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PRESENTATION

Operator

Please be advised that this conference call is being recorded. Good morning, and welcome to the Manulife Financial Second Quarter 2017 Financial Results Conference Call for Thursday, August 10, 2017.

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

Robert Veloso - *Manulife Financial Corporation - VP, Investor Relations*

Thank you, and good morning. Welcome to Manulife's earnings conference call for the second quarter of 2017.

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Our earnings release, statistical package and webcast slides for today's call are available on the Investor Relations section of our website at manulife.com.

We will begin today's presentation with an overview of our second quarter highlights by Donald Guloien, our Chief Executive Officer. Following Donald's remarks, Steve Roder, our Chief Financial Officer, will discuss the company's results. And Roy Gori, our President, will also provide some remarks. Finally, Michael Doughty, our Interim President and the CEO of John Hancock, will deliver a spotlight presentation on our U.S. Division. And after the prepared remarks, we will then move to a question-and-answer portion of the call.

During this portion, we ask each participant to adhere to a limit of 1 or 2 questions. If you have any additional questions, please re-queue, and we will do our best to respond to all questions.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 32 for notes on the use of non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated. The slide also indicates where to find more information on these topics and the factors that could cause the actual results to differ materially from those stated.

With that, I'd like to turn the call over to Donald Guloien, our Chief Executive Officer. Donald?

Donald Guloien - *Manulife Financial Corporation - CEO*

Thank you Robert. Good morning everyone, and thank you for joining us. Yesterday evening, we announced our second quarter 2017 financial results. And as you witnessed, it's another solid quarter with strong operating performance reflected in core earnings of $1.17 billion and net income of $1.26 billion. Our global businesses continued to perform well, and we experienced and delivered strong investment-related experience gains.

As you know, and it's become our custom on these calls to focus in on the operations of one of our key business units. And having already covered Asia and Canada in previous calls, this quarter, the focus is on our U.S. operations and the discussion will be led by Mike Doughty.

Before I do that, however, I would like to address some recent media coverage regarding parts of our business. As you know, our long-standing policy is not to comment on rumors, and I will ask that Mike not take any direct questions on that matter. Having said that, we've been very clear on many occasions that we have some challenging blocks of legacy business. As we repeatedly said, we regularly investigate all opportunities of improving shareholder value. We believe this is good governance, plain and simple, and there is no news here. Roy will say a little bit more about this topic in his remarks and in the question-and-answer session that comes later, we'd be happy to provide answers to factual questions. However, we would prefer not to engage in discussions of a hypothetical or a theoretical nature.

With that, I'll pass it over to Steve Roder. But before I do that, I want to take the opportunity to address my retirement, which is fast approaching. I have worked at Manulife for more than 36 years and have been in the present CEO role for over 8 years. It has been a huge honor for me. I enjoyed the chance to work with you, our investors and analysts, and to see how our company has prospered since the financial crisis, and most particularly, our outstanding growth in Asia and wealth management and our embracing of innovation and customer centricity worldwide. But all good things, as you know, come to an end. It's time to pass the baton. Roy is a very capable leader who passionately cares about customers, innovation and growth, and clearly knows how to execute. He is the best person to take the company to greater levels of success.

I will ask Steve Roder now to review our financial results for the quarter. And following Steve's remarks, Roy will provide a few words. And then Mike Doughty will provide his update on our U.S. operations. We will then open the call to your questions.

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Steve Roder - *Manulife Financial Corporation - SEVP & CFO*

Thank you, Donald. Good morning, everyone. Let's start on Slide 7 where we summarize our financial performance for the second quarter of 2017. We continued to generate solid results, and most of our key performance indicators showed improvements during the quarter. I will discuss some of the key drivers of our performance in the next few slides before passing it over to Roy.

Turning to Slide 8. We continued to demonstrate solid progress on core earnings. Core earnings of nearly $1.2 billion in the second quarter increased by $341 million or 41% compared to the prior year. Even excluding the impact of core investment gains, core earnings was up by 22%. These results were driven by: core investment gains of $154 million versus none in the prior year quarter; strong new business and in-force growth in Asia; higher fee income in our wealth and asset management businesses; and the reduction in equity hedging costs.

Turning to Slide 9. We delivered approximately $1.3 billion of net income in the second quarter, primarily reflecting strong core earnings and more favorable investment-related experience. We reported total investment-related experience of $292 million this quarter, of which $154 million was included in core earnings for a total of $200 million core investment gains year-to-date and $138 million outside of core earnings. We reported losses related to the direct impact of markets of $37 million this quarter. The losses were primarily due to narrowing corporate spreads and widening swap spreads, partially offset by the impact of the flattening yield curve and favorable equity market returns in most geographies.

On Slide 10 is our source of earnings. The expected profit on in-force increased 12% from the prior year on a constant currency basis, primarily due to growth in our wealth and asset management businesses, in-force growth in Asia and the impact of higher interest rates. The impact of new business improved versus the prior year, reflecting higher insurance sales across Asia and the U.S., partially offset by higher non-deferrable acquisition costs in our wealth and asset management businesses.

Experience gains of $29 million were largely driven by favorable investment-related experience. We had unfavorable policyholder experience this quarter of $85 million pretax, primarily due to experience losses in U.S. Life and Canada long-term disability.

Earnings on surplus in the quarter reflects pretax gains of $125 million included in core earnings and $70 million outside of core earnings. The increase versus the prior year primarily relates to higher realized gains on AFS equities and investment-related gains, partially offset by higher interest expense due to debt issuances.

Other items largely reflect the impact of non-controlling interests in Asia. On Slide 11, you can see that both net and gross flows in our wealth and asset management businesses continue to be strong, and we achieved our 30th consecutive quarter of positive net flows. Net flows of $5.6 billion benefited from positive net flows across all 3 operating divisions and each of our business lines: retail, retirement and institutional asset management. In the U.S., we achieved strong retail fund flows. And in Asia, we generated strong retirement net flows. Gross flows of $30.9 billion were up 13% from the prior year quarter, with double-digit growth in gross flows in all 3 operating divisions. In the U.S., we delivered solid growth across retail, retirement and institutional asset management. In Asia, we generated strong retail sales in Mainland China and Singapore and continued momentum in the Hong Kong retirement market. And in Canada, we funded a large institutional asset management mandate and demonstrated continued success in our retail investment business.

Turning to Slide 12 and insurance sales. We achieved double-digit insurance sales in all divisions. Insurance sales were $1.4 billion, up 46% versus the prior year. Excluding particularly strong group benefits results, insurance sales were up 11%. This reflects higher international and term product sales in the U.S. and double-digit sales growth in Asia, reflecting growth in Japan, Vietnam and Mainland China, and continued growth in Singapore, partially offset by lower sales to Mainland Chinese visitors in Hong Kong.

On Slide 13 is our new business value. In the second quarter, we delivered strong growth in new business value, which increased 24% from a year ago to $346 million, driven primarily by a continued APE sales growth and management actions to improve margins in Asia and higher sales and interest rates in North America. This was partially offset by a change in business mix in Hong Kong towards investment-linked products. Asia new business value margin was 30.6% in the second quarter, up 0.8 percentage points on a constant currency basis from the prior year.

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Turning to Slide 14. Our assets under management and administration, or AUMA, at the end of the second quarter continued to surpass the $1 trillion mark and were up $78 billion or 9% from the prior year, driven by strong investment returns and continued positive customer inflows. Our wealth and asset management businesses achieved AUMA of $572 billion, up $69 billion or 14% from the previous year, driven by similar factors.

So in conclusion, in second quarter of 2017, we delivered approximately $1.3 billion in net income; achieved core earnings of nearly $1.2 billion, up 41% from the prior year; generated solid top line growth in insurance sales overall and double-digit growth in all divisions; continued to generate positive net flows in our wealth and asset management businesses; and delivered 9% growth in assets under management and administration.

So I'd now like to pass it over to Roy. Roy?

Roy Gori - *Manulife Financial Corporation - President*

Thanks, Steve. Good morning, everyone. Before I start, I'd like toacknowledge Donald and his many contributions to Manulife. Donald was instrumental in steering Manulife through the financial crisis, aggressively growing our Asia and wealth and asset management businesses, and setting the company on an early path towards greater focus on customers. We've built and grown an incredible foundation during his tenure, and I couldn't be more excited to lead Manulife as we work to transform the company into a digital, customer-centric market leader. On a more personal note, I've enjoyed working closely with Donald and would like to thank him for all of his guidance and support.

During the transition period, we're executing on the plan we laid out at Investor Day, and are narrowing our priorities to the things that matter most. We're focusing on improving returns for all of our businesses around the world, and we have many levers to do so including: one, putting a greater focus on managing in-force blocks to optimize profitability, cash generation, risk management and capital consumption; two, accelerating growth in our highest-return and highest-potential businesses such as wealth and asset management, among others; three, being bolder and more ambitious on cost management and efficiencies; and four, exploring strategic options for legacy blocks of business that do not generate sufficient risk-adjusted returns. We look at these levers and more to ensure we continue to deliver the best returns possible across all of our businesses, Asia, U.S. and Canada.

Now Mike will give you a closer look at our U.S. operations. We're delighted with our progress there and how we've been transforming the business. We've been focused on managing our in-force business to drive higher returns. We've achieved significant success in our investments, 401(k) and life insurance businesses, and we have exciting work underway in the digital advice space. Importantly, we also know that we can further accelerate our U.S. efforts and position this business on even stronger footing. Mike?

Mike Doughty - *Manulife Financial Corporation - EVP & Interim President & CEO, John Hancock*

Thank you, Roy, and good morning, and good evening everyone.

I'll begin on Slide 18. Now the U.S. Division currently accounts for roughly 1/3 of Manulife's core earnings, and core earnings have been relatively consistent as the growth from our wealth and asset management businesses has largely offset the impacts from the dramatic changes we made to our business after the Global Financial Crisis. The next few slides highlight some of these changes.

Turning to Slide 19. You can see that our new business mix has been transformed, with the focus on reducing risks and improving returns. From an insurance perspective, in 2007, almost 1/2 the business we wrote was LTC or life insurance products which had strong embedded guarantees, including non-par whole life and universal life with no-lapse guarantees. We have either ceased writing or dramatically reduced sales of all these products. And today, 99% of our business, our new business, is adjustable or term. From a wealth perspective, we ceased sales of annuities in 2012. And due to the success of our mutual fund and pension businesses, we have driven impressive growth in our overall wealth premiums and deposits since 2007.

Turning to Slide 20. We not only transformed our new business, but we took decisive actions to manage and reduce the risk of our legacy business. We have strengthened our Long-Term Care reserves. At the end of last year, we held USD 29 billion in IFRS reserves backing our LTC business. Our

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reserves reflect best-estimate assumptions on all our LTC policies and all our assumptions, including morbidity, lapse and the current interest rates environment. Reserves also include additional provisions on each assumption for conservatism. These provisions equal more than an additional 50% buffer over what our best-estimate assumptions would require. Our reserves are also more conservative than both U.S. GAAP or statutory reporting because current interest rates are reflected on an ongoing basis. Our IFRS LTC reserves are 30% higher than on the U.S. stat basis, and as of the third quarter 2014, the last date we prepared U.S. GAAP results, USD 7 billion higher than U.S. GAAP reserves.

We have also reduced our interest rate risk from guaranteed products. We did this through a combination of new business actions, which I've talked about, and by increasing hedging to better match our asset and liability cash flows. The net results of these actions was a 95% decrease in our interest rate sensitivity.

On the variable annuity front, we have largely economically hedged our VA block. Guarantee value declined 19% from 2007 and 29% from its peak in 2010. We have ramped up our dynamic hedging program, and now the vast majority of the business is hedged or reinsured. And while the VA block is in runoff, we have seen increased earnings in recent years due to lower amortization of deferred acquisition costs and as favorable markets lifted account values.

On Slide 21, we discuss some of our ongoing initiatives around improving returns of the legacy businesses. A focus on expense management runs across all our U.S. business, but particularly our legacy businesses. A few examples of this include implementing cloud-based computing, digitizing our business and consolidating infrastructure to improve efficiencies.

We have a number of business-specific initiatives, but I wanted to spend a little more time on our LTC business. We have filed for 4 rounds of rate increases with regulators. Our last round of requests, which was filed in conjunction with our 2016 annual review, is proceeding in line with our expectations. This year, we will be launching LTC Portal, a consumer website designed to better support our customers while reducing our cost by standardizing processes, modernizing infrastructure and improving reporting.

And as discussed at Investor Day, we are continuing to take a close look at our businesses under the balance sheet optimization initiative. This initiative was launched several years back, and we've had some early wins. We exchanged some capital-intensive, low-return blocks for New York Life's RPS business. And we took a number of other actions which, while smaller individually, have favorably impacted our business. Work is ongoing, and balance sheet optimization will continue to be an integral part of the U.S. Division's strategy as we constantly evaluate alternatives through a shareholder-value lens.

Now let me talk a bit about our exciting go-forward business. Turning to Slide 22. You can see we have a very fast-growing retail WAM business by AUM, gross flows and organic growth. Our growth is even more impressive when viewed in the context of the marketplace. We have generated average annual organic growth of 16% over the past 5 years, far outpacing the industry average. Our business is built on a unique managed architecture model that allows us to quickly meet evolving investor preferences and needs. We offer investors a comprehensive suite of solutions across active, passive and alternative-based strategies, both domestically and internationally, backed by strong fund performance. We have 46 4- and 5-star rated funds, which account for 85% of our mutual fund AUM.

Moving to Slide 23 and an overview of our retirement business. The retirement savings gap is sizable, and with an increasingly aging population, the demand for retirement solutions remains significant. With USD 145 billion in assets under management and administration, we are the leading provider of retirement plan recordkeeping to the small-case market. And with the acquisition of the New York Life Retirement Plans business, we have a strong presence in the mid- and large-case market as well. Our business is evolving, and we are enhancing our abilities to better serve and advise participants, both in-plan and out of plan. We're also building a full-scale, holistic, digital advice experience, which will allow customers to interact with us on their terms and lead to improved engagement.

Turning to Slide 24. The John Hancock Vitality Program, which was launched in 2015, allows customers to save money and earn rewards by living healthier lives. It is a valuable differentiator for our insurance business, and healthier living aligns the customers' interests with ours. It also improves the frequency and nature of our engagement with customers. This is critical, as clients who have frequent and favorable interactions with us are more likely to be net promoters of John Hancock.

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Moving to Slide 25. I want to discuss the opportunities we're seeing within digital advice and how it's shaping our strategic choices. According to a recent study by Ernst & Young, there are roughly 38 million households in the United States with greater than USD 100,000 in assets who are considered underserved or completely unserved. Furthermore, the firm estimates the current opportunity for digital advice among the mass affluent, mass-market and millennial generation to be above USD 10 trillion in investable assets. Across our business units, we are rallying around digital advice to access more customers and better serve our adviser-led channels. There are 3 major initiatives underway to accomplish this goal.

The first, announced last year, is MyPortfolio, a digital advice solution currently available as an adviser-assisted product. MyPortfolio is uniquely positioned for a growing number of customers that are committed to their financial adviser but seek a consistent omni-channel experience that includes digital tools and support. We have developed strong relationships with advisers, including the 2,100 independent financial advisers in our own broker dealer and registered investment adviser, Signator Investors, and this product will equip advisers with a tool to more efficiently serve their clients.

The second is the development of a mobile-first tool that targets young individuals or families who are not currently working with a financial adviser but understand the need to begin investing to meet their financial goals.

And the third is the development of a digital in-plan advice product for retirement plan participants to access advice as part of their employer-sponsored offering. We are very excited about the opportunity to leverage digital advice to expand our footprint and create even better customer experiences for the widest range of customers.

In summary, we have taken decisive actions to derisk our new and in-force business. We are viewing alternatives for our business through a total shareholder-value lens and already have taken a number of actions. We're driving growth in our targeted areas, including our WAM businesses and differentiated life insurance such as John Hancock Vitality, and we are building for the future by seizing the digital advice opportunity.

Thank you.

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

QUESTIONS AND ANSWERS

Operator

Thank you. If you have a question and you are using a speakerphone, please lift your handset before making a selection. If you have a question, please press *1 on your telephone keypad. To cancel your question, please press the # sign. Please press *1 at this time if you have a question. There will be a brief pause for participants registered. And your first question is from Meny Grauman from Cormark Securities. Please go ahead.

Meny Grauman - *Cormark Securities Inc. - Analyst*

Hi, good morning. So I'll start with the topic of the day. Without addressing the Wall Street Journal article directly, is there any reason in your view why an IPO or spinout of John Hancock would be a non-starter? And why would it be something that you wouldn't be interested in entertaining? Wondering your thoughts on that.

Donald Guloien - *Manulife Financial Corporation - CEO*

Donald here, Meny. No, I don't think there are any non-starters going on because I think when you run a public company, you have got to look at every perspective in a dispassionate way. And that's not to suggest that we would do that or that it's easy to do. And the ultimate determination would be, is it good for building shareholder value. That would be the criteria our company would use.

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Meny Grauman - *Cormark Securities Inc. - Analyst*

And then maybe on a related question. I'm just wondering how integrated WAM is across your segments, and obviously you understand why I'm asking it. But specifically, how, I don't know if the word is easy, but how easy it would be to separate WAM U.S. and still have the rest of the business running? If you could provide any insight into how that business is structured across the geographies and what's standalone across the different geographies?

Donald Guloien - *Manulife Financial Corporation - CEO*

Meny, you're getting a little down to hypotheticals. But suffice to say that the U.S. market is the biggest investment market in the world, the biggest wealth and asset management business. And as Mike so capably said, we pulled back on various things like variable annuities and took them down from being one of our leading selling products across the entire enterprise to 0. We made up for that with growth of 401(k) business and mutual fund business in the United States, which talks to the resilience of our management team and also the tremendous capacity of the U.S. market. Having said that, there are different people that work on those businesses, but we are increasingly integrating our offerings across the world. We take the best product, as Mike talked about, and not only is it sold to, say, all markets within a market like United States, but it's sold internationally as well. So I, frankly, can't see a time when Manulife wouldn't be offering U.S. products in its offering, and wealth and asset management will obviously be a big part of that. So, yes, it's a blended answer that, by and large, it's a different team. But there's a lot of interconnectivity on the global basis and it's a business that we like.

Meny Grauman - *Cormark Securities Inc. - Analyst*

Thank you.

Operator

The next question is from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine - *National Bank Financial, Inc. - Analyst*

I've got 2 questions. My first one is on the guidance for the Q3 actuarial review. I think it's a breath of fresh air to see that the -- you're expecting it to have a neutral impact on your earnings. And my question though is that you still have negative policyholder experience so far this year, about $80 million year-to-date. Is that the reason that you're still confident that there'll be a neutral impact from this review? Is that because that where you've gotten the negative experiences from the stuff that's not being reviewed this year? Or are that there are offsets in the other parts of the reserves that will take care of that? And -- sorry, can you remind me what the policyholder experience was this quarter, from what sources?

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Sure, Gabriel. It's Steve Finch here. Our policyholder experience in Q2 was a post-tax charge of $57 million. And as Steve commented in his remarks, the biggest drivers were losses on our U.S. life business claims experience there, and as well, we had some losses on our Canadian long-term disability business. The Canadian experience was much improved from Q1. So in terms of our actuarial review, broadly speaking, as we do every year, we're reviewing over 100 methods and assumptions. The review includes the review of our U.S. and Canadian life mortality experience, lapse assumption for Canadian retail insurance, policyholder behavior assumptions for Canadian seg fund guarantees, and investment return assumptions broadly using the valuation of our policy liabilities. Specifically to your question, on the U.S. life mortality experience, we would anticipate strengthening reserves there to reflect the fact that experience has continued, over the last number of quarters, to be poor there. There will be many pluses and minuses in the overall review, and that's the reason for the comment that we expect the net result to be substantially neutral.

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Gabriel Dechaine - *National Bank Financial, Inc. - Analyst*

Okay. Thank you for that. My next question, now this is about the U.S., not really the speculation, but under the -- during this time, we've had a reason to take a closer look at your U.S. operations. I noticed that your RBC ratio in the U.S. is below the industry average of a select group of U.S. life insurers. That's around 400%, and the group is around closer to 500%. I know that the one I'm looking at probably doesn't include all of your businesses in the U.S., but let me ask it this way. Are you able to run a U.S. operation with a lower regulatory capital ratio because it comes under the umbrella of the MCCSR, so U.S. regulators are okay with that because you've got better capitalization in your primary jurisdiction?

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Gabriel, it's Steve Finch. I'll answer that one as well. And you correctly pointed out that we tend to operate at roughly the 400% RBC level. And the way we manage capital across the globe is, as you noted, we manage under the Canadian MCCSR basis. And then locally, in all of our jurisdictions, we establish targets that we think are appropriate based on discussions with the regulators, the rating agencies. And as a matter of principle, we try not to leave amounts in excess of that within all of the local operations.

Gabriel Dechaine - *National Bank Financial, Inc. - Analyst*

If it were stand-alone, you probably would have like -- if we reverse what took place in 2011 when you rolled it all into the MCCSR, you probably have a higher capital allocation there?

Donald Guloien - *Manulife Financial Corporation - CEO*

I think, Gabriel, you're getting into that hypothetical area. But that's right.

Gabriel Dechaine - *National Bank Financial, Inc. - Analyst*

Nothing to do with the Wall Street Journal or anything.

Donald Guloien - *Manulife Financial Corporation - CEO*

I understand. It was just an academic question.

Gabriel Dechaine - *National Bank Financial, Inc. - Analyst*

Yes, of course. Okay. All right, that's my two questions. Have a good retirement, Don. I assume you're not on the Q3 call, or are you?

Donald Guloien - *Manulife Financial Corporation - CEO*

I will not be. I'll miss you guys. I'll probably be listening though.

Operator

The next question is from Nick Stogdill from Credit Suisse.

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Nick Stogdill - *Credit Suisse - Analyst*

Hi, good morning. First, just a follow-up on Meny's question. So it sounds like it is strategically important for Manulife to be in all the regions it's currently in, in WAM. Is that a fair statement? And then would there be any major dis-synergies to not being in all of these markets you're currently in? Maybe even aside from scale, are there any other benefits in Asia or Canada you're getting from having a platform across all these regions?

Donald Guloien - *Manulife Financial Corporation - CEO*

I think you're getting down the path there. It's a combination. I don't think you'll find a large fund manager located anywhere in the world that doesn't offer U.S. product, right? It's part of the global mandate whether they're located in the Liechtenstein or London or the Middle East. So the U.S. market, it's the biggest market in the world and is -- therefore, has to be part of our platform. Obviously, one could separate the U.S. business if one chose to, but you wouldn't be participating in the biggest market in the world. You wouldn't benefit from some of the advances and product developments and all the other things that make it the leading market in the world. So there'd be obviously pros and cons, it's not impossible, but it would have its other negative impacts.

Nick Stogdill - *Credit Suisse - Analyst*

Okay. Thank you. And then just one on the quarter. The new business gains, if we back out sort of the NCI piece for Asia including the other, looks like it was $60 million last quarter and then $35 million this quarter positive. I know it bounces around. Is there anything that impacted the gains quarter-over-quarter? I know lower sales in Asia or to Mainland Chinese visitors in Hong Kong might have had an impact. Is that something that could maybe constrain new business gains going forward from the current level, or keep them at the current level?

Steve Roder - *Manulife Financial Corporation - SEVP & CFO*

So it's Steve Roder here. I'll comment quickly, and Phil may want to add, Phil Witherington. So new business gains, there was a bit of a slowdown in Japan. That's an important market for new business gains, typically. And that came about in the bank channel, bank distribution channel in Japan in relation to new disclosure requirements in Japan. So that tended to produce a shift in product mix. So that's the main driver. Let's just see if Phil wanted to add anything else to that.

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Yes, if I may, I'll add the supplement on the importance of seasonality when it comes to business volumes and new business gains. So to supplement what Steve said on Japan, the first quarter is particularly important as we get to the end of the Japanese fiscal year. So we do see more significant growth in our corporate business as we close the first quarter, and that tends to reduce slightly in the second quarter. And the similar pattern in China as well. So the first quarter is particularly important not just for Manulife but for the market as a whole. Those 2 items taken together really account for most of the reduction in new business gains from Q1 to Q2.

Roy Gori - *Manulife Financial Corporation - President*

Let me just add one quick comment on that. It's in relation to Mainland Chinese visitors. We did see a slowdown in Q2 here. That was anticipated. But what I'd also say is that Mainland Chinese visitors really represent quite a modest percentage of our total sales. So we don't expect any of those slowdowns to have a material impact on our business in Asia.

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Steve Roder - *Manulife Financial Corporation - SEVP & CFO*

And just, sorry, one more layer on. It's -- when people talk about the growth rates in Asia, they tend to -- and they line us up against other companies, they tend to overlook the fact that our Hong Kong Mandatory Provident Fund business is not part of the insurance sales growth. So the Hong Kong Mandatory Provident Fund growth was very, very good, and I suspect that asset is probably underappreciated.

Nick Stogdill - *Credit Suisse - Analyst*

Okay. So mostly seasonality?

Steve Roder - *Manulife Financial Corporation - SEVP & CFO*

Yes.

Operator

The next question is from Steve Theriault from Eight Capital.

Stephen Theriault - *Eight Capital - Analyst*

Couple of questions for me as well, starting with Kai, please. EBITDA margins in WAM took another step higher; that's now 2 consecutive quarters of pretty nice improvement. So maybe you can talk a bit about the drivers, a bit about the sustainability in your outlook? And then I'm wondering specifically if it's the strong retail driving the mix? Or is it geography? Some color there would be appreciated as well.

Kai Sotorp - *Manulife Financial Corporation - EVP, Global Head of Wealth & Asset Management*

Sure, Steve. Thanks. So first of all, markets and strong investment performance were key drivers on the quarter-on-quarter growth. And it came across all areas, both in the U.S. retail, Canadian retail and Asia retail businesses as well as in the institutional. And we were able to maintain our margins in the retirement side despite continued pressures there with DOL in the U.S. The business mix has been a bit of a headwind in the sense that we've had a number of demands for lower fee fixed income product, but it's not a fee compression aspect per se. So overall, we have benefited from markets, strong investment performance. Our business mix has been able to benefit from the geographic diversification and offset what was happening in the larger U.S. markets. And the final point I would make is that you may recall our longer-term strategy has been twofold. One, to proceed with highly differentiated active management strategies in the absolute return space, in private asset classes, and we're seeing strong successes in that area. Those will be high-margin capabilities that can sustain fee compression, number one; and number two, will add significantly to the economic scale of our business. The second point has been that we've been making investments in our infrastructure. And we had a key milestone in our global infrastructure project this quarter where we actually now connected a significant part of our business with the global trading platform. And as this rolls out, we will then be able to gain further economic leverage on our global infrastructure to the benefit of all the businesses across our regions. I hope that answers your question.

Stephen Theriault - *Eight Capital - Analyst*

Well, you mentioned strong markets there a couple of times. If, as we think of the second -- the back half of the year, if all those things you talked about continue but we have more tepid markets, should that imply a bit of a pullback in the margin? I'm trying to get a sense for what the sustainability is in a more normal market environment if normal is a little less robust?

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Kai Sotorp - *Manulife Financial Corporation - EVP, Global Head of Wealth & Asset Management*

Yes so, first of all, scale benefits, strategic investments, they're not linear. They're on a quarter-on-quarter basis. So you have to just keep that in mind. Clearly, this is a rising tide, falling tide business. I mean, we're all going to be affected by markets and how market's taken. But I would also point to one of the hallmarks of our strategy, which is to leverage our at-scale businesses in the U.S. and Canada to the benefit of growth in Asia. And what we're seeing is very, very strong organic growth across that region in key markets that we're very strong in. So I would expect that regardless of the broader macro factors, our positioning in Asia in particular, and the growth rates we're seeing there, will offset any such exposure.

Stephen Theriault - *Eight Capital - Analyst*

Okay, that's helpful. And secondly...

Steve Roder - *Manulife Financial Corporation - SEVP & CFO*

Steve Roder here. So can I just have one add-on? I just want to highlight just for clarity that there's one bit of accounting that does help the margin a bit this quarter, and it was to do with the way in which we account for incentive payments. And basically, we just did some tidying up of alignment in the way in which we do some of the accounting for the plans. And so it is highlighted in our disclosures. I think it's worth about $20 million, so it's not particularly material. But it does help that margin a bit, so that's another reason why the margin -- that is the reason why the margin improved so much.

Kai Sotorp - *Manulife Financial Corporation - EVP, Global Head of Wealth & Asset Management*

That's a part of it. Yes, so it's about $20 million pre- and $14 million post-tax.

Stephen Theriault - *Eight Capital - Analyst*

Okay. And -- sorry, secondly, just quickly for Steven probably, in recent times, you've taken some action, reducing the amount, say, of forward starting swaps, some other actions to take off some of the hedges that have been put on over the last several years. With the U.S. hiking rates, with U.S. long-term rates trading in more of a range post the election, are there any thoughts or any discussions internally you're having around adjusting your sensitivities further on rate swaps, equities, anything else, duration to presumably reduce some of those hedges?

Rahim Hirji - *Manulife Financial Corporation - EVP & Chief Risk Officer*

It's Rahim Hirji here. At this point, our internal view is not to take market calls on rates, and so we would not be making any significant changes. We would have some normal course adjustments in our hedging, but nothing in terms of taking off more or less.

Stephen Theriault - *Eight Capital - Analyst*

Okay. While I have you, then maybe just quickly, the macro hedging cost continually heading higher, has it bottomed in this sort of range? Or it's steadily heading towards 0 here, so just looking for a little bit of a sense for where that bottoms? And I guess with the Canadian dollar strengthening, if that holds, I presume that will have a bit of an impact in Q3. Do I understand that correctly?

Rahim Hirji - *Manulife Financial Corporation - EVP & Chief Risk Officer*

I would look at our macro hedges. The cost has gone down over time closer to 0, and it's really 2 different factors. One is that, as our variable annuity book continues to season and mature, we are essentially having to hedge less of that book. Combined with the favorable equity markets has meant that we have less net amount of risk exposure and that's also resulted in reduction in hedges.

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Operator

The next question is from Sumit Malhotra from Scotia Capital.

Sumit Malhotra - *Scotiabank Global Banking and Markets - Analyst*

Thanks and good morning. First question is for Steve Finch and just the aspects that are being reviewed in the actuarial process. One of the ones that you mentioned was lapse for Canadian retail insurance. And I believe this came up 2 years ago in your 2015 review, and you did have a decent-sized strengthening that was required. One of your competitors last week indicated that they were likely to have to strengthen this assumption again. I don't know if this is something that comes up as often. I don't think it was every 2 years. But is there anything you're seeing in your Canadian business that is forcing lapse to come up for review that quickly? And is that an area where you have seen some weakness after the 2015 strengthening?

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Yes. I think the reason for looking at that as part of our review is there's new industry experience available, so we would like to reflect the industry experience as it becomes available. I would remind everyone that we're actually a large contributor to the industry experience. So we will be reflecting both our recent experience and the industry experience in the review. And I think your comments are generally correct directionally, the lapse rates on that long-term business have continued to inch down.

Sumit Malhotra - *Scotiabank Global Banking and Markets - Analyst*

And I don't think that's one I've heard Manulife talk about too much since that strengthening. But from what you're saying there, there has been some negative experience over that period of time.

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Slightly negative, yes.

Sumit Malhotra - *Scotiabank Global Banking and Markets - Analyst*

And then secondly, for you, Steve, just to wrap it up. Last year at this time, the company mentioned that you would be reducing the URR assumption by 10 basis points. I know there was an update that was provided recently at an industry level. Is it fair to say that Manulife is where it needs to be on that front?

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

That's correct. The new rules from the Actuarial Standards Board is a 10 basis point reduction. And we also update the calibration on our stochastic interest rate models. And we'll true up versus that $300 million charge that we took last year, but don't expect any material amounts from that source.

Sumit Malhotra - *Scotiabank Global Banking and Markets - Analyst*

All right. That's good. And then turning to the actual business and going to Asia, more specifically insurance sales, so I'll direct this to Phil. I think it's pretty clear in your commentary what's going on in the Hong Kong numbers; we're seeing the impact of the changes in Mainland China. The

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way you disclosed it to us, the Other Asia is a bit of a catch-all and I'll just say the growth rate in insurance sales in the Other Asia component, 4% year-over-year, certainly a lot slower than we've seen over that period of time. I think you can tell us something that currency hurt that number a little bit. But if you could dissect other Asia for me, why or what are the components that resulted in a slower level of growth? And is this just a pause? Or is the accelerated benefit of some of the distribution agreements starting to taper off?

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Okay. Thank you, Sumit. This is Phil. So I think your question really focuses on the Asia Other segment. So what we have seen in the second quarter of 2017 is a 7% increase in our annual premium equivalent sales in Asia Other. That is slower than we've seen in previous quarters. But I think there is an important piece of context too, that if we go back to the second quarter of 2016, our sales had experienced a step-change. We had almost doubled our sales of these geographical markets. So in 2017, we've sustained that step-change and grown 7% from it on a constant currency basis. If you look at the year-to-date growth in Asia Other, we have grown 23%, but NBV has increased by 39%. So there is a margin improvement that we've seen from those businesses. Most of our businesses in the second quarter have continued to experience growth, but we have seen softness in Indonesia. Indonesia is quite an important market to Asia Other. And it does continue to be challenging for us. So I think the one that I would point to is Indonesia that's dragging the average down.

Sumit Malhotra - *Scotiabank Global Banking and Markets - Analyst*

And then just remind me, Phil, what is the challenge that is limiting you in Indonesia? And do you see it as something that is in place for the foreseeable future?

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Yes, there are some challenges more generally in the Indonesian market. We have seen market growth being slow and contracting in some cases in recent years and recent quarters. But specifically to Manulife, we have been without a General Manager in Indonesia over the course of the last quarter. And so we are taking some specific actions to improve our performance. We've identified a replacement General Manager for Indonesia and that's subject to regulatory approvals. And we have some initiatives in place to get us back to growth for the remainder of the year. And these include products initiatives in our bank channels, but also we expect our distribution reach to expand from DBS' acquisition of the ANZ retail business. We're also investing in agency with the continued focus on professionalism and training to improve the productivity of our agency force. So I think you can be assured that we recognize performance is challenged, but we're focused on improving that in the future.

Sumit Malhotra - *Scotiabank Global Banking and Markets - Analyst*

That's helpful. Thanks for your time.

Operator

The next question is from Humphrey Lee from Dowling & Partners.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Congratulations to Don to your upcoming retirement. In terms of U.S., I do have a question related to your comments about the digital capability and it sounds like you guys are pretty bullish about the probably the robo-adviser space, which is kind of a little bit different than some of your peers that are more in the traditional retirement plan services business. Maybe you can share some of your thoughts of what you're seeing in that space and how you are kind of capitalizing that opportunity different than your peers?

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Mike Doughty - *Manulife Financial Corporation - EVP & Interim President & CEO, John Hancock*

Sure. It's Mike Doughty here. Yes, we are bullish on that opportunity. It comes back to some of the points that I made in my presentation that there is a vast number of American households that aren't getting the advice that they need. They basically never had access to it. And we view the new power of digital advice as a way to actually help people improve their financial outcomes very efficiently. So we're looking at doing that within retirement plans, outside of retirement plans. And we think it can be a real game-changer in terms of being able to reach a lot more American households.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

But then how would you manage the, I guess, the potential channel conflicts between the new platform versus your existing distribution? It seems like there's the concerns about there's potential cannibalism between the 2 channels?

Mike Doughty - *Manulife Financial Corporation - EVP & Interim President & CEO, John Hancock*

Yes, that's a great question. So there's kind of 2 things happening. One is, and we are not unique, but one is, we are looking at digital advice as an enabler to our face-to-face channel. So advisers in the marketplace are finding more and more that there's -- a, they want to be more efficient, but there's also a growing segment of consumers that want that kind of omni-channel experience that where they have a face-to-face adviser, but they can also tap into these digital tools when and where they want to. So that's number one. Number two, I would say that our experience has been, and this is across not just the wealth but also insurance, has been that advisers and insurance producers recognize that there is a big chunk of the market that they can't currently serve. And so this is not actually cannibalizing their business. It's really expanding the pie and reaching new households that they are, frankly, not reaching.

Roy Gori - *Manulife Financial Corporation - President*

Humphrey, let me just add a few comments to Mike's. And I think that the mistake that people often make is that they think there is a binary decision between digital advice or face-to-face. And the reality is that consumers don't think about the world in that way. They, in many instances, want to be connected to an adviser and to have a face-to-face discussion or relationship. But in other instances, they want to be remote and they want to use digital platforms for their execution. So our belief is that we need to really cover the spectrum. And as Mike pointed out, there are some consumers that just will never ever have access to face-to-face. So we're going to cover that spectrum, and that's the big part of the agenda we're driving forward as we think about customer centricity in digital. It's true in the U.S. but it's also true in our other operations, Canada and Asia.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Got it. And then maybe a question for Kai. So looking at the WAM business, especially in the retail, net flows continue to see very strong results and especially in this quarter. I guess, maybe you can share some of the what are the moving pieces, what products are getting traction in the retail space and then maybe by geography as well?

Kai Sotorp - *Manulife Financial Corporation - EVP, Global Head of Wealth & Asset Management*

Sure. Thank you for the question. I think our continued success here on the net flow basis goes to 2 key anchor points in our strategy. One is we have a managed architecture. The managed architecture enables us to actually provide product that's currently in favor and in demand by the clients. The second is the focus on highly differentiated capabilities where strong alpha, in our view, still has a key role. So even in markets challenged with the passive flows, where you're seeing competitors like Vanguard and others benefiting from active to passive, we are continuing to gain traction in terms of net flows for those 2 reasons. And I think that will continue to be the case going forward. So when you look at what -- direct to your question about where we're seeing net flows, it's positive in all regions and all segments, U.S., Canada and Asia; retail, retirement and institutional.

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The hallmark behind that has been those 2 key anchor points that I mentioned, and that will continue to be part of our strategy going forward. The final element, which I referred to earlier, is our strong platform in Asia and our footprint and our focus on growing momentum there, we're seeing -- we've built over the past 2 years many of our distribution platforms across the 11 markets that we operate in. We've strengthened our bank distribution. We've got very strong traction in our retirement businesses in Hong Kong and in Indonesia. We foresee that retirement is going to be a key trend in Asia across all countries and all markets. So net-net, because of all of those reasons, we have a very positive outlook in terms of net flows.

Operator

The next question is from Doug Young from Desjardins Capital Markets.

Doug Young - *Desjardins Securities Inc. - Analyst*

Good morning. My first question is for Marianne. Just on Canada, I noticed that insurance core earnings declined 7% year-over-year, and I think it was just attributed to a number of smaller items. And just hopefully, you can flush that out a little bit.

Marianne Harrison - *Manulife Financial Corporation - EVP & General Manager, Canada*

Yes, it was just a number of smaller things that have happened in the insurance side. The sales were also down in the second quarter versus where they were in the previous year and in the previous quarter, which has an impact as well. And sales were down because we had that, if you recall in the first quarter, we had a big run-up with respect to the changes in tax exempt rules, so the sales have been quite a bit more moderated in the second quarter, which was anticipated as well.

Doug Young - *Desjardins Securities Inc. - Analyst*

And what can you -- because I don't think it was long-term disability this time because I think that's been relatively stable in Q2 versus last year, but correct me if I'm wrong, what would have been some of the larger smaller items that -- because 7% decline is not an immaterial number, in my view?

Marianne Harrison - *Manulife Financial Corporation - EVP & General Manager, Canada*

Yes. So it actually is long-term disability in terms of our incidents that we saw in the quarter. As Steve mentioned earlier, it was much improved from the first quarter, but it was still down versus where it was a year ago. So definitely it's the LTD as well, as one of the smaller ones.

Doug Young - *Desjardins Securities Inc. - Analyst*

And was there any other items? Like was there a big pressure from lapse or other policyholder experience?

Marianne Harrison - *Manulife Financial Corporation - EVP & General Manager, Canada*

No, the lapse experience was relatively okay this quarter, so that really wasn't one of the big drivers. I would say it's primarily the sales being down as well as the LTD experience.

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Doug Young - *Desjardins Securities Inc. - Analyst*

And the sales being down, just lower new business gains essentially?

Marianne Harrison - *Manulife Financial Corporation - EVP & General Manager, Canada*

Yes, yes.

Doug Young - *Desjardins Securities Inc. - Analyst*

Okay. And then Steve, you mentioned, I think, ALDA is one of the areas that you're reviewing with the annual review in Q3. Is this -- I mean, I know this quarter, I believe the experience on the ALDA portfolio was in line with expectations. Last quarter, it was a little bit weaker. Is that another area where you probably have to make some adjustments to your reserves?

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Doug, I think at this stage, I probably won't get into more details on the annual review right now. I think, consistent with prior years, we give you some indication of where we expect to land, but we'll be happy to give you lots of information in Q3. You're right, though, that ALDA is an area -- we look at it every year in depth. And it will be an area that gets a lot of focus this year.

Doug Young - *Desjardins Securities Inc. - Analyst*

Okay. Then maybe I'll sneak another one in. I guess, Phil, just looking at your new business value margin, and obviously, it was up in Asia year-over-year. Sequentially, it's been down over the last few quarters. And I think there's probably some seasonality. But is there anything else that we should think about around that's depressing the new business value margin? Or is this just simply seasonality?

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

No, I think -- so this is Phil. There's nothing specific I would point to as pulling down the new business value margin. What we do see is a seasonal uplift in the first quarter, and it's a similar pattern to the comments that I have made earlier on Japan and China. And in particular, in Japan, as Steve pointed out, we've seen some favorable product mix that impacts both new business gains and new business value. And the increased seasonality towards Q1 in China also contributes to the very strong first quarter, but nothing specifically pulling it down. What I would reiterate is some of the comments that we've made over the past few years, including recently at Investor Day. Our new business value margin is lower than many of our peers across the region. And I still -- I do see substantial opportunity for us to continue to improve new business value margin in the quarters and years ahead.

Doug Young - *Desjardins Securities Inc. - Analyst*

Okay. So this is something where we should see some expansion from these levels, depending upon mix and sales obviously?

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Yes. We can't predict the future. But all other things being equal, as we grow our scale, as we improve the mix of our business, we should see improvements in NBV margin.

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Operator

The next question is from Tom MacKinnon from BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Just looking at Asia. As the results continue to be impacted by as you kind of move to dynamic hedging here away from macro hedging, are we about finished with this process right now? And any color with respect to that, because the expected profit growth in Asia at 8% was obviously hurt by the move to dynamic.

Rahim Hirji - *Manulife Financial Corporation - EVP & Chief Risk Officer*

Given the size -- Tom, it's Rahim. Given the size of our macro hedging program now, I won't anticipate much more movement from macro to dynamic at this point.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. And then secondly, with respect to the U.S. mortality, which has been a modest negative over the last several quarters and was much more of a negative this quarter, with the proposed strengthening that you're sort of telegraphing in that line for the third quarter, would it be safe to say that you would be able to put this issue to bed going forward?

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Doug, it's Steve Finch here. We certainly look at...

Tom MacKinnon - *BMO Capital Markets - Analyst*

Tom.

Steve Finch - *Manulife Financial Corporation - EVP & Chief Actuary*

Oh, I'm sorry. Tom. My apologies, Tom. Yes, we certainly look at all the recent experience. And as we strengthen the reserves, we'll see an improvement in the policyholder experience line. I can't say yet the extent of that. And obviously, experience can change in the future going forward. But we definitely look at that impact that you're talking about.

Operator

The next question is from Mario Mendonca from TD Securities.

Mario Mendonca - *TD Securities - Analyst*

Just a very quick question on the investment gains. The number was large this quarter. Could you just outline what the big positives and negatives were that would have driven such a big number?

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

Sure, Mario. It's Scott Hartz. As you point out, it was a really good quarter. And as you know, investment gains are going to vary quarter-to-quarter. This was overly strong. We wouldn't expect the number to be repeated, but it's nice to see. What drove it, I think was mentioned earlier, is the ALDA experience was fairly neutral. Embedded in that were positives and negatives. I think 3 of our categories were up and 3 were down. There was a little bit of a headwind from oil prices, but that was overcome by strength in other areas. So really, all the gain came out of our fixed income portfolio. Credit was especially strong. Credit has been strong, but especially strong from the quarter as we saw net upgrades. But the biggest portion was the new business activity, the transactions we found. We saw good flow across all of our markets and investment types. Public corporate bond issuance was strong, with some good long opportunities, which is always where we have the most need. Our private placement, project finance, commercial mortgage, origination groups, all had very good quarters.

Mario Mendonca - *TD Securities - Analyst*

And when you say ALDA was neutral, do you mean that you essentially met your long-term expectations?

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

Yes, that's a great point. So as we talk about losses, and losses are always just underperforming our long-term expectations, so we essentially met our long-term expectations this quarter.

Mario Mendonca - *TD Securities - Analyst*

Great. And Donald, congratulations on your retirement. And it's been a real pleasure working with you over the last 19 years.

Donald Guloien - *Manulife Financial Corporation - CEO*

Likewise, Mario, thank you.

Operator

The next question is from Linda Sun-Mattison from Bernstein.

Linda Sun-Mattison - *Sanford C. Bernstein & Co. - Analyst*

I have just one question regarding Hong Kong. I know Steve and Roy mentioned that we shouldn't be really looking at the insurance sales as the only contribution to your earnings, and I do appreciate that. But I remember that previously, the Mainland Chinese visitors contributed around 20% to your Hong Kong sales. So if I look at this quarter's number, am I right in assuming that you basically haven't, yes, have lost all the Mainland Chinese purchase? And this is definitely not the case with your peers and overall Hong Kong market. So I'm wondering whether this is specific company strategy, you try to be very careful with the Chinese authorities? Or how do I read this

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Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Hello Linda, this is Phil. So let me take that one up, and specifically on the Mainland Chinese visitor components of our business. In the second quarter of 2017, Mainland Chinese visitors comprised 17% of our sales, APE sales in Hong Kong. And we have referenced a reduction in the contribution from MCVs this quarter relative to the same quarter as last year. And that's because we -- in the first half and second quarter of last year, we had seen a higher proportion of sales from MCVs and that was 28% of our business. So there is a reduction. That is diluting the rate of growth for our business in Hong Kong. But it's something that we're not particularly worried about because we've always been very cautious about

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the sustainability of MCV business. It certainly is a part of the market that we expect to continue, and we do serve it on a demand-led basis with respect -- and we do respect the restrictions and rules in place around money transfer from China to Hong Kong and other international locations. But I would like to, while we're on the topic of MCV, supplement or clarify the impact on our Hong Kong business. So if we do look at the APE sales growth of 2% for Hong Kong in the second quarter, if we strip out the impact of MCVs from that, then in the second quarter, we have grown 17%. So actually, we've seen very strong growth in our agency and bancassurance channels, and that's offset by lower MCV sales from the independent broker channel. I think on a year-to-date basis, to give you an equivalent number as well, our growth without contribution from MCVs would have been 27% in Hong Kong. And as Steve and Roy highlighted earlier, there are other components of our business in Hong Kong, in particular, wealth and asset management. So unlike some of our peers, we don't include sales of pension business, MPF business in our APE sales or new business value numbers. And so separately to the growth that we have experienced in APE sales, we've actually recorded a 57% growth in our wealth and asset management sales gross flows in Hong Kong, and that does reflect our continued presence and success in MPF. We're a clear market leader in terms of scheme-sponsored AUM and also industry net cash flows, with now Manulife taking 1/3, in fact more than 1/3 of net cash flows into MPF schemes in the market. And MPF component is actually very important in terms of agency productivity. And so we've seen much improved agent productivity arising from that 57% growth in WAMsales, agency being the main contributor, but also banca has contributed through the Standard Chartered Bank exclusive deal.

Linda Sun-Mattison - *Sanford C. Bernstein & Co. - Analyst*

Phil, just to clarify, your agent, when you say agent, we do note your agent number has grown, I think, like 6% year-on-year in second quarter based on your SIP pack?

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Yes.

Linda Sun-Mattison - *Sanford C. Bernstein & Co. - Analyst*

So they can sell insurance as well as -- so this is kind of a multiproduct agent, are they?

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Our agents are multi-product, multi-solutions focused. And in fact, that's at the heart of our holistic solutions strategy. And so in fact, I don't know whether it'll be a surprise to you or not, but by far the most significant contributor to our MPF sales is our proprietary agency force.

Linda Sun-Mattison - *Sanford C. Bernstein & Co. - Analyst*

That's definitely news. Thank you. And can I just follow up on this one? So I do notice that your pan-Asian, Asia pension sales went up very, very strongly. And I want to know how sustainable that is. Is that very strong growth partially due to -- how much is from the Standard Chartered? How much is from your agent productivity? Just roughly kind of breakdown.

Phil Witherington - *Manulife Financial Corporation - Interim CEO, Manulife Asia*

Right. And I think what you're referencing there, Linda, is the group retirement sales that we disclosed on Page 14 of our SIP of $644 million dollars. And that stands out because it's more than doubled since the same period in 2016. What I would say on the group retirement sales is that group business is inherently lumpy but the growth that we've seen is coming partly from that lumpiness in that we have been successful in closing some large cases during the second quarter, but also, and very importantly, the continued expansion of our distribution presence, particularly in Hong Kong. And I referenced SCB earlier. Standard Chartered Bank is actually very important now to our total pension sales. We've got a very large pension

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business, and Standard Chartered Bank is contributing close to 10% of our overall MPF sales. So that distribution expansion is sustainable. It's exclusive for a 15-year period, and so what I would expect to see is, whilst we may have some lumpiness from quarter to quarter, we will see continued growth in our retirement presence across Asia.

Operator

The next question is from Darko Mihelic from RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets - Analyst*

Thank you and good morning. A question with respect to the U.S. Division. On Page 18, you show us the core earnings for the last 2 years in U.S. millions of dollars. Can you talk to how much cash is remitted from the U.S. to the Holdco?

Steve Roder - *Manulife Financial Corporation - SEVP & CFO*

So Darko, it's Steve Roder here. I'll start on that one. We don't want to get too specific on remittance from Hancock for the reasons we talked about earlier on. I think it's going down a bit of a channel there, but we have previously given guidance that across the cycle we would typically expect to be able to remit something in the order of 75% of core earnings from our North American businesses. So there's no change to that guidance. It does vary from year to year for a variety of reasons but that guidance still prevails.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay, thank you, and then secondary question with respect to that business. When we look at the balance sheet optimization, I'm just curious and maybe I missed this, but it's a relatively important part of your go-forward strategy, in my opinion. Is there somebody in charge of this? Or is there some sort of committee? Or how should I think of the balance sheet optimization? Is there somebody specifically tasked to look after this?

Roy Gori - *Manulife Financial Corporation - President*

Yes, I guess that will be me, Darko. But you're right, it is an important part of our go-forward and our strategy, and as mentioned earlier, we're very, very focused on maximizing shareholder value. What I would say, though, is that it's one of many levers. And I wouldn't want to overplay its importance. While a significant focus for us, there are other aspects of driving maximizing shareholder value, and that includes, again, looking at in-force management, pricing claims, etcetera, being bolder on expenses. And obviously, balance sheet optimization will be another important lever, and we have executed against that agenda as we've mentioned earlier, and we're going to continue to focus on that space with a view of driving the best value that we possibly can for the shareholder.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay, and if I could just sneak in one last one then. Roy, when I look at Page 23, we notice in the small-case market very strong share, mid-case large not so much. And the key success factors, what I'm not seeing there though, is potential for adding through acquisition to build scale. How important is scale, and do you think you can get there organically in the mid-case and large-case market? And which market is actually most important for you?

Roy Gori - *Manulife Financial Corporation - President*

I'll hand over to Mike, and Kai might jump in as well, but I think you're right. Scale is obviously important in some of these markets, and in a big market that's as competitive as the U.S., it's clearly critically that you have scale. And again I think we're in a unique position where we do have

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significant scale and built scale over time, both organically and inorganically. So that is obviously something that we are proud of. I think there's more we can do in that space to leverage the economies that come from scale, and I mention expenses earlier, but we wouldn't rule out any options in that space. But I'll sort of hand it over to Mike and possibly Kai to supplement.

Mike Doughty - *Manulife Financial Corporation - EVP & Interim President & CEO, John Hancock*

It's Mike. I would just agree with everything that Roy said, and just to make the point, which is fairly obvious, that obviously the New York Life acquisition was a really important one for us, not only for scale but also because it took us into a market segment that we were really just sort of nipping at the corners of. So you know we've got -- we're very happy with the advancement in our market presence that, that acquisition gave us.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay. Donald, best of luck and have fun in retirement. I know I'm pretty envious.

Donald Guloien - *Manulife Financial Corporation - CEO*

Thanks, Darko.

Operator

There are no further questions registered at this time. I'd like to turn the meeting back over to Mr. Veloso.

Robert Veloso - *Manulife Financial Corporation - VP, Investor Relations*

Thank you, operator. Investor Relations will be around after the call if there's any follow-up questions. Have a good morning, everyone. Thank you.

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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