

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MFC.TO - Q3 2016 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 10, 2016 / 7:00PM GMT



CORPORATE PARTICIPANTS

Robert Veloso *Manulife Financial Corporation - VP IR*

Donald Guloien *Manulife Financial Corporation - President, CEO*

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

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

Craig Bromley *Manulife Financial Corporation - Senior EVP & General Manager US, President John Hancock Financial Services*

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

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

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

CONFERENCE CALL PARTICIPANTS

Tom MacKinnon *BMO Capital Markets - Analyst*

Humphrey Lee *Dowling & Partners Securities - Analyst*

Linda Sun-Mattison *Bernstein - Analyst*

Gabriel Dechaine *Canaccord Genuity - Analyst*

Steve Theriault *Dundee Capital Markets - Analyst*

Meny Grauman *Cormark Securities - Analyst*

Mario Mendonca *TD Securities - Analyst*

Sumit Malhotra *Scotiabank - Analyst*

Doug Young *Desjardins Securities - Analyst*

Seth Weiss *BofA Merrill Lynch - Analyst*

Peter Routledge *National Bank Financial - Analyst*

PRESENTATION

Operator

All participants, please stand by; your meeting is ready to begin. Please be advised that this conference is being recorded.

Good afternoon and welcome to the Manulife Financial third-quarter 2016 financial results conference call for Thursday, November 10, 2016. Your host for today will be Mr. Robert Veloso. Please go ahead, sir.

Robert Veloso - *Manulife Financial Corporation - VP IR*

Thank you and good afternoon. Welcome to Manulife's conference call to discuss our third-quarter and 2016 financial and operating results. Today's call will reference our earnings announcement, Management's Discussion and Analysis, statistical package, and webcast slides, which are all available on the Investor Relations section of our website at Manulife.com.

As in prior quarters, our executives will be making some remarks. We will then follow with a question-and-answer session.



Today's speakers may make forward-looking statements within the meaning of securities legislation. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied. For additional information about the material factors or assumptions applied and about the important factors that may cause the actual results to differ, please consult our webcast slides for this conference call as well as the securities filing refer to in the slides entitled "Caution regarding forward-looking statements." We have also included a "Note to users" slide that sets out the performance and non-GAAP measures used in today's presentation.

When we reach the question-and-answer portion of our conference call, we would ask each participant to adhere to a limit of one or two questions. If you have any additional questions, please requeue and we will do our best to respond to all questions.

With that I would like to turn the call over to Donald Guloien, our President and Chief Executive Officer. Donald.

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

Thank you, Robert. Good afternoon everyone, and thank you for joining us today. We're going to change the format of this call a little bit this afternoon, shortening my opening remarks and Steve's, especially where they repeat items already outlined in detail in the press release, and allow time to explore our businesses in a little bit more depth. This morning we'll take advantage of Roy Gori being here and focus on Asia. In subsequent calls, we'll cover Global Wealth, Canada, and the United States.

This morning we announced our results for the third quarter of 2016, and indeed it was a very satisfactory quarter. We delivered strong core earnings of CAD996 million, up 14% versus the same quarter of 2015, and up 20% versus the second quarter of this year. We had quarter-over-quarter and year-over-year improvements in all three of our geographies, and investment results were strong enough that they not only cleared up the backlog from the prior two quarters but contributed a small amount to core earnings this quarter.

These strong operating results combined with favorable markets and other investment gains led to an increase of net income to over CAD1 billion. Year-to-date, our core earnings are up 6% from last year, and net income is up 47% from last year.

While we're pleased with these results, we continue to operate in a difficult macroeconomic environment. We remain focused on improving the performance of all our businesses and most rapidly growing those which deliver the higher returns, and freeing up capital from lower-return businesses.

With that I'll turn it over to Steve Roder, who will review the highlights of our financial and operating results. And following Steve's remarks, Roy will focus on Asia; and then we'll open the call to your questions.

Thank you. Steve.

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

Thank you, Donald, and good afternoon, everyone. Starting on slide 7, we had a strong third quarter with most of our key performance indicators showing improvements. I'll discuss some of the key drivers of our performance in the next few pages.

Turning to slide 8, core earnings increased by CAD126 million or 14% compared to the third quarter in 2015. This reflects: our strong investment performance, of which CAD17 billion was included in core earnings, versus a CAD51 million core investment loss in the prior year; strong new business and in-force growth in Asia and improved policyholder experience following assumption changes from the annual review, particularly for Long-Term Care; partially offset by higher interest expenses due to our recent issuances.

Turning to slide 9, as Donald mentioned, we recorded over CAD1 billion of net income in the third quarter as the strong performance of our investment portfolio and the favorable impact of markets more than offset a charge related to our annual review of actuarial methods and

assumptions. Included in the direct impact of equity markets and interest rates, this quarter we took actions to reduce our direct exposure to market movements.

These actions included reducing the amount of equity investments that support long-term guarantee products and increasing interest rate hedges. While these actions resulted in a charge of CAD155 million, they will lower our run-rate expected macro hedge costs going forward.

We also took a CAD97 million charge to write off a distribution-related intangible in our Long-Term Care business. While we were satisfied with the risk/reward of our redesigned Performance LTC products, the low sales volumes do not justify the carrying value. The low sales volumes also drove the decision to cease writing standalone LTC insurance products in the retail market.

Moving on to slide 10, in the third quarter we completed our annual actuarial review, which covered more than 100 methods and assumptions and resulted in a net charge of CAD455 million. We recorded a charge of CAD415 million related to our triennial review of the Long-Term Care business, as the reserve strengthening for our assumptions -- including mortality, morbidity, and lapses -- was partially offset by a CAD1 billion benefit for expected future price increases. All other mortality and morbidity updates resulted in a CAD76 million benefit.

Lapse and policyholder behavior updates netted to a gain, as a CAD665 million reserve release from refinements to the benefit utilization assumptions on US variable annuities was partially offset by reserve strengthening for term lapse assumptions in Japan and Canada.

We recorded a charge of CAD313 million resulting from a proactive 10 basis point decrease in our ultimate reinvestment rates, or URR assumptions, in advance of an expected downward revision to the rates next year. And various model refinements resulted in a CAD115 million charge.

Our actuarial valuation practices remain prudent and our expected reserves and margins are appropriately aligned with the risks in each business.

Slide 11 is our source of earnings. Expected profit on in-force increased 6% from the prior year on a constant currency basis, primarily due to business growth in Asia and lower amortization of variable annuity deferred acquisition costs. The impact of new business was in line with the prior year, as improved sales volumes in Asia were offset by less favorable business mix in US insurance.

The increase in earnings on surplus reflects the non-recurrence of fair value losses we recorded in the prior year, partially offset by higher interest expense.

On slide 12, you can see that we continue to report positive net flows in our Wealth and Asset Management businesses. In fact, it's our 27th consecutive such quarter.

We delivered net flows of CAD2.7 billion in the quarter, driven by strong net flows in US pensions, Canadian mutual funds, and Asia. We did, however, report modest outflows in US mutual funds as the shift in the industry from active to passive management continued and some of our key funds have underperformed year-to-date. We recorded outflows in institutional asset management due to the inherent variability of the business.

Gross flows grew 6% from the prior year to CAD27.4 billion, reflecting: strong sales of money market funds in mainland China and record pension flows in Hong Kong; solid gross flows in Canada due to the strong performance of our top-selling mutual funds; and record pension flows in the US, including a large sale with over 12,000 participants, more than offset by lower mutual fund flows.

Turning to slide 13 and insurance sales, insurance sales in the third quarter increased 20% from a year ago, reflecting: strong sales in Asia, up 28% versus the prior year and driven by double-digit growth in those territories; higher insurance sales in Canada due to inherent variability in Group Benefits; partially offset by lower sales in the US due to increased customer demand for products with guarantee features, which we have purposely deemphasized in our product portfolio.

On slide 14 is our new business value. New business value increased 5% from a year ago as double-digit growth in Asia was largely offset by weaker results in North America.



New business value margins in Asia were 31%, up half a percentage point from the prior quarter on a constant currency basis. Compared to the prior year, new business value declined 2.5 percentage points as a favorable business mix in Japan and improved volumes outside of Japan were more than offset by the impact of lower interest rates.

Turning to slide 15, our assets under management and administration, or AUMA, at the end of the third quarter were CAD966 billion, up CAD78 billion from the prior year, driven by net inflows from customers and favorable investment performance. The AUMA in our Wealth and Asset Management businesses increased a solid 11% from the prior year and included CAD18 billion of positive net flows.

In conclusion, in the third quarter of 2016 we delivered strong core earnings. We delivered net income over CAD1 billion. We achieved solid top-line growth and insurance sales and WAM gross flows, and continued to generate positive net flows.

I'll now pass it on to Roy Gori, who will discuss our Asia business in more depth.

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

Thank you, Steve. Good afternoon, everyone, and I'm delighted to provide you with a more in-depth update on our Asia business. I'll start on slide 18, where you'll see the growth we generated in annualized premium equivalent, or APE sales, across our various markets in Asia. We generated close to \$1.9 billion in APE sales so far this year, up 36% from the prior year.

As you can see on the slide, this strong growth was with contributions from most markets, including Singapore, Vietnam, the Philippines, mainland China, and Indonesia, where growth was previously challenged by the local economic environment.

We're taking full advantage of the powerful megatrends that underlie the Asia opportunity: a rising middle class, wealth accumulation, aging population, and rapid digitization. Our focus on execution is driving sales growth. For example, we've launched new innovative products, created successful marketing campaigns, increased the size of our agency force, and expanded our bancassurance distribution channel.

On slide 19, you can see that our new business value, or NBV, has been growing at a rapid pace. We recorded an increase of 53% in 2015, and 40% in the first nine months of this year, despite significant reductions in interest rates which have impacted Hong Kong and Japan's NBV. Over the last year, 30-year bond yields in Japan fell 94 basis points, and the 10-year bond yields in Hong Kong fell 58 basis points.

Our sales volumes were naturally a key driver of NBV growth. And we're also seeing the benefits from our increased scale.

As our focus is on value generation, we've taken actions to improve NBV in the low interest rate environment. For example, in Japan we've undertaken pricing actions to boost lower-margin products; we've removed products that were not generating sufficient value; and we've successfully shifted our product mix to non-yen denominated products for which higher-yielding assets are available.

The right-hand side of the slide shows NBV margin, which speaks to the quality of our sales. In less than three years, we've been able to increase our NBV margin in Asia by 6 percentage points to 31%. This is a significant achievement.

We believe that NBV is a very relevant metric for shareholders. It is essentially the present value of the expected profitability from sales written in that period.

One of the ways in which we are differentiated from most of our competitors in Asia is our Wealth and Asset Management offering. Our mutual fund and pension businesses are part of our broad and fully integrated suite of solutions which allows us to help customers more holistically.

With the exception of one quarter last year, we've been generating positive net flows every quarter in Asia for the past six years.

As slide 20 demonstrates, our pension business in Hong Kong is a strong and steady contributor. On November 1, we commenced our 15-year exclusive Mandatory Provident Fund, or MPF, distribution partnership with Standard Chartered Bank in Hong Kong and completed the related

acquisition of their existing pension businesses. This strengthens our position as the number-two MPF provider by assets under management, and number one MPF provider by net cash flows.

On to core earnings on slide 21. Our Asia business has delivered strong results and now contributes approximately one-third of our Company's total core earnings. In 2015, core earnings in Asia increased by 18% and, for the first nine months of this year, were \$838 million, up 15% from the prior year after adjusting for the shift from macro to dynamic hedging.

The increase was driven by solid growth of in-force business and new business volumes, partially offset by the impact of declining interest rates. We've also been investing in several strategic initiatives which dampen somewhat earnings in the short term, but are expected to support continued growth over the medium term.

On slide 22, we're showing the early impact on our business from the distribution agreement with DBS Bank. DBS has a distribution platform with more than 6 million customers; has been recognized as the safest bank in Asia by Global Finance for eight consecutive years; and is recognized by Euromoney as the world's leading digital bank. It's also a bank that is expanding in the markets where we have exclusivity with them.

The short story is that the partnership has delivered exactly what we said it would when we announced it back in April of 2015. It has accelerated Manulife's Asia growth strategy, and it has added scale to our business.

We now have a much more balanced distribution mix, with bancassurance generating 30% of our sales year-to-date compared to 16% last year. Our agency force, bancassurance partners, and other channels are now each contributing close to one-third of our sales.

We also have a more balanced geographic mix, with almost 40% of our sales coming from markets other than Hong Kong and Japan. We expect that our business portfolio will continue to become more balanced in the years to come.

We had expected that DBS would add significantly to our sales for the first year, and it did. Our sales so far this year in the four markets covered by the agreement -- being Singapore, Hong Kong, Indonesia, and mainland China -- increased by 80% from the prior year. And 60% of that growth comes from DBS. Excluding DBS, the growth would still have been a significant 35%.

In Singapore, where DBS is headquartered, we were ranked number one in the market by new business, with over 20% market share in the first half of 2016. Singapore is now our third-largest market in Asia in terms of APE sales.

Another benefit of the partnership is that it has significantly strengthened our brand and has enhanced our ability to attract new partners as well as top talent. We believe that a true partnership has been established, as Manulife and DBS are closely aligned across all levels of both institutions.

Our complementary strengths create a successful win-win partnership. And though it's still early days, we've seen strong momentum and I'm confident that we will continue to deliver.

Next, I'd like to touch on some of the new technologies we've introduced to drive growth and dramatically improve customer experience. Slide 23 is about ManulifeMOVE, which is an innovative, wearable insurance program that rewards customers for leading a healthy, active lifestyle. We have launched the program in Hong Kong, Philippines, and mainland China. It allows us to engage with customers on a daily basis, which is not the norm for our industry.

In Hong Kong, our MOVERs are more than 2 times more engaged with our website compared to non-MOVERs, and they now account for 30% of critical illness and hospitalization new business in that market. In addition, the proportion of MOVERs that purchased an additional Manulife product is 15% higher than non-MOVE customers.

In China, we've introduced a new claims process via the popular WeChat app. As shown on slide 24, customer claims can be submitted, processed, and paid online.

In the month of September alone, 11% of the total individual medical claims in our China business came through WeChat. Over 70% of WeChat claims receive results within the day. This is a stark improvement compared to the usual practice, where customers could sometimes wait more than one week for their claim to be processed.

Moving on to slide 25, we've also been providing agents in a number of our markets with iPads equipped with our POSSible financial planning tool, an electronic point-of-sale technology allowing for end-to-end paperless transactions. This makes the sales process more holistic, improves customer experience by eliminating unnecessary back and forth, and increases the professionalism and productivity of our salesforce. In China, our agency productivity has increased by more than 30% since our POSSible tool was launched.

So in summary, we're delivering strong performance in Asia with growing sales, new business value, and core earnings. We're focused on executing on our strategy, and we have tangible drivers of growth in place for the future. We've successfully activated the distribution partnership with DBS, and we're innovating and leveraging technology to transform our business.

This concludes our opening remarks. Operator, we will now open the call to questions related to our third-quarter results or Asia business.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - BMO Capital Markets - Analyst

Yes, thanks very much. Just a couple questions. The first is on the decision to stop writing Long-Term Care in retail. I wonder how that positions you to be able to lobby for price increases, both the price increases that you've already baked into your actuarial liabilities now and any possible future price increases that you haven't put into your actuarial liabilities as it stands right now. And I have a follow-up.

Craig Bromley - Manulife Financial Corporation - Senior EVP & General Manager US, President John Hancock Financial Services

Tom, it's Craig Bromley. Yes, as you know, we are aggressively pursuing price increases in all states. We have filings in for all of them. It's been a multiyear process where we've had some considerable success.

I guess as we look at the range of competitors, many of whom started their processes later, we haven't noticed at this point a discernible difference in terms of the amount of rate increase that they've been able to receive, having left the market, versus ourselves.

That having been said, we will still have to work with the regulators and make sure that they understand our position and the fact that all these rate increases are justifiable, required under law. And I don't think at this point that the stopping new business will affect that.

Tom MacKinnon - BMO Capital Markets - Analyst

Okay. So that doesn't put you in any kind of better or worse bargaining position as a result of not writing new business; is that your understanding?

Craig Bromley - Manulife Financial Corporation - Senior EVP & General Manager US, President John Hancock Financial Services

I mean we can't be sure, obviously. But that is our position.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. Then the second is with respect to new business strain on business excluding WAM. It's listed on page 12 in the SIP. You can see that that's been nicely positive and increasingly positive in the third quarter of 2016.

There wasn't really a material move in rates between the second and the third quarter of 2016. What's driving that to go become more positive?

Is it essentially just writing more and more new business that's much more profitable? And how should we look at that number going forward now that rates are up nicely since what they were averaging in the third quarter?

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

Yes, Tom; it's Steve Finch here. In terms of the new business gain progression from the second quarter, we are seeing some positive benefits of mix and some actions taken in Japan to improve margins. Shifting to foreign-denominated products has been a help.

We can see this bump around a little bit from mix quarter to quarter, but I think we benefited from favorable mix relative to Q2 of this year.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Then what about that going forward? When we talked about rates going up, there is a -- it affects the unwind of the PfAD. But you've suggested that the bigger thing you would see would be in terms of new business strain on this, excluding the WAM business.

So all things being equal, would we expect this impact of new business number to get larger as a result of the lower interest rate environment -- or a higher interest rate environment?

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

All other things being equal, yes. What we do find is that both when rates are going down when they're going up markets can respond. So when rates have gone down and we start to see more charges in new business gains, the businesses will react, reprice product, and then we'll see gradual improvements. But all other things being equal, we would see improved new business gains with higher interest rates.

Tom MacKinnon - *BMO Capital Markets - Analyst*

What about the impact just with rates about 40 or 50 points or 40 points higher than what they would have averaged in the quarter? How does that impact the rollout of the PfAD for this business?

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

When interest rates rise, we do expect higher PfADs going forward. It's not a huge number because they emerge over a long period of time.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, so nothing material. I think you had said it was about CAD10 million pretax in the second quarter of 2016, the impact there when that hurt you, when the rates went down. But can we just take that metric and then just apply some of that to see what the impact would be to the expected profit as rates increase?



Or do you think we should probably, given the fact that they are moving up quicker, be able to get -- I'm trying to look for some metric on this, if you can help me.

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

Yes, I don't think we have anything we can point to, and rates have been moving differently in different markets. Maybe we can take it off-line with you.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay, thanks.

Operator

Humphrey Lee, Dowling & Partners.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Good afternoon and thank you for taking my question. Just to follow on the annual assumption review for Long-Term Care, and I was wondering if you could provide some elaboration of the moving parts related to the charge.

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

Yes, it's Steve here. In terms of the long-term care review, we did a very comprehensive review of all the assumptions. We reviewed all the underlying morbidity, lapse, termination experience.

And what we found was that people were staying on claim longer than we had anticipated in the assumptions. We also found that, in general, mortality and lapse rates were lower than our assumptions. So we reflected all available experience there.

We also reviewed our margins in the business around the growth rate of our utilization assumptions -- so the rate at which people were using those benefits. We updated those assumptions.

And then we also reflected the anticipated impact of further premium increases on the business. And on the premium increases, we've been very prudent in terms of reflecting substantial margins with respect to both the timing of which we'll get state approvals going forward as well as the amount of state approvals.

As Craig said, we do believe -- we still continue to strongly believe that we're entitled to all the increases that we've asked for, and continue to expect to receive them.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

In terms of the -- for the Long-Term Care, specifically on the negative factors, which one would be the biggest driver for the negative results?



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

In the assumption review, the largest driver was the time that people are staying on claim. So lengthening our assumptions of how long people will stay on claim.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Do you have any kind of metrics that you can share there? How long did you extend the duration of the claims?

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

I think overall, the amount that we increased the expected claims were about 5% overall.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Okay. Then a question for Roy. There's some discussion about the pension reform in China and it could potentially create some great opportunities for the industry. Maybe can you share some of your thoughts in terms of what you're seeing in that particular market, and how you are maybe potentially trying to capture that opportunity in China?

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

Yes, thanks, Humphrey; and we would certainly agree with the sentiment of your question. We see pension as actually quite a big opportunity not just in China but across Asia.

We actually feel that we're really well positioned to take advantage of that opportunity. Obviously, with a very strong pension capability in North America and in Asia, through the MPF business in Hong Kong as well as some of the pension businesses across other markets, like Indonesia.

The government in China obviously has spent a lot of time assessing its position on pensions and reform. And we've actually provided our perspectives in relation to the formation of the views that are being established.

So again, we're generally very optimistic about that opportunity. We think we've got a capability in Asia and globally that we can bring to bear, and we're certainly looking at that as an opportunity for further expansion and growth in years to come.

So it certainly is an area of focus for us in our business in Asia, leveraging our global capability.

Humphrey Lee - *Dowling & Partners Securities - Analyst*

Then -- so right now for the JV in China, do you have any kind of -- have you applied for approval or licenses to sell some of those kind of enterprise annuity products? Or are you still in the mix?

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

Our JV is specifically focused on the insurance business. And at this stage we're really not at a point of applying for licenses; but that's something that, again, we're certainly deep in progress against.



Humphrey Lee - *Dowling & Partners Securities - Analyst*

Okay, thank you.

Operator

Linda Sun-Mattison, Sanford Bernstein.

Linda Sun-Mattison - *Bernstein - Analyst*

Hello. Thank you for giving me the chance to ask a question. I have a couple questions, mainly concerning Asia.

So, Roy, number one is the margin, new business margin in Hong Kong has dropped. You cited the reasons are interest rate as well as strategic investment. I understand the interest rate bit; but I tried to quantify how much is attributable to interest rate and how much is attributable to strategic investment, what specifically you are referring to in that part of the investment.

And also the second question in Indonesia, because some of your Asia peers like Pru Plc, they have suffered sales decline in Indonesia. I'm just wondering how you can manage to achieve such high growth in Indonesia? Are you taking more risk, or is it simply because you are coming from a lower basis? Thank you.

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

Right. Thanks, Linda. Just on your first question in relation to NBV margins in Hong Kong, the primary impact for us in terms of margin and challenges on margin in Hong Kong were interest rates. The 10-year bond yield for Q3, was basically 58 basis points down on the prior year, so that's obviously a very significant headwind for us.

Obviously we've got good sales momentum and growth. That's providing a significant offset to some of that.

And we actually took a lot of pricing action and actual diversification through mix changes in the quarter to combat some of that headwind, which partially helped offset it in the quarter. But we're going to continue to see some of the benefits of those pricing actions in quarters to come.

So while we certainly saw an impact in Q3 in relation to margins, we're quietly optimistic that that's something that we'll be able to manage in future quarters as well. And again, I'd just remind you that the absolute margin that we get in Hong Kong is very significant, north of 50%.

On your second question in relation to Indonesia, again you recall that last year we were also quite challenged, with the rest of the market, in terms of our momentum in Indonesia. That was a function of, I guess, a slowing of economic growth and a lack of confidence by consumers in terms of their appetite to buy products.

So we put a very deliberate effort against that headwind and those challenges, and we've been very encouraged with the results. A lot of the drivers of growth that we've been able to leverage relate to our efforts in the bancassurance space.

So DBS certainly was a significant tailwind for us. We've got our partnership this year; and that obviously included the partnership business in Indonesia. And again, we saw some really good volumes and momentum from a growth perspective with DBS.

But also our other partnerships in Indonesia, Bank Danamon and Muamalat, were also very significant contributors to growth. So our bank partnerships are really coming into good order, and we're really very confident about the progress we're making there.



We've also been putting a lot of effort into our agency force. While we don't necessarily have the largest agency in Indonesia, we've been focused on quality of our agency force and equipping our agents with better tools and better processes to facilitate the conversations with customers. We're again seeing improvements in productivity.

So just in general, we're clearly very happy with our progress in Indonesia. It is coming from a focus on quality and leveraging the strength of our partnerships in that market.

Linda Sun-Mattison - Bernstein - Analyst

Just follow on the bancassurance front. You've got an MPF distribution with Standard Chartered. Can I clarify? Is that an exclusive distribution or are you just one of the suppliers?

And also, do you expect to see some of the pension sales through your DBS bancassurance? I know it's not part of the deal, so I just want to clarify whether you get extra volume through your current bancassurance partners.

Roy Gori - Manulife Financial Corporation - President & CEO Manulife Asia

Great. That's a great question, Linda. Thank you. Firstly in relation to our Standard Chartered partnership, our agreement includes the purchase of the portfolio as well as exclusive distribution agreement with Standard Chartered. We've been working very extensively with them to really unlock the opportunity of that distribution partnership.

That involves not only work with their branches, but with the broader set of customers that actually don't even visit the branch. So yes, it is exclusive distribution that we get with Standard Chartered, and we're really delighted with the progress we're making with them. And that's something that again is going to be a continued focus for us.

In relation to DBS, again, whilst it wasn't part of the exclusive agreement, one thing that we're really happy with as it relates to the DBS partnership is that we've been able to extend the areas of cooperation between our organizations beyond just the contractual terms of our agreement. And the MPF space is one of those examples.

So again we're really delighted with the work we're doing with DBS. They are distributing MPF product for us through their network in Hong Kong, and it's really progressing very nicely.

As I mentioned previously, we have the second-largest MPF business in Hong Kong in terms of assets under management, and we're number one in terms of net flows. So we really have a strong position and business there, and we really see that as a core competency that we're going to continue to drive and focus on.

Linda Sun-Mattison - Bernstein - Analyst

Thank you, Roy. May I just be selfish, ask one more last question to Steve? We've seen that Oceanwide from China putting in an offer for Genworth. So I'm just wondering; how do I see your positioning, your VA book, LTC? We know it's a drag and the returns are not great.

If I put it right straightforward in a blunt way: Are you up for sale?

Steve Roder - Manulife Financial Corporation - Senior EVP, CFO

Well, thanks, Linda, for that one. We're open-minded in terms of some of these legacy assets, if you like. But it is a very interesting transaction.

We'll watch it carefully, consider it. And I guess maybe it's at least a sign that there are potential buyers out there for long-term care assets. And we'll see how it progresses.

I guess that's about all I can say.

Linda Sun-Mattison - Bernstein - Analyst

Thank you, Steve.

Operator

Gabriel Dechaine, Canaccord Genuity.

Gabriel Dechaine - Canaccord Genuity - Analyst

Good afternoon. I have a question on the ALDA assumption. You said you are reducing your equity market exposure in the ALDA portfolio; and I also noticed the sensitivity to a 100 basis point change in ALDA returns went up, at least versus the start of the year; I don't know if that's sequential.

Can you walk me through the decision and why maybe your ALDA sensitivity has increased?

Donald Guloien - Manulife Financial Corporation - President, CEO

Gabriel, I'll jump in. I think what you heard was in order to reduce macro hedging cost we've reduced equity risk -- not ALDA, but some equity risks that were held in a Canadian liability portfolio. So we've reduced the amount of equities, therefore having to reduce the amount of macro hedging associated with those equities.

And that, reducing the relatively high-yielding equity asset in our valuation caused a charge to earnings. That's the first part.

The second part of your question?

Steve Finch - Manulife Financial Corporation - EVP, Chief Actuary

The second part is related to the sensitivity to ALDA. And the answer there is that we've continued to purchase ALDA backing our liabilities. So the amount has grown.

Gabriel Dechaine - Canaccord Genuity - Analyst

Okay, all right. And there is no change to your return assumption in ALDA in your review at all this year, right? By asset class, I mean?

Steve Finch - Manulife Financial Corporation - EVP, Chief Actuary

We had a very modest change to the public equity assumption in Canada and the private equity assumption. But the charge was not very significant.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Okay. Then my question, we're going to be asking about rates from here on out, but in a different direction than what you've become accustomed to. Let me put this in the context of your medium-term ROE target of 13%.

By my math, from where you are today to where you want to be medium-term, let's say five years, it's still a pretty hefty required growth rate and earnings to get there. Does this move make you -- like what did you assume for rate improvement over that time frame? Let's put it that way.

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

So well let me start off, Gabriel, then maybe Steve may want to add to that. But when we actually gave that guidance that in Investor Day in 2015, we were using the prevailing interest rate curve at the time. So we weren't making any heroic assumptions about future interest rate increases.

And since that time, because of the decline in interest rates, probably the most noticeable impact has been the increase in required capital. So lower interest rates have just driven up the level of required capital, and we're carrying CAD2 billion plus of additional capital in the form of senior debt or subordinated debt to deal with that. And that has a pretty significant carrying cost associated with it, or servicing cost associated with it.

So one of the obvious impacts going forward will be that we would hope that that trend in increasing required capital goes into reverse. And then that will mean that over time we should see our, all other things being equal, you would expect our leverage ratio to start to come back down again, and that would benefit us in terms of interest expense.

So that's for sure. I'll just see if Steve wants to add anything more.

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

Just confirming that in our planning we follow the prevailing curve. We obviously test sensitivities around that; but as you said, we don't assume increases.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Which part of the curve should I be looking at, then, for comparison?

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

The whole curve, wherever we're making the investments, yes.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

So if I'm interpreting, Steve, your comments, we have rates down since the start of the year; but they moved back up or almost where they were at the end of last year. So if anything this most recent move puts you back on track, not so much ahead yet?

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

I'm not too clear about that. We'll take that one off-line, Gabriel. I don't think we're back where we were in May 2015 yet, for sure.

It's been a long road down, right? So we're way back.



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

And certainly not in Asia, Gabriel. While that may be more true of US rates, not true in Asia.

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

Yes, and particularly Hong Kong. Hong Kong has been particularly difficult for us over the last several months.

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

And Japan.

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

And Japan, yes.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Okay, fair point. Thanks, and good quarter.

Operator

Steve Theriault, Dundee Capital Markets.

Steve Theriault - *Dundee Capital Markets - Analyst*

Thanks very much. First, just a question on sensitivity. With the changes in the collars, my understanding was that your sensitivity to larger equity moves would increase. When I look at the sensitivity to 20% and 30% moves, it looks about the same as it did last quarter.

So is there some lag there? Are those sensitivities, in fact, going to change with the changes in collars?

And then related, did I hear the macro hedge costs should go down further in Q4 and into next year?

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

So as a result of the various changes -- Rahim Hirji here -- on the equity side, and we did do a number of improvements in terms of our hedging this quarter and a little bit into the first few days of the fourth quarter, our sensitivities that are at the end of the fourth quarter and what we published would be in line with what we would expect going forward. We have seen a moderate increase in sensitivities, but very gradual; and that's what we would expect.

Steve Theriault - *Dundee Capital Markets - Analyst*

Okay. Then turning to expenses maybe, Don, last quarter you talked about pulling back spend a little in the second half of the year. Has that been taking place?

Can we see that materially? Can we see anything coming to the bottom line this quarter? Or should we expect to see much of that over the next little bit?

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

Yes, that's happening this quarter to a modest degree and more next quarter and quarters following that. The biggest contribution, though, is the growth in business that we had paid for through strategic spend, and that's continued. And now we're getting the results of it.

So that's giving us the biggest left, the continued growth of the business. And that's true in Canada, the United States, and in Asia most significantly.

Steve Theriault - *Dundee Capital Markets - Analyst*

Is it going to be noticeable to the point where actually we're talking about the number into Q4 and into next year? Or is it still the reinvestment process is going to overwhelm?

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

No, we're going to have more of our expense saves that are coming out of the E&E initiative flow to the bottom line. And that will increase over time.

Steve Theriault - *Dundee Capital Markets - Analyst*

Okay.

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

Just to answer that. I wouldn't expect to see a material step change in Q4 this year, if that was your question. But I think in Q4 this year it's more a continuation on being careful, good housekeeping, a little bit of asking ourselves whether a particular project needs to commence now or can commence a little bit later, if it's not imperative or strategic, etc.

But Donald's comment pertains to the way forward and our desire to continue to drive expenses out.

Steve Theriault - *Dundee Capital Markets - Analyst*

Okay. Also for Don, a lot of moving parts this quarter. There was the reinsurance item among others, and this quarter is obviously quite strong, and a bit of a step function in EPS, really. So I wanted to ask -- I know it's difficult.

But from where you sit today, what we saw this quarter, does it feel sustainable from an earnings power perspective? Or do you need macro to be going the right way? Just trying to get a sense near-term for how sustainable what looks like a bit of a step function in earnings is, in your mind?

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

Yes, we got a little bit of a lift in core earnings from things that you wouldn't necessarily count on being sustainable. But the underlying direction of the business growth and the growth in the margins of the business, shifting to a more profitable mix, is a continuing phenomenon. So you should expect it to continue growing out. That's consistent with the overall expectations that we've established.

In terms of net income, we had a number of things that went our way this quarter. But we also had a number of things -- beyond the basis change, taking a charge on URR; as Steve said, writing off some intangibles; and reflecting the change in the asset mix that enabled us to reduce hedging costs going forward. That was actually a substantial number of negatives based on decisions that we took as a management team that would not be expected to continue.

I guess the other factor I'd say is that now that we've caught up in terms of our investment gains, and it actually made a small contribution this quarter -- which isn't that big a deal. But the bigger deal is if we have any investment gains at all in the fourth quarter, of course those will fall right into core earnings.

And there are a number of things that are looking constructive there, but we can't predict what markets are going to do through the end of the year. But we're hopeful.

Steve Theriault - *Dundee Capital Markets - Analyst*

Okay. That's helpful. Thank you.

Operator

Meny Grauman, Cormark Securities.

Meny Grauman - *Cormark Securities - Analyst*

Hi, good afternoon. If I could follow up just on expenses, if I recall last quarter you talked about 6% baseline growth in expenses and noted that you could do better in the second half of the year. Is that -- is there a change there in terms of what you are thinking in terms of expenses for, I guess, as we head into the end of the year?

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

Thanks; it's Steve here. I think we need to be a little bit careful about the 6%. The way I think about this is you need to think about what is the adjusted baseline, which would include the impact of foreign exchange and the impact of transactions such as the Standard Life deal, New York Life, DBS, etc. So that 6% includes a readjustment of that baseline, which incorporates foreign exchange impacts and deal aspects.

So the step-up in expenses, if you strip all that out, is nowhere, nothing like 6%. And in fact most of it is good news because most of it is as a result of increased sales activity in Asia, and particularly in relation to DBS and the buildout of the Singapore operations in support of DBS, but also the sales growth in some of the emerging economies -- mainland China, Philippines, Vietnam, Indonesia.

So over all, I'm not concerned generally about expense growth. That's not to say that we don't think we have an opportunity to continue to try and get costs out of the infrastructure of the business.

In terms of the balance of the year, Q4 etc., that's a little bit more short term, I'd call it good housekeeping rather than fundamental change related.

Meny Grauman - *Cormark Securities - Analyst*

Okay, thanks for that. Then if you could just talk about the dividend decision this quarter and the decision not to raise the dividend this quarter. If you can just give a little bit of color there.



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

Yes, sure. Well, of course, the decision on dividends, of course, belongs to the Board of Directors and not to Donald or myself or any other executives. Yes; I think most of the analysts did not expect a dividend increase.

Our stated position is unchanged, which is we have our overall, our overarching goal of 10% to 12% core earnings growth that we put out in 2015. We said that our payout ratio would be 30% to 40% of go-forward core earnings over the medium term.

So we have adhered to that. And we said that therefore we would expect dividends to increase if we're successful in increasing core earnings.

Having said that, it would be a little odd to get onto a cadence of increasing the dividend every third quarter, which I don't -- doesn't sound very natural to me. So no change to our guidance, and let's see how things develop.

Meny Grauman - *Cormark Securities - Analyst*

Thank you very much.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *TD Securities - Analyst*

Good afternoon. Donald, can you just clarify an answer to Steve Theriault? And I don't want to put words in your mouth here. Did you suggest that earnings could grow from this CAD0.49 level? Like in the very near term, as in next quarter.

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

No, what I said was quite distinctly, Mario -- but I'm glad you're clarifying it -- is that there's a few things that contributed to core this quarter that would not be repeatable.

Mario Mendonca - *TD Securities - Analyst*

Okay. All right. So what were you referring to then, when you said direction. I kind of lost the message a little bit.

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

Direction? Well, I went on to talk about net and the things that go into net income. And the fact that -- oh, I guess, yes; maybe one factor was the fact that the investment results that we had a negative, right? We had a drag there.

So we've now caught that up, so it contributed CAD17 million to core earnings this quarter. So any dollar earned in investment results will flow directly into core.

Mario Mendonca - *TD Securities - Analyst*

Yes, I follow all that. Okay, so --

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

So, yes, I guess the extension of that is, yes, core could go up. If we get the positive investment results, it will go straight into core.

Mario Mendonca - *TD Securities - Analyst*

But you are not guiding us there right now?

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

I'm not which?

Mario Mendonca - *TD Securities - Analyst*

You're not guiding us there to growth off of the CAD0.49; you don't want to be that specific.

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

No, no, no, no, no.

Mario Mendonca - *TD Securities - Analyst*

That's fair. I just want to make sure I didn't misquote you when I talk about it.

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

Yes. But it's kind of nice, and it was a pretty nice contribution this quarter. We've expected to be able to achieve, on average, [CAD400 million] a year, and if we got our allotment of that in the fourth quarter, it would flow right into core.

Mario Mendonca - *TD Securities - Analyst*

Let me just go back to the Long-Term Care for just a moment. So the price increases that the Company discussed in 2013, is there any way to compare the price increases that you are going for this time around relative to what you did in 2013, just on a percentage basis? Would you say these price increases are greater or less than?

Craig Bromley - *Manulife Financial Corporation - Senior EVP & General Manager US, President John Hancock Financial Services*

The magnitude of the price increases are similar, but this price increase is on a broader set of policyholders; but otherwise the rate increases are roughly similar at around 20%.

Mario Mendonca - *TD Securities - Analyst*

All right. So I guess where I'm going with this is -- how could you have confidence, then, in these rate increases? And now what I'm referring to is not just the rate increases but the extent to which you've priced it into the actuarial reserves.

How can you be comfortable that these rate increases are doable or acceptable when the Company is not now selling individual Long-Term Care and you were, say, three years ago?

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

Yes, so a few comments on that. As we've been going in and filing our rate increases in getting approvals, what we've been finding is that more often the amount that we're asking for, the regulators are willing to give a certain amount -- up to, say, 15%. And then with the knowledge that we will be back the next year asking for more, they have not denied our full increase and understand that will be back. So it's taking a little bit longer.

In terms of the amount that we've embedded in the reserves, I've mentioned earlier in one of the questions that we have added a substantial margin. So we're being very prudent on the balance sheet while we still expect to achieve the full amount.

And I would reiterate Craig's comment earlier that we have seen other large institutions with sizable blocks securing rate increases while not writing new business.

Mario Mendonca - *TD Securities - Analyst*

That's a great question. Let me just drive on to something related. There was a 35 million experience gain related to Long-Term Care this quarter. I thought that was -- I want to commend you on how clear the disclosure was there, that the assumption went through at the beginning of the year and you have this gain. But it does lead to the obvious question.

That 35 million, is that something you can expect, considering how challenging Long-Term Care has been for so long?

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

Mario, just to clarify, we had been reporting losses each quarter on Long-Term Care for the last four quarters, and the update of assumptions effectively, if you cast back to those prior quarters, the improvement was roughly equal to the average of the losses that we'd been seeing. So we have certainly an improvement in our policyholder experience; but I wanted to be clear that it was not a gain.

So we're more -- on an all-in basis, we achieved what we expected. We continue to -- each time we do the review we have more and more experience available. So this time we had significantly more experience as more policyholders have gone on claim than the last review. We will continue to monitor the experience very, very closely.

Mario Mendonca - *TD Securities - Analyst*

Okay. So I clearly misunderstood; the 35 million wasn't an experience gain this quarter.

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

It was a reduction in losses that we had been incurring.

Mario Mendonca - *TD Securities - Analyst*

That makes a lot more sense.



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

Long-Term Care was roughly neutral. I think it was a few million positive.

Mario Mendonca - *TD Securities - Analyst*

That makes a lot more sense to me. Then I'll try to be quick here. The last thing I wanted to get at was the CAD45 million other loss this quarter that appears in that other line -- I'm never sure how to interpret that. That's part of your core earnings, in this case, a core loss. But I don't really know what it relates to.

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

Mario, can you just clarify where you're looking?

Mario Mendonca - *TD Securities - Analyst*

Yes, it's right on the sources of earnings, right on the face of the sources of earnings. And I know it's part of core because I don't believe it's adjusted for anywhere, unless you want to clarify that for me.

And if it's not adjusted somewhere, then what is this?

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

Other includes a variety of items including macro hedge costs; it includes miscellaneous earnings that don't slot directly into the other lines where we don't -- where we're not able to attribute everything to the specific line items. And it tends to bounce around from quarter to quarter.

Mario Mendonca - *TD Securities - Analyst*

So this quarter, this bounce, the CAD45 million, what would that relate to?

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

I think we're going to have to take this one off-line, Mario, if you don't mind. We'll get back to you on that.

Mario Mendonca - *TD Securities - Analyst*

Yes, thanks.

Operator

Sumit Malhotra, Scotiabank.



Sumit Malhotra - Scotiabank - Analyst

Thanks. Good afternoon. A couple of numbers questions I just want to clarify off the top. First off, just go back to the inclusion of the investment gains, so your methodology is such that you could include CAD400 million a year but not necessarily evenly spread out. Is that correct?

Steve Roder - Manulife Financial Corporation - Senior EVP, CFO

It's Steve here. You can include CAD400 million a year, and any quarter end you can cumulatively recognize up to -- at the end of the third quarter, CAD300 million, as it were. So therefore in Q4, Donald made the point that investment experience should end up -- if there is a positive investment experience, it would end up in core earnings. Technically that would be limited to CAD383 million. So if we've got more than CAD383 million, and it falls outside, I'll take that.

Sumit Malhotra - Scotiabank - Analyst

Yes, so that's what I meant. You could end up like to -- I don't want to put too fine a point on any given quarter. But you could conceivably, if you are back to -- and it seems like the energy issues, and I'll knock on wood as I say it, have been less of a problem for a few quarters. So you could conceivably have a very large number included in the core investment gain in the fourth quarter of the year.

Steve Roder - Manulife Financial Corporation - Senior EVP, CFO

Theoretically, that is true. That's not making any judgment on the likelihood or otherwise.

Sumit Malhotra - Scotiabank - Analyst

Yes, okay. I was pretty sure that was the case; I just wanted to make sure.

Then the other clarification point, I think Donald touched on it last quarter when he said there was a few issues that you folks thought would get better, and a reduction in hedging costs was one of them. At least the way I'm looking at your core, it looks like your hedging costs fell about CAD20 million-ish from where they were earlier in the year.

Are you telling us today that you feel that that expected cost of macro hedges is going to fall further from here?

Steve Roder - Manulife Financial Corporation - Senior EVP, CFO

Okay, it's Steve here, and Rahim may want to follow on. We've taken a number of actions in relation to the macro hedging program, which is starting from around Q2.

The first quarter of the year, the hedge costs were very high. That reflected a lot of volatility, amongst other things. So we've been taking actions and we have been getting that run rate from the beginning of the year down.

In Q3, net-net there wasn't a great deal of change versus Q2, but there was some geography. So because we moved from macro to dynamic that had an adverse impact on Asian earnings and a benefit on corporate.

Therefore, just for clarity -- I think we state this somewhere. But if you net all that out and foreign exchange out, the underlying growth in Asian earnings was 13%.



We would expect to see some more benefit in Q4 when we get a full quarter's impact to some of these changes we've been making. Just order of magnitude, probably CAD20 million versus Q3.

Sumit Malhotra - *Scotiabank - Analyst*

All right, that's very helpful. And the last one of these, maybe this is a little bit more forward-looking. Obviously your decision to adjust the URR in Q3, we've had some differing actions on the part of the companies in the Canadian sector.

So you've gone ahead with 10 basis points; not everyone else has. One of your competitors, though, has indicated to us that they are planning on reductions of about 40 basis points on the URR out to 2020.

For either of the Steve's, as you think about this issue, as investors should we be contemplating that the URR is going to be a regular reduction for Manulife in the next few years at the 10 basis point level? Or would that be premature to start to bake that in?

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

Okay, so it's the first Steve here. It's pretty obvious which is which, I guess. I'll start off with the philosophy, if you like; and then Steve can deal with the technical aspects.

Our view is based on all the knowledge available to us. We have a high degree of confidence that something is going to be done to us here; and therefore we'd rather get ahead of that and be imprecisely right.

Whether it turns out to be 10 basis points or not, I don't know. But we didn't think it was -- we preferred just to get ahead of that process and, as I say, not wait for it to be done to us when we have a high degree of confidence it's going to be done to us.

That's the philosophy. And then I'll pass to Steve in terms of how he sees the go-forward.

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

Yes, so the 10 basis points is our best estimate of what will happen next year. In terms of how the rate is set, it's over a very long time period. And when the Actuarial Standards Board moved away from having this come through every quarter, they intended to look at it periodically every four or five years, unless conditions warranted looking at it sooner. And with the low interest rate environment, that's the reason why they're looking at it a little bit sooner in terms of 2017.

But it does take a long time to move this rate. So we haven't really projected out and said future charges. We're not sure yet even how frequently the Standards Board would look at it. So we're looking at what we are very confident in right now, and booking that.

Sumit Malhotra - *Scotiabank - Analyst*

Thanks for your time.

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

Sumit; Donald here. I wanted to add something to part of your question and part of Mario's question earlier, though. If you're trying to make the bull case, if you will -- and I'm not predicting this -- but remember the other aspect to keep in mind about the fourth quarter is, as Roy explained quite well, the Asian earnings were actually suppressed by the decrease in rates that occurred during the quarter in Asia, principally Hong Kong and Japan.

More recently those rates are ticking up quite nicely. So that headwind will disappear, but the business growth will persist.

Sumit Malhotra - Scotiabank - Analyst

Thanks for that. There is a couple of Donald's that seem to be driving the stock right now, Mr. Guloien. So we'll see how the right angle goes.

Donald Guloien - Manulife Financial Corporation - President, CEO

In fairness, interest rates in the United States have been going up since early September, when I guess predictions were in an entirely different direction. I think what's really driving it is the fact that unemployment rates are essentially at full employment level, 4.9%.

Median wages in the United States are up 5.5%, the first time in 20 years. And the upward movement in rates and yield curve all benefits us.

Sumit Malhotra - Scotiabank - Analyst

We'll take it. Thank you.

Operator

Doug Young, Desjardins Capital.

Doug Young - Desjardins Securities - Analyst

Hi, good afternoon. I guess just following on the URR question, Steve, how much of the URR in the discussion and the analysis done by the ASB, if you can let us know -- how much is related to the absolute level of rates? Or is there some wiggle room in terms of direction of rates as well that's considered when looking at setting the URR?

Steve Finch - Manulife Financial Corporation - EVP, Chief Actuary

I think the Standards Board, it's primarily looking at long-term interest rates and averaging over a very long period of time. I'm not sure what you are referring to in terms of other wiggle room; but I guess the Standards Board is not a formula that they follow.

Doug Young - Desjardins Securities - Analyst

Yes, I guess that's what I'm getting at. Is there a level of -- it's not specifically you put in a number and out spits a number. There is some judgment that goes into this consideration, is there not?

Steve Finch - Manulife Financial Corporation - EVP, Chief Actuary

Yes, I believe they will be using -- exercising some judgment.

Doug Young - Desjardins Securities - Analyst

Okay. Then just, Roy, as mentioned earlier, excluding all the noise core earnings in Asia was up 13% year-over-year. I think if you go back to Q1, it was up 18%. So we've seen a little bit of a decline, and I think Donald indicated partially related to maybe interest rates.

Is that most of what's driving down that growth? Is there other items such as expenses that are weighing on it? If you can quantify if that's the case.

And relative to sales growth, obviously I would've expected or I would expect higher growth. Just trying to get a sense of what run rate growth rate we should be thinking about.

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

Yes, thanks. I think as Donald highlighted, the biggest headwind that we've got from a core earnings perspective -- and quite frankly, from an NBV absolute and margin perspective -- has been interest rates. If I look at the average 20-year bond yields across the economies of Asia two, just take a straight-line average, they are down about 94 basis points from where they were in Q3 of last year.

I mentioned, obviously, Japan is a significant contributor there. And then more recently Hong Kong we've seen some -- we've got some headwinds there.

We are starting to see a bounce-back in many of the economies. In Japan most notably from Q2 we're seeing a bit of an uptick.

So that really is the biggest headwind. We've taken a lot of pricing action and sales mix action to offset that headwind, and that sometimes take a little bit of time to filter through.

So we're going to continue to focus on that. And at the same time, I guess as you highlighted, we are investing in the franchise for the future from a strategic perspective. That includes investments as Steve highlighted earlier around DBS as well as the MPF business.

So we're, again, reasonably optimistic that we're going to continue to see strong earnings growth from Asia, notwithstanding the fact that the headwinds are clearly there. And we're obviously optimistic or even hopeful that interest rates are our friends going forward.

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

Just to answer that, I can confirm that there's no real material items within core that are affecting that growth rate. There's bits and pieces; they pretty much net out to nothing.

I think if you look back over the last several quarters, the underlying apples-to-apples growth rate in earnings in Asia has tended to be between 13%; and I think 18% was the high. It can move around a bit within that range, but it's been pretty consistent around that range, right, Roy?

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

Yes. In fact, Q2 was actually 12%; so Q3, 13% was actually slightly up. You're right, 18% was a bit of a high for us in Q1, and that was before a lot of the interest change that we've more recently seen. So yes, I think that's a good summary.

Doug Young - *Desjardins Securities - Analyst*

Perfect. Just one last quickly, hopefully quick one. Wealth and asset management, assets were up 10% year-over-year, core earnings down 5%, EBITDA was down 8%. Can you give us some color on the moving parts?

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

Sure, this is Kai Sotorp. Actually, core EBITDA and core margin is up from the same quarter last year by about 5%, 6%, before taking into account strategic spend. So there are three or four key things that we have underway in terms of initiatives which I think will accrete to the future. [Wealth

and Asset Management ("WAM") Core EBITDA was up by approximately 5% in 3Q16 compared to 3Q15 when excluding investments in strategic initiatives and one-time items, and WAM Core EBITDA Margin increased by approximately 0.5 percentage point on that basis during the same period] (correction added by company after the call).

One is we're actually expanding our sales offices geographically. And secondly, we're expanding our private markets business into high net worth segments.

Third we're putting in place an infrastructure capability to handle future growth. And finally, we're actually investing in our retirement business, Digital Advice, in the US.

So all of these were offsets in this quarter in particular, because some of these had non-capitalizable expense aspects to them. So I fully expect that we're going to have some offset due to fee compression, but we're going to have an increasing escalation of scale benefit going forward.

Our EBITDA margin is actually up sizably relative to same period last year.

Doug Young - *Desjardins Securities - Analyst*

So just to confirm. That's the EBITDA margin is up 5 to 6 points?

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

As is the quantum core EBITDA. [** See note above regarding Post-Call correction**]

Doug Young - *Desjardins Securities - Analyst*

And EBITDA is up 5 to 6 versus the 8% down. Okay, good. Thank you.

Operator

Seth Weiss, Bank of America Merrill Lynch.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Hi, good afternoon. Thanks for taking the question. Financial stocks, obviously, have performed very well since the US election. Interest rate is a big, big portion of that; but I think potential for eased regulation is also driving financials higher, be it banks or be it asset managers or the insurers.

Just curious your view on the regulatory environment and if you see any tangible impact from the results of Tuesday's election.

Craig Bromley - *Manulife Financial Corporation - Senior EVP & General Manager US, President John Hancock Financial Services*

Maybe I'll start off on that. I guess it's pretty hard to say after two days the direction that the new administration will take. Yes, I think there's a lot of speculation based on some of the campaign discussions by the President-elect about easing regulation; and certainly there's been some speculation about the Department of Labor changes in their regulations. I think that's driven some of this, the share price increases in some of the -- particularly the distribution or advisory firms. I think it's pretty early to really speculate about that.

I guess I would just reiterate that our Company is well positioned for any regulatory environment. We've spent years making sure that all of our businesses are, I guess, regulator and consumer friendly with transparency, with eliminating conflicts of interest.

We are moving forward on the basis that the regulatory regime will not change, because I think we have to at this point. But I think either way, whether regulation is enhanced or reduced, we are well positioned to benefit.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Maybe I'll ask it this way with regard to DOL. If regulation eases, does that have any notable impact on maybe your outlook on flows?

Craig Bromley - *Manulife Financial Corporation - Senior EVP & General Manager US, President John Hancock Financial Services*

Yes, I guess -- once again, speculative as to what that easing would be. But I would say that we are well positioned either way. I think we'll be successful from a flows perspective either way.

There are some costs that we need to incur in order to comply with the regulation. And if the regulation were to change in some meaningful fashion or be deferred or eliminated altogether, then there would be a potential cost reduction. But it's far too early to speculate really on what that impact would be.

I would just go back to the flows discussion and say that we are well positioned if regulation comes in or if it doesn't. I think from our perspective there is not a big impact either way.

Seth Weiss - *BofA Merrill Lynch - Analyst*

If I could just sneak one in on just the LTC charge. You commented on increase of claims duration, mortality, higher utilization. If we look at the data, or if you look at the data, is this just a step-up in those measures? Or does the trend line point up over time, that you might see further deterioration when you're looking at your next triennial review?

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

Yes, it's more a matter of getting experience, credible experience at the later durations. Remember, people tend to start using their benefits here not until they are 85, even as late as 90. So we continue to get more credible experience, and I think that's really the drivers: that we've got richer data to look at to set the assumptions.

We do track the trends in cost of care. But I would tell you at this time we've reflected all of the available experience. We've got more experience than we had the last time, and that's what we've reflected.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Okay, because it seems that every time there's richer data it results in an increased charge or a further charge. So when you take your margin or when you increase the liability this quarter, is there an effort -- to use a hockey analogy -- go where the puck is going, not just where it is, and perhaps build in further margin when you look at a trend line of what utilization is, as you get that richer data?

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

Yes, maybe to step back a minute and remind you what the margins are in this business. We expect margins on each individual assumption, and there's many assumptions on this line of business. So those margins accumulate to a very sizable number.

In terms of percentage of the total reserves, our margins or PfADs are a little over 35% of the total reserve. And if you were to compare to, say, a US basis of accounting, an NAIC basis, those margins are substantially higher than either under US GAAP or NAIC because of the very different accounting basis. So we do have very substantial margins on this business.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Great. Thanks so much.

Operator

Peter Routledge, National Bank Financial.

Peter Routledge - *National Bank Financial - Analyst*

Thanks. Hopefully just a couple quick ones. I don't think it's been asked, but a corporate tax rate cut in the US, would that be accretive at your consolidated level?

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

Yes, it's Steve here. It's one of the -- we talked about that at different points in time, and I would say it's complicated. We'd have to flow it all through in terms of that analysis.

It's something we'll look at, but it's probably too soon to be counting or anticipating the corporate tax cuts.

Peter Routledge - *National Bank Financial - Analyst*

Understand, thanks. I wonder, Steve, since I have you, could you give us a little color behind the net reserve release in the USDA business? And that's why -- your disclosure was clear, but what behavior is driving those changes in assumptions?

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

Yes, there were two keep things that we reviewed. We reviewed the timing of when people start to take their benefits and we reviewed the amount of benefits that customers are taking.

On the when, that's an assumption that we had been quite conservative in the original pricing, assuming that people would take their benefits at the most opportune time for them. We've had experience emerge now, and we've had the benefit of being able to look at an industry study; and we have found that people are taking their benefits later than we originally assumed. So they are delaying taking the benefits.

Peter Routledge - *National Bank Financial - Analyst*

They are waiting and letting their wealth accrue, in a sense?



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

Or they have other sources of funds. The offset to that was the amount that people are taking. We had been seeing a trend up in terms of the amounts that policyholders were taking, and we reflected that in the reserves.

The padded assumption, the assumption with margin is assuming very, very close to full efficiency, 98% to 99% utilization of benefits. So we would not anticipate any further strengthening on that assumption.

Peter Routledge - *National Bank Financial - Analyst*

Right, thanks. And Donald, one last one. You talked about balance sheet optimization not too long ago. As rates move up and hopefully stay up, those businesses, I imagine, will be a little more attractive. You've mentioned you might get a little bit more increase coming in.

Has your willingness and enthusiasm for divestiture changed in light of higher rates? Or were you more than happy to entertain offers?

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

Yes, more than happy to entertain offers.

Peter Routledge - *National Bank Financial - Analyst*

Perfect. Thank you very much.

Operator

Gabriel Dechaine, Canaccord Genuity.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Hey, just a quick follow-up. Have you quantified how much of the 2013 LTC repricing is complete or approved? You went after 50% of your book, 25% rate hikes; how much of that has been completed?

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

When we did the 2013 review, we also talked about building in margins on that assumption. What I can tell you is that we have made very, very good progress against those rate increases that we asked for versus what's embedded in the reserves. We had anticipated that it would take a little bit longer than the previous rate increased to achieve success.

I would say the approvals are coming in, but more states have put limits on how much they'll approve in any one year. So we've achieved a substantial part of what was in the reserves, and we continue to expect to make progress on achieving the rest of it.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

In this latest round are you expecting an even longer duration, or similar?

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

We have built in further timing in terms of taking longer than the previous rate increases, yes.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

Okay. Thank you.

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

Gabriel; Donald here. Just to reassure you, Mario once said I was physically incapable of lying, and I took that as a great compliment. So let me give you comfort in your question and Mario's and a few others on these Long-Term Care rate increases: we've got three rounds of these, and we go over it in great detail how much success we have on getting the rate increases. What we have not been able to get perfectly is knowing what the morbidity assumption is going to be long-term, and that's what's led to further increases.

But on the amount of the rate increases, we estimate those very conservatively and have been highly successful at getting our targets. And when we went through this, Steve and I go through it in a lot of detail; Steve Finch prepares it, and his team. But Steve Roder and I go through it, because the last thing we want to be doing is setting up an offset for price increases that aren't going to come through.

And I give you my word that the assumptions underlying the offset from the rate increases are very reasonable and conservative. Now that doesn't mean we'll get them; there's no guarantees in life. But they are very reasonably estimated, very conservatively estimated.

Gabriel Dechaine - *Canaccord Genuity - Analyst*

I would never accuse you of lying. Appreciate the candor.

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

Okay.

Operator

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

Robert Veloso - *Manulife Financial Corporation - VP IR*

Thank you, operator. For anyone on the call, we'll be available after the call if there is any follow-up questions. If not, have a good afternoon, everyone. Thank you.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

