as they appear and when things look really good they are seldom as good as they appear and this is one of those instances.

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

Thanks for that.

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**Operator**

Gabriel Dechaine, Canaccord Genuity.

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

Hi, good afternoon. Donald, why no buyback?

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

Well, we don't have one in place. We historically -- we've never said no buyback for all time and there's times like this where it would be kind of nice to have it in place.

On the other hand as we talked other questions on the call we're going to err on the conservative side because when the world is as skittish as it appears to be bad things can happen for longer periods stuff time. So while we feel really good about the long term you want to protect yourself from short-term movements that could go against you. So we're going to err on the conservative side but you're right if you wanted to criticize and say gee if you had a buyback in place you'd be picking up some Manulife stock at really cheap prices that's a fair comment.

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

That's exactly what I was thinking. You spend the post-crisis period building the fortress balance sheet, reducing your macro sensitivity, all very good moves for shareholders.

But at a time like in companies in general, they buy back stock when it's at the peak and they don't want to do it -- they don't do it when it's at a trough. I mean it would seem like you're in a good position to shift from defense to offense so that the market can put some value on that fortress balance sheet.

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

It's a fair observation. I guess the only thing I'd say in our defense is we didn't buy it back at the peak, so I'm thankful for that.

If you're saying you were going to miss the opportunity while it's low you're right there, too. So it is a good comment and we are giving some consideration to whether or not a buyback would fit in the overall context of perfect capital usage over time.



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

Well, I think a lot of debate around buybacks and it's a signaling theory at the very least and in this case probably would be a good one. That's pretty much it. Thanks.

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**Operator**

Sumit Malhotra, Scotia Capital.

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

Thanks, good afternoon. Let me go back to Scott for a minute. I just want to make sure I'm thinking about the energy exposure correctly.

So on your slide 32 in the presentation you show us just over CAD13 billion of fixed income exposure to the energy sector and CAD1.7 billion in the alternative book. When you talk about the CAD875 million of write-downs that were taken against energy this year, round numbers what was the percentage that was allocated to the alternative portfolio relative to fixed income?

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

That was all out of the alternatives book. The fixed income had very little impact of the oil price environment.

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

So when we're talking about 2016 now and the fact that the core earnings target has been, you're signaling off that number largely due to the oil and gas, are we still contemplating alternative being the only issue or are you now expecting there are going to be losses that are emerging in the fixed income book as well? I'm kind of looking for your thoughts on where that portfolio trends next year?

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

That's a really good question. It's something we spend a lot of time on. We are examining all the exposures on that page 32 very closely.

And while yes our bond portfolio which has been 95% investment-grade has held up very well thus far, the extent these low prices keep extending we're looking at definitely some downgrades coming. And I think the agencies, the longer prices stay down the more they will look to move to downgrades. I would say a lot of the companies have done a lot of the right things in terms of cutting dividends and raising equity and certainly cutting CapEx.

So that's helping them and we feel good about the long-term survival of these companies. I'm not forecasting any impairments or anything for the future but I think as you know downgrades do run through our investment experience gains. And so while we didn't -- we had a little bit but not very much of that in 2015, in 2016 to the extent prices stay where they are we would expect to see some of that.

So while we've had five or six years of positive credit experience in the CAD50 million to CAD100 million and even a little above CAD100 million I think that will be very hard to achieve this coming year unless we get a rebound in oil prices because that would be a drag.

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

That's helpful. Let me wrap up with just I'll call it a request for Steve. Steve, I know we've talked about this before but now that it's year end hopefully you get a chance to rethink or add to the disclosure.



I do think it would be helpful if you could provide us with the pre-tax after-tax numbers on the adjustments that take you from the reported number to core. I think it would give us a better understanding of what's happening in the underlying businesses once we clean up if you will for some of these items. So hopefully that's something you can think about for 2016.

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

Yes, sure. So we haven't forgotten that so we have that on the agenda to consider for 2016.

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

Okay, thanks a lot for your time.

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**Operator**

Tom MacKinnon, BMO Capital Markets.

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

Yes, thanks very much. Good afternoon. I just want to talk about the investment losses outside of oil and gas actually in the quarter and if you had CAD361 million of the total investment losses of which CAD250 million were oil and gas that leaves CAD111 million in other things.

Now you did some actuarial cash flow modeling update. So trying to figure out what the impact of that was?

And then really just talk about investment gains you make outside of oil and outside of actuarial modeling and things, like what were they in the quarter? What's the outlook for those? Because I think those things were pretty good in 2015.

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

Yes, Tom you're absolutely correct. So that estimation process that we have to true-up if you like a quarter in arrears produced quite a significant negative this quarter. That process is something as you know we have to go through each quarter.

It can be positive, it can be negative. And this quarter was actually quite significant negative. If I recall correctly it was in the region of CAD150 million.

So that is a big piece of the explanation and in fact the various other asset classes produced I think virtually all produced positive returns. So credit was positive, private equity was positive, etc.

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**Warren Thomson** - *Manulife Financial Corporation - Senior EVP and Chief Investment Officer, Manulife & Chairman, Manulife Asset Management*

Maybe just to add for the full-year -- it's Warren here, Tom, on the full-year basis the oil and gas charges I think were over CAD800 million but our net investment experience gain was about CAD350 million post-tax. If you think of that relative to CAD100 million a quarter with no contribution from oil and gas which you otherwise would expect something from oil and gas we would otherwise be running at pretty much our indicated long-term trendline rate.



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

And that's even with this CAD150 million actuarial modeling?

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**Warren Thomson** - *Manulife Financial Corporation - Senior EVP and Chief Investment Officer, Manulife & Chairman, Manulife Asset Management*

Yes.

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

That's correct.

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

And this actuarial, what should we think -- what are you doing here, just adjusting some cash flows and all of a sudden you've got CAD150 million charge? Like you wouldn't anticipate that number to be to swing that much. How should we think of that number?

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

Tom, it's Cindy. So maybe I can explain. Because the call and reserve process takes quite a bit of time we can't complete it all within the quarter-end window.

So our standard practice is to take the prior quarter reserve and roll it forward for changes in markets and new business. And then after the quarter we do the actual calculation using the actual liability and asset cash flows. And we take into account the fact that we've got CAD250 billion of liabilities on our balance sheet, that's not really a very large number.

It is on the large side of what we see. But as Steve was saying it can be positive or negative and there's been quarters when it's been positive and in the same ballpark.

So it really is just that the impact of updating our assumptions to bring the reserves to the end of quarter value and the differences between what we actually booked and that trued-up reserve is what you see coming through in terms of actuarial modeling.

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

So in an environment things don't change much from quarter to quarter you wouldn't anticipate that to change significantly quarter to quarter.

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

True. But keep in mind that the liability cash flows can be different. We assume that they are the same and we just drop off one quarter of cash flows so they can turn out to be different.

Q4 is the quarter after our annual review of assumptions. That can lead to some noise. And there can even be some impact from equity from the direct impact of interest rates in that number because it's not possible always to take everything out.

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

Does that number swing more in a rising or a falling interest rate environment?

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

I can't say that I've ever looked at it to give an answer. But I think Scott would like to add something.

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

Yes, I would just like to add when we put that CAD400 million number out there we looked really hard at what had happened over the last five or six years. And this is a number as Cindy says that's in there every quarter, tends to be fairly small and there was no bias to it over that time period.

So we didn't -- we felt comfortable assuming that would be a sort of net zero going forward. It's obviously unfortunate you have a quarter where it's a big negative. And over that period we've had largely falling rates, so I don't see a bias with respect to the rate environment.

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

Okay, that's great. Thanks.

And then the MCCR going from quarter-over-quarter change in it, it was 226% and I assume I'm adding about 5 from the debt to 231% and then you ended up at 223%. You recaptured some reinsurance and then you had I guess just a little bit more drag on the MCCR as a result of what kind of happened in the quarter. So can you separate those two items and then give us some sort of a feeling as to how we should be looking at the MCCR going forward excluding any other kind of capital movements?

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

Yes, so just at a very high level, Tom. In an average quarter if there is such a thing we probably expect the growth in required capital to be in the order of 3 points. But it could be more, it could be less, it can vary.

So we'd expect that normally to be more than covered by earnings. So this quarter there were two specific issues.

One was that the growth in required capital is actually at the high end of that sort of range, whereas the earnings were obviously low. So there was a net negative there. And then the reinsurance treaty recapture cost was about 3 points on the MCCR.

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

Okay, thanks for that.

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**Operator**

Mario Mendonca, TD Securities.

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**Mario Mendonca** - *TD Securities - Analyst*

Good afternoon. Just to put a final point on these investment gains, are you suggesting that you're still confident in CAD400 million a quarter -- sorry, a year ignoring anything to do with oil that that CAD400 million when you proposed it early in 2015 still stands or has something changed that caused you to be less confident in that number?

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

Mario, nothing has really changed. We continue to believe through the cycle it is the correct number because again I mentioned that we had close to CAD350 million post-tax for the year almost all the other components of that were performing as per our expectations.

The reality is, and this is again if you even go over the last five years where we modeled it, in any given quarter we have had negatives from let's say in a given quarter a real estate or agriculture, something underperforms briefly in a quarter. But through the full year we do see everything emerge and credit goes up and down a little bit again over that timeframe.

But the various pieces because it is such a well-diversified portfolio in total does tend to deliver it. And obviously in the current environment a good example while rates are down spreads are up. Wider spreads actually presents an opportunity for us to invest and realize trading gains from investing in wider spread credit product.

Obviously in this same environment, again we may see a few more default charges. So there's going to be tos and froms on the thing all the time but our general expectation given the diversity of our book and how things work we feel very comfortable on our through the cycle view.

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**Mario Mendonca** - *TD Securities - Analyst*

Okay. A related question. Perhaps for Cindy or maybe Steve.

Could you go through the policyholder-related experience losses in the quarter? I think there's some disclosure here where it says it's about CAD97 million and it relates mostly to is it mortality in the US? There's just a lot of paper in front of me, can you help me think through that again?

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

So just at a high level in this quarter we had negative experience in the US offset by positive experience in Canada and Asia. And so then maybe Cindy wants to talk you through those.

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

Right. So Mario, I have to apologize because I've got post-tax numbers in mind and you've got pre-tax number. So the post-tax impact of policyholder experience was CAD50 million in the quarter.

As Steve said we had positive results from Asia and from Canada and that was offset by losses on LTC due to as I said earlier utilization, mortality and lapse as well as some lapse losses on our US life block related to some universal life products. This quarter our mortality experience on the US life business was neutral, so that was a change from the prior two quarters where we had some losses due to larger claims. As you're well aware we focus on the affluent segment in the US, so we have large-size policy so we see quarter-to-quarter volatility on our US life experience.

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**Mario Mendonca** - *TD Securities - Analyst*

Okay and the tax rate on these types of policyholder gains and losses, would you expect them to be sort of normal? Normal tax rate?

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

Yes. But keeping in mind that you have different tax rates by jurisdictions and you have positive results in Asia which would generally have a lower tax rate and in Canada that would usually have a lower tax rate and then losses in the US which has a higher tax rate. So the average tax rate is difficult or maybe not intuitive.



**Mario Mendonca** - *TD Securities - Analyst*

And how about the tax rate on all the items of note, all those adjustments you make, would that be a normal tax rate or would that be an unusually high tax rate?

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

Well I don't know for each item but it would be impacted by the same phenomenon where you can have gains in low or high tax jurisdictions offset by losses in low or high tax jurisdictions. And you end up with a very unintuitive result for the tax rate.

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

If I can just add a bit, Mario. So the tax rate on core earnings this quarter was 18% but we had an overall, we had a tax credit if you get down to the net income level. And that would be a result of clearly some investment income is not taxed.

Other jurisdictions have low tax rates and that sort of slightly counterintuitive result arises from deferred tax accounting. So if you look at the year as a whole, you end up with a more sort of more logical outcome but maybe that's helpful.

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**Mario Mendonca** - *TD Securities - Analyst*

Well I guess where I'm going with this is you guys spend a lot of time talking about core but you can't really, like I don't understand core anymore because there just isn't enough disclosure. So like Steve when you say this is something you're going to look at when you're going to look at providing this disclosure, I mean clearly it's available to you or you couldn't do your tax returns.

So given the importance of core to this Company why wouldn't you disclose it? Why are you just looking at it? Why wouldn't you just disclose it?

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

We plan to disclose, we will disclose the core tax rate and we just need to look at what level of granularity we want to give in the various items in our financial statements. And there are potentially some -- there are pros and cons to that and as I say we will look at it, Mario, and we understand your ask.

And we'll get back to you in fact and talk to you about what would do the trick for you. So we have that on our list of things to do for 2016.

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**Mario Mendonca** - *TD Securities - Analyst*

For what it's worth core is becoming unusable to me and I suspect for a lot of people. I appreciate your efforts in that regard.

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

Thank you.

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**Operator**

Doug Young, Desjardins Capital Markets.

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

I will try to keep this relatively quick. The MCCSR, just going back to that it was 223% at the end of the year. Correct me if I'm wrong and maybe I'm wrong in this, I still think you have 3 points coming through from DBS and then you quite clearly give us the sensitivities, the declines in equity markets and interest rates.

So you could be if I do all the math there, and again correct me if I'm wrong you can get to a 210% to 215% MCCSR, what am I missing I guess in this kind of thought process? What's the level you're comfortable letting that go down to? And maybe I will leave it there.

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

Well, you're correct, we have to deal with DBS but as I say we have as we've said we have confidence in the outlook for our core earnings. For sure we have sensitivity to investment experience.

On the other hand we have a very strong leverage position right now. So we have a lot of financial flexibility and we want to manage our position as Donald said appropriately, conservatively in the current environment. And that's what we'll seek to do.

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

And we've kept the capital ratio strong, right, is for times like these. It wasn't too long ago that people were focused and said you had too much excess capital and that's what it's for. Market volatility hasn't disappeared.

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

So what would you let that, I mean I guess two questions, what would you let the MCCSR go down to? And then how much leverage are you comfortable putting in because you obviously have room to raise debt and I think I always think of it between 25% and 30%. But I'm just trying to think of how comfortable are you -- what level are you comfortable putting that down -- letting that go down to?

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

Well, you know, capital management is a very carefully manage thing. We don't talk about the ranges. It depends on a whole bunch of factors but in terms of leverage we have tons of capacity.

At the peak we had 35% or something like that and there's a lot of capacity there. We've got a lot of options.

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

And I mean if it was 215% or 210% on one particular quarter that would be fine?

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

Well, you would not expect us to operate at too lean a ratio. I'm going to avoid specific numbers but when bad things happen you expect the capital ratio to go down. That's what the capital is there for to be drawn on.

So again prudently conservative but if something happened tomorrow, yes, obviously that would drop the capital ratio. I don't think anybody would panic about that.

The question is do you plan to rebuild it or keep it low? And what we like to do, and you've seen us act consistently with that going right back to 2008, 2009, is that the capital ratio gets too low, we rebuild it to a higher level over time. It doesn't need to be done immediately but that's what our practice has been.

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

And then just second, you know obviously you've had great sales results in Asia and good core results there. I'm just wondering so far, maybe Roy, so far what you've seen in 2016 given the market volatility. Have the wealth management net flows and insurance sales have they abated at all or have they continued to be relatively strong?

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**Roy Gori** - *Manulife Financial Corporation - President and CEO, Manulife Asia &*

Yes, thanks Doug. I guess I think someone made the comment earlier and that is that we haven't really seen equity or currency market movements affect our insurance sales. A very solid Q4 and that really topped off a good year for us.

And that's obviously very true for insurance but it's also true for our other wealth sales. And our WAM flows are a little bit more impacted by market volatility but even there I feel pretty good about the year that we just had. Our gross flows are about 56% up on prior year and our net flows actually which is probably the more important indicator for us was very positive, 142% up on prior year.

So generally I feel that we've got some good momentum. A big part of our core earnings growth over the course of 2015 was a function of strong sales momentum and we expanded distribution both in terms of the banker partnerships as well as agency but also we had some good product launches.

We've also been focused on our mix and the mix has been well we've tried to really shift our attention much more towards protection as a need which gives us much stronger margin. And then finally on the margin front we've also put a lot of action into improving our margin and that includes looking at our product and repricing where appropriate as well as our distribution expenses.

So look, generally I guess I'd say that I feel pretty good with the foundations we've put in place in 2015 and momentum in closing the year. And I think we've got some good tailwinds with DBS, Standard Chartered and some of the other banking partnerships that we've launched as well as product launches that we have made more recently that really put us in good shape for the year ahead.

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

Great, thank you.

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**Operator**

This will conclude the question-and-answer session. I'd like to turn the meeting back over to Mr. Veloso.

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

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

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**Operator**

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



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