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PRESENTATION

Operator

Good morning, and welcome to the Manulife Financial Second Quarter 2022 Financial Results Conference Call. Your host for today will be Mr. Hung Ko. Please go ahead, Mr. Ko.

Hung Ko - *Manulife Financial Corporation - VP, Group Investor Relations*

Thank you. Welcome to Manulife's earnings conference call to discuss our second quarter 2022 financial and operating results. Our earnings materials, including the webcast slides for today's call, are available on the Investor Relations section of our website at manulife.com.

Turning to Slide 4. We'll begin today's presentation with an overview of our second quarter highlights by Roy Gori, our President and Chief Executive Officer. Roy will also discuss our year-to-date performance and how we are well positioned in the current uncertain environment. Following Roy's remarks, Damien Green, our new President and CEO of Manulife Asia, will provide a brief update on our Asia business and opportunities. Phil Witherington, our CFO, will then discuss the company's financial and operating results. After the prepared remarks, we will move to the live Q&A portion of the call. We ask each participant to adhere to the limit of 2 questions, including follow-ups. If you have additional questions, please requeue, and we'll do our best to respond to everybody.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 35 for a note on the non-GAAP and other financial measures used 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.

With that, I'd like to turn the call over to Roy Gori, our President and Chief Executive Officer. Roy.

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Thanks, Hung, and thank you, everyone, for joining us today. I'm pleased to have 2 new members of our executive leadership team joining the call today, including Marc Costantini, who returned to Manulife as Global Head of Inforce Management. Marc was with Manulife for 20 years in various executive roles and rejoined us after holding senior executive positions at other insurance and reinsurance companies. And Damien Green, who has started in his new position as the CEO of Asia. Most recently, Damien led our Hong Kong business, which is our largest operating market in Asia, and has delivered very impressive performance. In addition, Naveed Irshad, who was our Global Head of Inforce management has assumed the role of CEO of Canada, succeeding Mike Doughty, who will retire in September following more than 30 years of service.

Mike is a tremendous leader who embodies our values, pursues excellence in every day and does it with a deep sense of care for our colleagues, customers and communities. I'd like to thank him for his many contributions and wish him all the very best in his retirement. I'd also like to thank Anil Wadhwani, our former CEO of Asia for his significant contribution to the success of our Asia franchise over the past few years. Anil left Manulife this past May, and I wish him all the best in his future endeavours.

I'm very excited about this leadership team, which I'm confident will continue to drive the success of our global franchise and execute on our strategic priorities. Yesterday, we announced our second quarter 2022 financial results. We continue to operate in an increasingly complex and challenging environment. A combination of lingering pandemic effects in most of Asia, elevated inflation, uncertain macroeconomic and geopolitical conditions have significantly impacted markets globally with increased volatility and resulted in negative consumer sentiment. That said, despite these challenges, we continued to be resilient and delivered solid results in the second quarter and on a year-to-date basis. And, we remain strongly capitalized and continue to execute against our strategic priorities and medium-term targets.

Turning to Slide 6. We delivered solid core earnings of $1.6 billion, as growth in our Canada and U.S. insurance businesses reduced the impact of the headwinds that we faced in Global WAM and Asia. And, we reported net income attributed to shareholders of $1.1 billion, reflecting charges from the direct impact of markets as a result of significant equity market declines and volatile interest rate movements.

While our net income for the second quarter was impacted by market volatilities, on a year-to-date basis, we delivered net income of $4.1 billion, which was $600 million higher than the same period in 2021 and close to $1 billion higher than our year-to-date 2022 core earnings. I would like to highlight our very strong investment-related experience that more than offset the unfavourable direct impact of markets in the first half of 2022.

We achieved new business value of $511 million. Lower sales in certain markets in Asia due to continued COVID containment measures impacted NBV this quarter. This was partially offset by strong growth in both Canada and the U.S., exemplifying the benefit of our business and geographic diversification. In fact, on a year-to-date basis, our Canada and U.S. segments delivered double-digit NBV growth, driven by higher sales and improved margins.

Global WAM delivered another quarter of positive net inflows, generating $1.7 billion with positive contributions from retirement and institutional asset management. On a year-to-date basis, net inflows were an impressive $8.6 billion. Our capital remained strong, with a LICAT ratio of 137%. And, we continued to achieve an expense efficiency ratio of less than 50%. Phil will elaborate more later on our success in expense management.

We are laser-focused on delivering on our strategic priorities. Slide 7 and 8 highlight our progress and some of our achievements in each of these 5 strategic priorities during the quarter.

Turning to Slide 9. I'm pleased with the strong performance we've achieved year-to-date.

In Asia, we ranked top 5 positions in 6 of our insurance markets, and our market ranking and share have grown from pre-pandemic levels in 4 markets. In Global WAM, we generated net inflows of $8.6 billion year-to-date, with positive contributions across all geographies and business lines. We remained #1 in Hong Kong MPF, both on AUM and net flows. In Canada, we delivered double-digit growth in core earnings, APE sales and NBV on a year-to-date basis. And in the U.S., international sales were at a record level in the second quarter and up 43% on a year-to-date basis. These are examples of our continued strong operating performance despite the various macro headwinds.

Slide 10 provides a clear view of our strength and how we are well positioned to succeed in an uncertain environment facing the industry and Manulife.

Just to give you a few key highlights. We continued to make progress on our digital journey, and our strong digital capabilities and investments, which were more than $850 million since 2018, have mitigated impacts of COVID containment measures. Our in-force block represents approximately three-quarters of our insurance core earnings, providing earnings stability in different growth scenarios. Our diversified ALDA portfolio includes real assets, which provides protection in an inflationary environment. And, we further reduced our sensitivity to equity markets by reinsuring more than 75% of our U.S. VA business earlier this year.

Overall, our global footprint, diversified business mix, focus on operational resilience and proven digital capabilities uniquely positions us to continue to deliver strong performance in the long term.

Turning to Slide 11. To summarize, we delivered solid results in the second quarter despite the challenges posed by the macro environment.

Each of our operating segments continued to deliver strong performance in the first half of the year. Expense efficiency continues to be an important strategic priority and we maintained an expense efficiency ratio of less than 50% during the quarter despite top line pressures. We remain committed to generating shareholder value, and repurchased approximately 2% of outstanding common shares so far this year. And, we will continue to effectively weather the current macro and pandemic uncertainties, and remain confident in our ability to execute on our long-term strategy, capitalizing on the attractive opportunities and mega trends in the markets in which we operate.

Thank you, and I'll hand over to Damien to talk about our strong performance and the exciting opportunity that he is seeing in Asia. Damien.

Damien Green - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Thanks, Roy. Look, I'm really proud to have become the CEO of our strong and resilient franchise in Asia, which has delivered growth during the pandemic, demonstrating the success of our strategy and the diversity of our portfolio. Whilst impacted in the short term by COVID-19 and facing the same set of challenges and constraints of our competitors, such as economic slowdown, tapered consumer sentiment and waves of regulatory changes, earnings have exceeded pre-pandemic levels and value metrics remained strong year-to-date. This is a testament to Manulife's leading position and diverse geographic footprint in Asia. And we've been continuously operating in Asia for 125 years, and we hold top 5 positions in 6 of our insurance markets.

Our strategy remains focused on capturing the compelling secular trends Asia presents, by growing and digitizing agency, maximizing potential with our bancassurance partners, leveraging Manulife Investment Management, and accelerating China and Southeast Asia.

Our distribution mix is a competitive advantage. And through the pandemic, we've made strong progress in strengthening our agency force. Across Asia, compared to pre-pandemic levels, we've grown our MDRT members by 23% and in Hong Kong, we're #1 for Court of the Table membership. We've deepened our bancassurance partnerships, which have extended our customer reach and our 10 exclusive bancassurance partnerships now provide us access to over 30 million customers.

Addressing the growing needs of Asia's aging population presents a significant opportunity for Manulife Investment Management. Against this backdrop, we've delivered a 24% increase in retirement net flows, contributing to solidifying our #1 position in the Hong Kong MPF market. Finally, China and Southeast Asia represent the largest and fastest-growing economies in Asia, and we're well positioned to capture the emerging opportunities.

Our focus and strong execution track record have led to improved share and ranking in key markets. We're the outright #1 insurer in Vietnam and Cambodia, #2 in Singapore and #4 in the Philippines. The Greater Bay Area opportunity provides us access to over 85 million people. And Manulife is well positioned to participate in this compelling growth story, with a presence in 9 of the 11 cities, including advanced capabilities and leadership positions in Hong Kong and Macau.

Our strong position and focused strategy will continue to drive profitable growth and value across our diverse markets in Asia.

Thank you. And I'll now hand over to Phil Witherington, who will review the highlights of our financial results. Phil.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

Thanks, Damien. I'll start on Slide 15. During the second quarter, we continued to perform well despite a challenging macro environment. We generated core earnings of $1.6 billion, with a year-over-year decrease of 9%, reflecting a number of factors: the unfavourable impact of markets on seed money investments; lower new business gains; lower in-force earnings in U.S. annuities related to the variable annuity reinsurance transaction that closed in February of this year, as well as lower net fee income from lower fee spread and lower average AUMA in Global WAM. These were partially offset by in-force business growth in Asia, Canada and U.S. insurance, higher yield on fixed income investments, and gains on available-for-sale equities in Corporate and Other, and improved policyholder experience in the U.S.

Of note, the unfavourable impact of markets on seed money investments was $93 million, and consisted of approximately $65 million from equity funds and approximately $28 million from fixed income funds. And, the VA reinsurance transaction contributed 3 percentage points of the decrease in core earnings.

Net income attributed to shareholders of $1.1 billion decreased by $1.6 billion from the prior year quarter, reflecting charges from the direct impact of markets, smaller gains from investment-related experience and lower core earnings. Of note, we recognized a gain of $691 million from investment-related experience, $100 million of which was included in core earnings as core investment gains, with the remaining $591 million reported outside of core earnings.

Strong investment-related experience reflected higher-than-expected returns on alternative long-duration assets, primarily driven by fair value gains on private equity investments, the favourable impact of fixed income reinvestment activities and favourable credit experience. The charge from the direct impact of markets was mainly driven by unfavourable equity market performance, interest rate hedge ineffectiveness due to significant rate movements across several markets of differing magnitudes and curve shape changes, foreign exchange movements, realization of losses from the sale of AFS bonds and losses from non-parallel movements in swap spreads.

Slide 16 shows our Source of Earnings analysis for the second quarter of 2022 compared with the prior year quarter. Expected profit on in-force increased 1%. Excluding the impact of the U.S. VA reinsurance transaction, the increase was a strong 7%. New business gains decreased by 25%, primarily driven by lower sales in Asia resulting from continued COVID-related containment measures, and lower contributions from insurance segments in the U.S. and Canada. Policyholder experience was a net favourable $5 million on a pre-tax basis. In Canada, we recorded net favourable experience. And we saw favourable mortality experience in U.S. Life, partially offset by unfavourable lapse experience, while LTC was neutral. These were partially offset by unfavourable experience in Mainland China and Vietnam.

In the third quarter, we will complete our annual review of actuarial methods and assumptions. This year's review includes a comprehensive study of our U.S. long-term care experience. Although work is still ongoing, preliminary indications suggest that the net impact to net income attributed to shareholders will be approximately neutral, both in total and for LTC. In addition to LTC, other assumptions being reviewed this year include mortality and certain lapse assumptions for Canada Life Insurance as well as lapse and mortality assumptions for certain Asia markets. I would note, given the moderate impacts from these reviews in recent years and the upcoming accounting regime change, we do not intend to provide a preview of our annual review of actuarial methods and assumptions in the second quarter in future years.

Slide 17 shows our earnings by segment and return on equity. Core earnings in our global WAM business decreased by 16%, reflecting lower fee spread and lower average AUMA due to lower equity markets and higher interest rates. Core earnings in Asia decreased by 3%, driven by lower new business volumes, reflecting COVID-19 containment measures in Hong Kong and several markets in Asia Other, unfavourable policyholder experience in Mainland China and Vietnam, and unfavourable product mix in Mainland China.

We delivered core earnings growth of 8% in Canada, primarily reflecting favourable experience gains in individual insurance and annuities and higher in-force earnings in our insurance businesses. Core earnings in the U.S. decreased by 8%, largely due to the VA reinsurance transaction.

Excluding the impact of the transaction, core earnings in the U.S. would have increased 2%. The core loss in Corporate and Other increased by $61 million, primarily driven by the unfavourable impact of markets on seed money investments. And we delivered core ROE of 12.1%.

Turning to Slide 18, which shows our APE sales and new business value generation. In the second quarter, we generated APE sales of $1.4 billion, down 1% from the prior year quarter as growth in North America was more than offset by a decline in Asia. In Asia, APE sales decreased 12% due to continued adverse impacts from COVID-19 in Hong Kong, lower COLI product sales in Japan and lower sales in Asia Other. APE sales increased 32% in Canada and 6% in the U.S., respectively.

We delivered new business value of $511 million, a decrease of 9% from the prior year quarter. In Asia, NBV decreased due to the factors I noted earlier and a less favourable product mix in Asia Other. This was partially offset by strong new business value growth in Canada, driven by higher volumes in large case Group Insurance as well as improved margins, higher International sales and higher interest rates in the U.S.

Turning to Slide 19. Our Global WAM business continued to benefit from our geographic and line-of-business diversification. Despite a challenging macro environment, we delivered positive net flows of $1.7 billion. In Retail, net outflows were $1.9 billion compared with net inflows of $7.3 billion in the prior year quarter. The decrease was driven by higher mutual fund redemption rates and lower gross flows due to reduced investor demand, amid equity market declines, and higher interest rates. Institutional Asset Management net inflows were $2.5 billion compared with net inflows of $1.9 billion in the prior year quarter. In Retirement, net inflows were $1.1 billion compared with net outflows of $0.6 billion in the prior year quarter, driven by growth in member contributions and lower plan redemptions.

Overall, Global WAM's average AUMA decreased by 3%, driven by the unfavourable impact of markets in 2022, partially offset by net inflows over the past 12 months. Net fee income yield decreased by 1.6 basis points, reflecting a decline in fee spreads. And, we delivered a core EBITDA margin of 30.7% despite market headwinds and modestly higher general expenses.

Turning to Slide 20. Our continued cost discipline is delivering meaningful benefits, providing further support to offset the impact of the macro environment on topline growth. We contained growth in core expenses to a modest 2% in the second quarter and 1% for the year-to-date. As a result, our expense efficiency ratio for the second quarter and year-to-date were in line with our target of below 50%. Expense management, including initiatives to improve productivity, remains an important strategic priority as we aim to maintain an expense efficiency ratio of less than 50%.

Turning to Slide 21. We continued to maintain a strong balance sheet and capital position. Our LICAT ratio of 137% is strong and represents $23 billion of capital above the Supervisory Target. The 3 percentage point decrease from the first quarter was mainly driven by an increase in risk-free rates, partly offset by the favourable impact of a net capital issuance.

I would note that we expect the impact of IFRS 17 to be approximately neutral for the LICAT ratio based on markets as of 30th of June and calibration adjustments that OSFI reflected in the recently released LICAT guideline for 2023. While the actual impact at transition will depend on macroeconomic conditions on January 1, 2023, our capital position will continue to be strong under IFRS 17.

Our financial leverage ratio increased by 2.1 percentage points from the prior quarter, driven by the issuance of securities and the impacts of higher interest rates on AFS bonds. We are committed to delivering value to shareholders. And so far this year, we have repurchased approximately 2% of our common shares.

Slide 22 shows the summary of our financial performance for the quarter. While the performance of our profitability and growth metrics was impacted by a challenging macro environment, our global strength and diversity continue to provide notable offsets. Our balance sheet remains strong and provides us with financial flexibility to deliver on our strategic and capital deployment priorities.

Slide 23 outlines our medium-term financial targets and recent performance. While some of these metrics are tracking below our targets year-to-date, we're pleased with the performance and resilience of our business given the continued disruption caused by the impact of COVID-19 and global market volatility. We remain confident in our ability to continue to deliver on our targets over the medium-term.

This concludes our prepared remarks. Before we move to the Q&A session, I would like to remind each participant to adhere to a limit of 2 questions, including follow-ups. This will help to ensure that everyone will have an opportunity to ask a question. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Conference Instructions) And your first question is from Meny Grauman from Scotiabank. Please go ahead.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

This earnings season, there's been a lot of focus on universal life with secondary guarantee products given some disclosure from your U.S. peers. Wondering if you could talk to your exposure to that specific product line directly and the experience that you're seeing on the lapse and mortality side. And then I have a follow-up.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Thanks, Meny. It's Steve here, and I'll take that question. So, some context on our guaranteed UL block in the U.S. Some, I think, notable facts. We stopped writing this business 10 years ago as we shifted away from market-based guarantees. And what that means is the business is more mature. So the average policyholder age is now roughly mid-70s, and we've -- we're hitting that peak of reserves. So, the experience is well developed and the fan of outcomes is narrowing on that business.

In terms of reserving, we are prudently reserved on the guaranteed UL business, both on an NAIC basis and IFRS basis. We've consistently updated assumptions. We've already strengthened reserves over the past 5 years. We strengthened reserves, including a review last year, of almost $1 billion over the past 5 years. And our assumptions fully reflect pre-pandemic experience at this stage. As a result, our lapse assumption on this business is below 1%. And last point on exposure, this business is less than 10% of company reserves.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

And just as a follow-up, in terms of the upcoming assumption review, you provide disclosure by being neutral on a net basis. But is there any reserve strengthening tied to this specific product that we're talking about in this year's reviews or anything that you're building in for that?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

On the guaranteed UL, not in this year's review, primarily because the assumptions are up-to-date for pre-pandemic. I've commented earlier about lapse rates dropping in the pandemic environment. We saw similar things in the global financial crisis. And as the crisis got in the rearview mirror, we saw lapse rates trend back. So we feel like the assumptions are up to date. And we -- like I said, we reviewed them last year, so we feel good about those assumptions.

Meny Grauman - *Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst*

Thanks a lot.

Operator

Thank you. The next question is from Francois Macheras from Evercore. Please go ahead.

Francois Macheras - *Evercore ISI Institutional Equities - Research Division*

I was just hoping, could you elaborate on why you lost about like 15,000 agents in Asia Other? It represents about 15% of your agent force in the region.

Damien Green - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Yes. Yes, Francois, it's Damien. Thanks for the question. Look, the key drivers of the agency headcount reduction that we saw in the second quarter come from China and Vietnam. And I'm happy to offer a bit more granularity there. The economic headwinds associated with the pandemic, also the push, the ongoing push to agency professionalization, and in addition, the introduction of new product and sales practice regulations in China, which I think are good for the long-term actually, but require some short-term adjustments in the industry. These have impacted. These things have coalesced to impact agency in particular. And it impacted recruitment and retention, which we see as a short-term factor.

Now in addition, we're seeing some shifting labour market dynamics, Francois, in China and Vietnam, which has impacted recruitment in the key cities there. And specifically, where we've seen people return to their home provinces to support their families during recent waves of the pandemic. But we expect that recruitment will normalize as markets recover.

Point of emphasis here, we're committed to agency professionalization because that's in line with our strategy to drive higher-quality business. Going forward, just one extra point that I'd like to make here. Whilst agency is core to our business and it's the core value driver for us, and we have huge conviction on our franchise there, and we'll continue to invest, I want to point out that we have a -- we've got a -- we're quite special in Asia, right? We've got a diversified multi-channel, multi-segment franchise that really through multiple channels from private banks, our exclusive partner, DBS, international high net worth brokers, right through to mass market agency, gives us access to customer segments, high-value, high-growth customer segments, all the way from mass affluent through to ultra-high net worth. Thanks for the question, Francois.

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Francois, Roy here. I might just add. I think Damien sort of covered the waterfront there. But for us, we've been really focused on the quality of our agency force rather than the absolute size. And another proof point, just to add to Damien's commentary, is that we've seen a 23% CAGR growth in MDRT, which is Million-Dollar Roundtable, which is the recognized measure of the quality of agency force from pre-pandemic levels over the last 2.5 years. So for us, as Damien highlights, quality matters more. We've seen tremendous growth in the quality of our agency force. And another big strength of ours is the diversification of our channel mix, with a good blend of agency, banca and other which supplements.

Francois Macheras - *Evercore ISI Institutional Equities - Research Division*

Got it. Thank you. And I guess, just a follow-up, how are you seeing hiring trends for new agents in Asia Other -- I guess, in like specifically China and Vietnam, so far in the third quarter?

Damien Green - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Yes. Thanks, Francois. Look, I think the prevailing conditions are still there, but we are seeing some green shoots, particularly in Vietnam there. And we've seen -- going into the second quarter, we saw sequential quarter-on-quarter growth in Vietnam, which was very, very positive. And that's off the back of some recovery in agency recruitment. So early signs are good. Thanks.

Francois Macheras - *Evercore ISI Institutional Equities - Research Division*

Thank you.

Operator

Thank you. The next question is from Doug Young from Desjardin Capital Markets. Please go ahead.

Doug Young - *Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst*

Yeah, good morning. Just sticking with Asia. I guess big picture, the question is are we at the pivot point? Specifically, I mean, should we start to see a little bit more upward momentum as we go into the back half? I mean you're lapping some easier comps with Japan COLI, some regulatory and business mix changes in China. Or I'm trying to get a sense are you still cautious given the COVID shutdowns, the economic backdrop, the decline in agent count, like I know it's kind of maybe a tough question to answer. But should we start to see a bit more positive momentum in the back half? Or are there still some headwinds that you have to kind of work through?

Damien Green - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Doug, thanks for the question. I guess the short answer first is you certainly expect to see improvements step by step here as we emerge from the pandemic conditions. And we remain confident in our ability to deliver on our 15% medium-term core earnings growth target. We saw APE sales decline in the second quarter. We know the reasons for that so I won't repeat them ad nauseam associated with the consumer sentiment, business sentiment on pandemic and the various pandemic-control measures.

I would say though that we're competing strongly. In Hong Kong, we increased our market share by one point -- one position, and we're now #4 in the market. Very importantly, in a key market like Hong Kong, we're ahead of our competitive peers, our competitive Asian peers, and we continue to hold very strong positions across markets. So going forward, as I said, we're confident in the medium-term core earnings growth target. We're seeing positive signs of improved business performance.

Excluding China, if we're looking at it on a quarter-on-quarter basis, we exclude China because of the high volumes that come through there in the first quarter on the door opening campaign, we've seen quarter-on-quarter APE growth in all markets other than Hong Kong and Cambodia in the second quarter. So that's positive. And look, we remain very strong in terms of the franchise. We've got top 5 rankings in 6 out of our 10 markets, as Roy said. So the franchise is in good shape. The distribution remains very diverse. And I think we continue to be placed to capture the secular trends as markets start to normalize. Thanks for the question.

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Doug, just to add, as Damien highlights, it's hard to call the end of COVID restrictions, but there are some green shoots. I think we're optimistic that we will start to see some improvement. But to be perfectly honest, I think the thing that we're focused on is the longer-term strategic opportunity that we see in Asia. We're very excited about that. And we feel that we're really well positioned, quite frankly, uniquely positioned to capture that. And that's what we're focused on, and we believe that provides a tremendous opportunity.

Doug Young - *Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst*

Thanks, and the second question, it was mentioned a few times, unfavourable experience in China and Vietnam. Can you unpack what that relates to?

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

It's Steve here. I'll start. Damien, you're on mute. But yes, actually, I'll pass it to you. You go ahead.

Damien Green - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Thank you for that teamwork here. Look, we've seen some slightly unfavourable policyholder experience in the Asia Other segment, particularly around China and Vietnam. And that's associated with the Asia short-term agency recruitment and retention issues that I mentioned there. Our claims experience is broadly consistent with our expectations in Asia Other. And underlying this, we've seen immaterial impact from COVID-related claims. Lapse experience was slightly unfavourable because of the reasons, the recruitment and agent retention dynamics that I mentioned earlier.

Overall, we continue to monitor lapse and claims. But I just want to emphasize that we've grown our in-force earnings by 14%. I think it's the eighth consecutive quarter that we've done that based on our strong focus on in-force management and expense discipline. Thanks.

Doug Young - *Desjardins Securities, Research Division - Diversified Financials and Insurance Analyst*

Thank you.

Operator

(Conference Instructions) And the next question is from Nigel D'Souza from Veritas Investment Research. Please go ahead.

Nigel D'Souza - *Veritas Investment Research Corporation - Investment Analyst*

I wanted to turn to ALDA, and it makes sense that the real asset component is helpful in an inflationary environment, but I want to touch on the private equity component. Could that potentially be a headwind for investment-related experience if we continue to have more challenging financial market conditions? And if I heard correctly, I think you mentioned the fair value gain for private equity this quarter. Wondering if you could elaborate on that and what drove that given recent market volatility.

Scott Hartz - *Manulife Financial Corporation - Chief Investment Officer*

Sure, Nigel. It's Scott Hartz. Thanks for the question. And yeah, we're quite pleased with the results of investment gains this quarter at $691 million, and it's continued a trend of really good gains. We're at $1.3 billion, year-to-date, we had $2 billion last year. And while a lot of this comes from the ALDA, a fair amount also comes from our other 2 categories of fixed income reinvestment and credit, which have been quite strong. In the quarter, about one-third of it came from those two and two-thirds from ALDA. And within the ALDA portfolio, there was strength across all 6 categories. Phil highlighted the private equity portfolio, which was the strongest. But the other categories: infrastructure, real estate, oil and gas, and timberland, also performed quite well, with agricultural being the only underperforming one.

Now when you compare the results to public equity markets, that might be a little confusing. Public equity markets were not good in the second quarter. But it's one of the reasons we like ALDA. It gives us similar returns to equities over the long-term, but much lower volatility, about 1/4 of the volatility. And so last year, you saw a big run-up in public equity markets. And while we had a strong year for ALDA, it was not nearly as strong. So the valuations didn't get inflated in our ALDA portfolio in the same way they did in public equity. So as you see those valuations come down in public equities, we're not experiencing the same thing in our ALDA portfolio. It's more based on the fundamental earnings power of the underlying assets.

With that said, these strong results can't continue. They're a bit unsustainable. But I think they do show that our assumptions are solid. We've been outperforming our assumptions, our assumed returns for quite a while. And I would expect the returns to come down. These levels are not sustainable. But that's a brief description of why the returns have continued to stay strong.

Nigel D'Souza - *Veritas Investment Research Corporation - Investment Analyst*

Great. That's helpful. And the second question I had was on your NCIB. You've got a fair bit more to go to fully utilize that. So just wondering if you can elaborate on utilization to date, has -there been anything that's restricted your -- the use of your NCIB? And do you expect to fully utilize that before it expires next year?

Roy Gori - *Manulife Financial Corporation - President & Chief Executive Officer*

Thanks, Nigel. Roy here. So as you highlight, we have been focused on share buybacks. In fact, at the end of Q2, year-to-date, we had deployed $800 million. And in the opening comments, we've illustrated that we're close to 2% of our NCIB buyback. We remain committed to this being an effective way to deploy capital and to create shareholder value. We articulated that, at a minimum, we would be looking to neutralize the impact of the VA transaction. So we remain committed to that. And we think that buybacks, especially when our stock price is where it is, is a great way to add value for our shareholders. And that's something that we're going to continue to focus on.

Nigel D'Souza - *Veritas Investment Research Corporation - Investment Analyst*

Got it. That's it for me. Thank you.

Operator

Thank you. The next question is from Paul Holden from CIBC. Please go ahead.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Thank you. Good morning. First question is related to IFRS 17 and the market movements in Q2. Obviously, a big impact on IFRS 4 numbers. I wonder if you can give us any context or even quantify how the IFRS 17 numbers responded to the market impacts in Q2.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Sure. It's Steve here, Paul. And I'll comment specifically around some of the comments that we've made before around IFRS 17. We had noted with last quarter that we expected a 20% reduction in book value at the transition date. But what we also noted was that our capital sensitivity and our book value sensitivity to interest rates is expected to decrease materially under IFRS 17. So -- and that's because IFRS 4 is quasi mark-to-market, so quasi economic-based. IFRS 17 actually brings us closer to the underlying economics. So what we see is an increase in sensitivity to liabilities. And that's offsetting some of what's causing the variability today from our AFS bond portfolio, which is a good economic hedge. So, we expect that under IFRS 17, our book value would not have declined sequentially in Q1 or Q2 of this year. And I think that's the key takeaway.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

That's helpful. So if anything, that -- sort of that 20% guidance you provided previously, if anything, that's kind of moved positively. The gap would be maybe somewhat less than 20%.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Directionally, yes.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

Paul, this is Phil. Just to clarify there, the 20% relates to the transition date, 1st of January 2022. And then Steve's comments would be applicable from there in terms of the greater stability in an IFRS 17 environment.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Got it. Okay. Thanks for the clarification. And then second question for me is just regarding the favourable policyholder experience in Canada. You pointed it was on individual annuities and life. But just wondering what the specific experience was there that drove the positive result in Q2.

Naveed Irshad - *Manulife Financial Corporation - President & CEO, Manulife Canada*

Hi Paul, it's Naveed here. It was really actually quite encouraging to see that the positive experience was quite broad-based. So we saw positive experience on the individual side, in the travel business, the health and dental, the mortgage creditor. So quite broad-based. And pretty neutral on the life insurance mortality and persistency side. We also saw positive experience on the annuity business, primarily related to structured settlements also positive experience on the group business, extended health care and long-term disability. Although moderating, still positive. So really encouraged that it was quite broad-based.

Paul Holden - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

Got it. Okay. We'll leave it there. Thank you.

Operator

Thank you. The next question is from Tom MacKinnon from BMO Capital Markets. Please go ahead.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Yeah. Thanks very much. Good morning. Question just on new business gains, and with respect to them being a little bit lower in Asia and in the U.S. If I look at Asia Other sales, they were down 4% year-over-year, but the new business value was down 12% year-over-year. So I'm not sure what's happening there. If you can elaborate on perhaps any kind of margin compression there. And in the U.S., we noted that the sales were up. The individual insurance sales are up 6% year-over-year, but the new business gains are down 27% year-over-year. So what's causing this lower contribution despite the sales hanging in there? Thanks.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

It's Steve. I'll start, and I'll see at the end if Damien wants to add about the Asia Other. But new business gains, broadly speaking, declined from prior year. The biggest impact was overall in Asia for some of the reasons that Damien has already gone through around the sales and COVID environment. What I would point people to is that not in every quarter, but typically, we are usually around 20% of APE sales as new business gains, and that was broadly in line for this quarter, and that's a reasonable expectation.

In the U.S., there are a couple of things going on here. We had strong sales in our international business that drove good NBV and contributed to a sales increase. We did restructure some reinsurance to optimize returns on a local basis, which benefited new business value more than new business gains. And the higher interest rate environment also lowered the capital we need to commit on the NBV side. And again, if you look at ratio to APE, last year was a little elevated. So there's some business mix. So this quarter, if you look at the past couple of quarters, it's a reasonable expectation.

Damien, if you want to add on Asia Other.

Damien Green - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Yes. Thanks, Steve. Let me supplement. We see some regular seasonality in terms of margins there, Tom, and in particular, moving from Q1 to Q4. In the first quarter, we see very high volumes of business in China with a particular mix. And that then going into the second quarter, we will see typically a shift in margin. So that's not unexpected, and we expect to see that sort of seasonality in terms of new business gains. So China is the key factor from a quarter-on-quarter basis. Thanks.

Tom MacKinnon - *BMO Capital Markets Equity Research - MD & Analyst*

Okay. And then my follow-up has to do just with the lapse assumptions in the U.S. I think everything that you mentioned, Steve, was really just saying that your assumptions were from an actuarial perspective are adequate, if you look at it in terms of pre-COVID experience. But are -- we've been a few years into COVID, and lapses are, I guess, are a little bit lower on some of these products. And you think it will revert. Is that -- why is that still your thinking? And despite the fact that you've continued to have some negative experience associated with lapses, that's even after truing up your assumptions less than a year ago.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yes. Thanks, Tom. It's Steve. I mean what we're seeing is -- and it was similar to the global financial crisis, a shock to the system, in this case of pandemic, people are valuing their insurance products more. It is my expectation that over time, things do revert. And a couple of points on that. We're not talking about lapse rates going from 1% to 4%. I'm -- we're talking about 20% of less than 1%. So it's kind of on the margin in terms of how much things have to move. I think higher interest rates over time will also impact that. And just to put it in context. On the guaranteed UL business, if -- we've seen roughly rates 20% lower. And the other thing is we're waiting for some industry studies. There aren't industry studies yet on during pandemic experience. So we'd like to see those results as well. But on the guaranteed UL, let's say we only reverted back halfway, the exposure on guaranteed UL is less than $200 million. So just to put it in context for you.

Phil Witherington - *Manulife Financial Corporation - Chief Financial Officer*

And Tom, this is Phil. Everything that Steve said relates to our best estimate assumptions and those assumptions being current, and we're satisfied with them. On top of that, of course, we hold margins. So the PfADs that we hold are approximately 20% on top of our best estimate reserves. And in dollar terms, that's in the order of $3 billion for this block.

Steve Finch - *Manulife Financial Corporation - Chief Actuary*

Yeah, even a little more. Yeah. Thanks, Phil.

Operator

(Conference Instructions) There are no further questions registered at this time. I'll turn the call back over to you, Mr. Ko.

Hung Ko - *Manulife Financial Corporation - VP, Group Investor Relations*

Thank you, operator. We'll be available after the call if there are any follow-up questions. Have a good day, everyone.

Operator

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