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MFC.TO - Q2 2018 Manulife Financial Corp Earnings Call

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## PRESENTATION

### Operator

Please be advised that this conference call is being recorded. Good morning, and welcome to the Manulife Financial Second Quarter 2018 Financial Results Conference Call for Thursday, August 9, 2018.

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

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**Robert Veloso** - Manulife Financial Corporation - Vice President, Investor Relations

Thank you, and good morning. Welcome to Manulife's Earnings Conference Call to discuss our Second Quarter 2018 results.

Our earnings release, financial statements and related MD&A, statistical package and webcast slides for today's call are available on the Investor Relations section of our website at [manulife.com](http://manulife.com).



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We will begin today's presentation with an overview of our second quarter highlights and an update on our strategic priorities by Roy Gori, our President and Chief Executive Officer. And following Roy's remarks, Phil Witherington, our Chief Financial Officer, will discuss the company's financial and operating results.

After the prepared remarks, we will move to the question-and-answer portion of our call. We ask that each participant adhere to a limit of 1 or 2 questions. And if you have any additional questions, please requeue and we will do our best to respond to all questions.

Before we start, please refer to Slide 2 for a caution on forward-looking statements and Slide 34 for a note on the use of the non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from what is stated. The slide also indicates where to find more information on these topics and the factors that could cause actual results to differ materially from those stated.

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

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### **Roy Gori** - Manulife Financial Corporation - President and Chief Executive Officer

Thank you, Robert. Good morning, everyone, and thank you for joining us for today.

Turning to Slide 5. Yesterday, we announced our financial results for the second quarter of 2018. We delivered strong net income and core earnings of \$1.3 billion and \$1.4 billion, respectively, with core earnings increasing significantly up 25% year-over-year. The strong core earnings contributed to core ROE of 14%, and our expense efficiency ratio dropped 300 basis points to 51.2%. We continue to generate positive net flows in the quarter. And although APE sales declined, our new business value generation increased a strong 24% to \$411 million.

Turning to Slide 6. We continue to execute on our 5 priorities and are delighted with the progress we made in the quarter. In regards to our first priority, optimizing our portfolio, we set an ambition to release \$5 billion in capital by 2022, representing almost 20% of the current capital backing legacy businesses.

In the second quarter, we sold additional ALDA assets which released \$400 million of capital. We also announced that we had entered into an agreement to sell Signator, our U.S. broker-dealer business, which we expect to generate about \$100 million worth of capital in the fourth quarter of this year upon closing.

Since the beginning of the year, we've released \$940 million through portfolio optimization activity, which equates to 19% of our 2022 target. We're happy with our progress, thus far, which has exceeded our expectations.

Moving to Slide 7. The second priority is to aggressively manage costs. And our 2022 ambition is to drive an expense efficiency ratio of less than 50%. To put things in perspective, that equates to roughly \$1 billion in expense saves or avoidances. And this target is net of \$1 billion in incremental strategic investment over the same period, which is over and above the existing strategic spend.

In the second quarter, we announced significant cost savings initiatives, which we expect will deliver \$300 million of per annum pretax savings once fully implemented. And we delivered a 51.2% expense efficiency ratio this quarter, which did not include any benefits from these initiatives. We achieved this by delivering strong growth in core earnings and limiting core expense growth to only 4%. Importantly, we're growing expenses in the right places, such as Asia and WAM, whereas, Canada and the United States have relatively flat or lower expenses.

Moving to Slide 8. Priority 3 is about accelerating growth in our highest potential businesses, which include Asia and Wealth and Asset Management as well as our group insurance business in Canada and behavioural insurance businesses in all geographies.

Our 2022 ambition is to these businesses to represent 2/3 of the earnings of the group. And in the quarter, these businesses continue to perform well. Asia delivered core earnings growth of 19%, a 27% growth in new business value and announced an exclusive bancassurance agreement in Cambodia.



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Core earnings in Wealth and Asset Management grew 15%, and we continued our trends of positive net flows despite the loss of 3 large case plans in our U.S. group retirement business. We also delivered strong earnings in Canada Group Insurance, more than doubling the prior year and our highest quarter of Vitality sales in the United States.

Our fourth priority talks about our ambition of being a global digital and customer-centric leader.

We are very focused on putting customers first. And our 2022 ambition is to increase our Net Promoter Score by 30 points across all markets. And while it's still early in our journey, we are making solid progress.

In Canada, we integrated artificial intelligence into our underwriting of certain products, an industry first. This not only provides efficiencies, but shortens our average response times to customers from 3 days to 1 day. We also launched an end-to-end paperless process with Bank Danamon in Indonesia, and announced initiatives to digitize our back-office functions in Canada.

With our fifth priority, developing a high-performing team, success is simply not going to be possible without the right corporate culture. And we've set a bold aspiration to become a top-quartile employee-engagement company.

In the second quarter, we launched a new mission statement, which is invigorating our employees. We're developing new corporate values in conjunction with our staff and more than 10,000 of them have so far participated. Finally, the transformation of our Canadian business does not just make us a more digital and efficient business, but it's also helping to evolve our workforce to the right skills and right people for our priorities.

So in conclusion, I'm delighted with the progress we've made in the second quarter, earnings were strong and we continue to deliver against our 5 priorities.

I'd now like to ask Phil Witherington to review the highlights of our financial results. Phil?

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

Thank you, Roy. And good morning, everyone.

Turning to Slide 12 and our financial performance for the second quarter of 2018. We delivered strong growth in core earnings and solid net income despite taking a restructuring charge. However, our sales performance was mixed. APE sales declined in the quarter, but we saw a strong growth in new business value. And while we delivered another quarter of positive net flows, they were down from the prior year. I'll highlight the key drivers of our second quarter performance with reference to the next few slides.

Turning to Slide 13. We generated core earnings in the quarter of \$1.4 billion, up 25% from the prior year on a constant exchange rate basis with double-digit growth in each of our operating segments. This was driven by improved policyholder experience and greater expense efficiency, the impact of lower U.S. tax rates and favorable tax items in Canada, and growth of in-force earnings. This was partially offset by lower investment-related experience gains in core earnings, which were a solid \$104 million this quarter, however, down from \$154 million in the prior year, which included a larger catch-up from the first quarter.

Core earnings in the quarter benefited from favorable tax items and notably positive policyholder experience gains in Canada Group Insurance. In aggregate, these items amounted to \$94 million and extended the course of the core earnings beyond the typical run rate. We delivered net income of \$1.3 billion as strong core earnings, and the \$45 million gain from the direct impact of markets was partially offset by the previously announced \$200 million post-tax restructuring charge.

Slide 14 shows our source of earnings analysis. Of note, expected profit on in-force business increased 3% from the prior year on a constant exchange rate basis, primarily due to in-force growth in Asia and lower amortization of deferred acquisition costs on our variable annuity business in the United States, partially offset by a number of small items in Canada, including the first quarter reinsurance transaction.



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Core earnings included experience gains this quarter. Policyholder experience was positive and benefited from particularly strong experience in our Canadian Group Insurance business. Long-Term Care experience was neutral in the quarter. And as a reminder, since our last actuarial review in 2016, experience in aggregate has been consistent with our current best estimate assumptions. We also started to see our focus on expenses come through to the bottom line, with expense experience improving materially from the prior year.

Turning to Slide 15. You can see that we delivered strong double-digit growth in core earnings in each of our operating segments. The strong growth in core earnings, which benefited from the 2 items I described a moment ago, drove a 2.5 percentage point increase in core return on equity to 14%.

As Roy mentioned, expense management is a key priority for us, and we have expanded the disclosure in our statistical information package to provide more transparency.

On Slide 16, you can see the core expenses of \$1.8 billion, which does not include the previously mentioned restructuring charge, grew by a modest 4% from the prior year. This modest growth in expenses, coupled with an 18% growth in pre-tax core earnings, drove a 3 percentage point improvement in our expense efficiency ratio to 51.2%. Of note, the expense efficiency ratio also benefited from the favourable policyholder experience in Canada I mentioned previously, but it does not yet reflect the expected \$300 million per annum pre-tax savings we announced at Investor Day.

Slide 17 shows our annual premium equivalent sales and new business value generation. We delivered APE sales of \$1.2 billion in the quarter, down 22% primarily reflecting 2 items: the first being a strong prior year in Canada, which included 1 large group insurance sale, and the second being increased competition in the corporate segments in Japan.

We continued our focus on margins and delivered new business value of \$411 million in the second quarter, up 24% versus the prior year. In Asia, new business value increased 27% from the prior year, driven by an 8-percentage point increase in new business value margin to 36.8% and growth in sales of 2%.

On Slide 18, you can see that we continued to deliver solid gross flows in our Wealth and Asset Management businesses and delivered another quarter of positive, albeit modest, net inflows.

Net flows of \$92 million reflects solid gross flows and the loss of 3 large case plans in our U.S. retirement businesses. Core EBITDA margin in the quarter increased sequentially but declined from the second quarter of 2017 as the prior year benefited from an expense-related adjustment.

Turning to Slide 19. Total company assets under management and administration exceeded \$1.1 trillion, driven by Global WAM, which saw a 9% growth in AUMA from the prior year to \$640 billion.

Turning to Slide 20. Our LICAT ratio for MLI was 132% at the end of the second quarter, which equates to \$17.7 billion of capital above the supervisory target. This represents an increase of \$1.8 billion since the last quarter, reflecting our focus on capital efficiency.

We reported financial leverage of 29.4% in the quarter compared with 29.7% in the first quarter of 2018, reflecting growth in retained earnings, partially offset by a modest net capital issuance.

Slide 21 outlines our progress to free up capital and optimize our business. As of the second quarter of 2018, we have released almost \$1 billion in capital from our legacy businesses.

In the quarter, we made further progress on our ALDA portfolio mix changes and sold ALDA assets, which released approximately \$400 million of capital. This included continuing to commercialize our ALDA management expertise with arm's length sales to two Manulife-managed funds. The first was the sale of U.S. real estate assets to the Singapore REIT and the second was the sale of U.S. infrastructure assets to the John Hancock Infrastructure Fund. And while the capital impact will not be seen until the transaction closes in the fourth quarter, we've also announced the sale of Signator, our U.S. broker-dealer.

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Slide 22 outlines our financial targets and our year-to-date performance. Core EPS growth and core ROE are both exceeding our medium-term targets and cost efficiency and leverage are trending in the right direction. And while there is more work to be done to achieve and to maintain our medium-term financial operating targets, we are pleased with our position and progress.

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

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) The first question is from Humphrey Lee of Dowling & Partners.

#### Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

Regarding the annual assumption review, you talked about \$100 million potential after-tax charge, at least based on your projection right now. I was just wondering, can you provide some sensitivity on the moving pieces which you've highlighted in the press release?

#### Steve Finch - Manulife Financial Corporation - Chief Actuary

Sure, Humphrey. It's Steve Finch here. We highlighted some of the areas that we're looking at. The review is, as it always is each year, quite comprehensive. We're covering lapse assumptions for U.S. life insurance, mortality assumptions for U.S. and Canadian insurance and annuity businesses. Each year, we review our investment return assumptions, as well as, lapse in utilization assumptions for U.S. variable annuities. The \$100 million that we've mentioned, the charge being up to, is really at this stage, we're still early in the process, but we see a little bit more pressure for a modest charge, which is why we guided towards the up to \$100 million. I can't give you details at this time on any individual items. What I can say is last year, the review included some significant items that were largely offsetting. I think what you can expect this year is that the absolute magnitude of the items would be generally smaller than what we saw in last year's review. And then we'll be glad to give significantly more detail with our Q3 disclosures.

#### Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

Is any that the one area that could be the driver to the bigger sensitivity? Or are they mostly even now across those items that you listed?

#### Steve Finch - Manulife Financial Corporation - Chief Actuary

Yes. I don't think I'd say there's any one individual item that we're worried about. It's as I said, it's comprehensive and there are some offsetting items, and we'll give you more in Q3.

#### Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

Got it. And then shifting gear to Wealth and Asset Management. So you talked about there are some large-case outflows in U.S. retirement plans. I was just wondering if you can provide some color in terms of what happened there. And then also can you about the talk the pipeline that you're seeing for the balance of the year?



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**Paul Lorentz** - *Manulife Financial Corporation - Global Head of Wealth and Asset Management*

Hi, Humphrey. It's Paul Lorentz. Yes. The redemptions were driven by a number of various factors, nothing really systematic there. I think one was related to an acquisition where the combined plan came outside of our target market. We had some relationship changes and one was just protecting margin. If you actually look at the growth of our core market or mid plan from a gross perspective, our sales are up 9% year-over-year. So we feel quite comfortable of our outlook.

**Humphrey Lee** - *Dowling & Partners Securities, LLC - Research Analyst*

And then I guess in terms of the pipeline, what do you see in terms of the overall landscape?

**Paul Lorentz** - *Manulife Financial Corporation - Global Head of Wealth and Asset Management*

Yes. This is not a traditional quarter for us in terms of our redemptions. We do expect variability, but this is unusual for us to see these large concentrated in 1 quarter.

**Operator**

The following question is from Steve Theriault of Eight Capital.

**Stephen Theriault** - *Eight Capital, Research Division - Principal & Co-Head of Research*

A couple for me. Maybe starting with Phil on expenses. Phil, your new minted efficiency ratios already improved 300 basis points from last year kind of year-to-date versus 2017. So wondering, is there anything seasonal or planned in the second half of this year in terms of heightened investments that at least are on your radar screen at this point that might make the first half of the year look exceptionally strong? Or is sort of 51%, 52% a reasonable sort of run-rate from here? And especially in the context of no benefit from restructuring in the numbers yet, so...

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

Thanks, Steve, for the question. So you're absolutely right. We have made quite significant progress on the expense efficiency ratio, 51.2%, 3 percentage points improvement from the prior year. There are 2 components of that. The first component, of course, is that we have successfully controlled expense growth in the quarter. So we've seen expense growth of 4%. And we've also seen strong core earnings growth, which when you translate to the proxy for revenue core earnings before expenses, that helps the denominator. So we see both of those elements contributing to the ratio. Now when we look forward from here, we're focused on 3 things. We're of course, focused on executing against the strategic decisions we made about the cost base when we talked about at the recent Investor Day. So that's something that will go beyond 2018, into 2019 so that we get that \$300 million of run-rate saves in the run-rate by the end of 2019. But we are also very much focused on, secondly, controlling the cost base of the organization so that we're looking hard at any discretionary expenses and making sure that our spend is as efficient and effective as possible. And then the third thing that we're doing is making sure that we are deliberately investing in our business. And as we laid out at Investor Day, as Roy mentioned in his remarks, we are earmarking an incremental \$1 billion in investment between now and 2022 to really help accelerate the delivery of our 5 strategic priorities. So in the second half of this year, I do anticipate some reinvestment, a very disciplined reinvestment. I can't quantify what it is at this point. But what I can say is that whenever we do make a reinvestment, it will be strongly business case so that it will generate a medium-term value to the organization.

**Stephen Theriault** - *Eight Capital, Research Division - Principal & Co-Head of Research*

Okay. That's helpful. I may circle back a bit. But secondly, maybe for Naveed, are you any more confident of getting something done in terms of an LTC reinsurance deal having seen a deal done in the market last week with what looks like a pretty good counterparty? Should we be getting

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excited at all here? For the most part, in past conversations, getting something like this done, it sounded pretty low probability. But wonder if the lay of the land is changing at all there.

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**Naveed Irshad** - *Manulife Financial Corporation - Head of North American Legacy Business*

Okay. Thanks for the question, Steve. So clearly, it's a positive development that there's been a significant transaction in the long-term care space, especially with very strong counterparty. So it's something that we're studying quite closely, but not able to comment beyond that.

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

Yes. Steve, let me just add. Obviously, very encouraging, it's a space that we want to continue to watch. And we're encouraged that there is more activity here. And beyond a specific transaction, we really do believe that we articulated at our Investor Day, there is a lot of opportunity for us to manage those blocks for greater value. And we're going to continue down that path organically. And if there are opportunities inorganically, we'll be exploring those.

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**Operator**

The following question is from Meny Grauman of Cormark Securities.

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**Meny Grauman** - *Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research*

I also wanted to ask about Long-Term Care. There's definitely been some suggestions lately that morbidity assumptions are too positive and need to be adjusted. I'm just wondering, is it more likely that you will have to take a charge on this relative to what you discussed at the Investor Day? And also, is this an issue that you're going to look at the triennial review? Or is it something that you could examine sooner than that?

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

Thanks, Meny. It's Steve. Yes. Certainly, there was a fair bit of press about this. The angle I come at it from this is reminding people that you have to look at the reserve adequacy in aggregate, not at any one individual assumption. And just a reminder, repeating some of the messages that we've given in the past and at the Investor Day, our IFRS basis reserves, we've got a very significant 30% buffer over NAIC reserves. And we have to put a margin on every assumption and that adds up to provisions for adverse deviation of just over \$10 billion. We think that our block is reserved among the most conservatively in the industry. And we highlighted some of the positive characteristics of our block relative to what we see in the industry. And on top of that, in getting to that reserve level, we strengthened the claims cost in our reserves by almost \$11 billion over the last decade. A lot of that has been offset by a very successful premium rate increase program. And if we move on to the morbidity improvement assumption because I will answer your question on that, at the end of the day, I believe, we believe that there are correlations between mortality and morbidity improvements. And in our reserves, those assumptions materially offset. Recognize that there is some judgment there, and we also disclose that the amount of the morbidity assumption on its own is \$1.6 billion. If experience did deteriorate from that, we would add it to our re-rate program. The other thing I would point out is that on other assumptions, such as our premium increase assumption, we only have, as we disclosed at Investor Day, \$0.8 billion embedded in our current reserves. Our outstanding request and what we're seeking for approval is multiple times that, and we could easily justify a more aggressive assumption there. So I think all that to say that we're comfortable with the adequacy of our reserves. Our experience continues to track in aggregate close to our assumptions, and we'll do our usual comprehensive review of all the assumptions in next year's annual assumption review.





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**Meny Grauman** - Cormark Securities Inc., Research Division - MD & Head of Institutional Equity Research

Just on that \$1.6 billion that you also mentioned at the Investor Day, do you think of that as a sensitivity to 1% change in the morbidity assumption or is that not correct?

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

No. That's what we've got embedded for our morbidity improvement assumption in total, and that amounts to about 5% of our aggregate reserves right now.

**Operator**

The following question is from Gabriel Dechaine of NBF.

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

First of all, on the infamous LTC, I appreciate the neutral commentary both for the quarter and on the longer period. But when I look at the core SOE for the U.S. segment looks like an experience loss, \$20 million or so. Can you tell me what drove that if it wasn't LTC?

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

Sure, Gabriel. In terms of policyholder experience for the quarter, in total for the company, it was a positive, as Phil highlighted. In terms of U.S., we had a modest loss in policyholder experience. We actually had claims gains in the quarter. And then we had some lapse losses. So that's what drove the U.S. experience. But I think overall, for the quarter, it was a very positive quarter for policyholder experience.

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

I agree with that. But I just want to drill into that one. What product line was it?

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

On the U.S., UL was driving the lapse losses.

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

Okay, and then just the illustration, I guess, of the cost saves over time, where am I going to see those in your SOE? Is that the unallocated overhead line? Or is it just going to be something that flows through into expected profit? Just to kind of visualize how I should be tracking the progress.

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

Gabriel, thanks for the question. So it won't all flow through the unallocated overhead line. All parts of our organization are subject to cost discipline as we move forward from here. So components of it, you'll see in unallocated overhead would be my expectation. But then within the SOE, you'll see it as a component of in-force business, and you'll see it as a component of new business as well as we become more efficient across all aspects of our businesses in all geographies.



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

Okay. And then just a quick one here. Manulife Bank, it looks like a little bit of a [shift] there in profit, \$10 million versus a normal run rate. --Is there anything going on there?

**Mike Doughty** - Manulife Financial Corporation - General Manager, Canada

So Gabriel, it's Mike Doughty here. There's really 2 drivers to the drop in the bank earnings. The biggest one is just actually a timing of investment that we've been making in both new projects. And in the marketing spend, we have 2 campaigns out in the market currently. So that was the biggest driver. There was also just some investment gains that we received in the prior year that did not repeat this year.

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

Okay. So that initiative spending --is going to be temporary or I assume it would...

**Mike Doughty** - Manulife Financial Corporation - General Manager, Canada

Yes. I think the initiative spending is really just a timing issue. It's a similar spend to what you would see normally.

**Operator**

The following question is from Sumit Malhotra of Scotia Capital.

**Sumit Malhotra** - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

Just to go back to Steve on maybe some of the differences in Long-Term Care. Your disclosure at Investor Day seems to have prompted or maybe aided the industry in being more forthcoming. So I will thank you for getting the ball started on that. Yes, I fully acknowledge that if we're going to compare against what other entities are doing, there are different estimates or assumptions embedded in LTC. But specifically, for the change that Prudential made with respect to morbidity, in your view, do you have any sense that this is going to represent a best practices approach that your regulators are going to want to see? Or was this just very specific to that company and not something that you feel will be adopted by all LTC issuers, providers?

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

It's a difficult question to answer in terms of what will happen. I guess what I consider best practices is what our requirements are under the IFRS, which is updating all the assumptions and making sure that you've got current assumptions on everything. I do know that the NAIC is discussing this, so I guess stay tuned for where it heads. But when I look at best practices, I'm quite comfortable with where we sit.

**Sumit Malhotra** - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

And yes, as I mentioned, I think if we go line by line on this, there are certainly a few assumptions in which your estimates or your assumptions look more conservative. So I think that's your point, right? Is that there are puts and takes with this stuff and the one negative may have offsets for you when you look at this again next year.



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

Yes. It's gotten a lot of attention, and there's certainly judgment in that item. And that's why I started my comments with looking at reserves in aggregate in the size of the total margins that we've got of over \$10 billion. Because I think it's easy when there's one point of comparison to just focus in on that. But I think it's, as you just pointed out, you go line by line, there's puts and takes. And certainly, on the morbidity improvement, it's an area of judgment.

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

Sumit, let me just add. I think Steve is absolutely right. You can't look at any one assumption in isolation. I think you need to look at the entire package. And I have just reinforced the comment that he made and that is that under Canadian IFRS, I think it provides a more robust method of reserving and a more up-to-date method, which we, obviously, believe is the appropriate way to reserve in this space. And again on the Canadian IFRS, we're also subject to an independent assessment of our assumptions. We do that regularly. And again, we think that's a best-in-class practice as well.

**Sumit Malhotra** - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

I'm going to move on to the core earnings in the quarter. Obviously, the core experience gains line has been a major swing this year for Manulife in the first half of 2018 relative to what we saw last year. I think we discussed last quarter that looking at this line now we're going to see predominantly the core policyholder experience along with the expenses. So as far as experience gains and expenses are concerned, I'm somewhat curious here, what's the governing factor that drives a experience gain when it comes to expenses? Your new disclosure this quarter is obviously helpful in that regard. But are we basically looking at something like this quarter, core expense growth was 4%, and that's better than what you folks had embedded in terms of an expectation for this year, as a result, you end up with an experience gain? Is it as simple as that? Or is there more underlying what drives expense experience in a given quarter?

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

Okay. Thanks, Sumit, for the question. As we become more efficient and drive efficiencies in the organization, you will see the benefit of that flow through our expense experience. At the moment, expense experience is actually a headwind for us. And we're very focused on making sure that we close that gap in experience that we have. So you will see a benefit in the experience line. You'll also see a benefit in the new business line as well as we become more efficient in growing the organization of scale, which is particularly important to our operations in Asia where our sales volumes are very material on the insurance side. And I shouldn't overlook WAM. Now I said earlier that all aspects of our business are subject to cost discipline. WAM is absolutely part of that, so you'll see that the improved efficiency flowing through WAM earnings too.

**Sumit Malhotra** - Scotiabank Global Banking and Markets, Research Division - MD of Canadian Financial Services

And one quick one to wrap up for you as well, Phil, your LICAT ratio up 3 points sequentially. You mentioned to us another \$400 million freed-up in capital from the ALDA sales. At what point do we start to see a more aggressive action taken against the leverage ratio? Is 2 to 3 points of LICAT organic growth in terms of that ratio reasonable on the track you're at? And when can you start to deploy that towards paying down that leverage ratio?

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

Yes. So we're very focused on achieving and remain committed to achieving our long-term leverage ratio target of 25%. We've made some progress in the quarter largely as a consequence of an improvement in the denominator, higher equity. As we look forward from here, we will be evaluating capital issuances and maturing issuances in the context of our long-term debt management strategy. And you can expect to see progress towards achieving our 25% target in the next 2 to 3 years.

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**Operator**

The following question is from Doug Young of Desjardins Capital Markets.

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

Just maybe on the expense side, you talked about some of the benefits and targets and how it flows through on experience and then new business. And maybe this involves Steve, but is there any point where you foresee getting to an ability to release reserves around your expense assumptions as a result of the cost reduction? Or is this really just going to be an experience in new business item?

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

Thanks, Doug. It's Steve. I go back to one point that Phil made. So what goes through the source of earnings, as I'm sure you're aware, is that the variance versus our valuation assumption. And as Phil said, we still have a gap versus the valuation assumption. So first, we've got to make progress on closing that gap before we would think about anything related to the reserves. But to the extent that we drive those efficiencies, they'll show up in the new business gain line and then the core experience gain line.

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

So this isn't really an assumption item then?

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

Not in the short term, no.

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

Yes. Okay. And then...

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

That would be something we would revisit when we have a consistent track record of expense gains.

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

Yes. Makes sense. And then just on Canada, I guess if I back out the tax benefit, the improved group experience and core earnings increased 11%. I mean, that's kind of what I would suggest, Steve, in my view, at the high end of what I would expect. Can you maybe talk a little bit about some of the drivers here? I know last year, maybe the experience was not so favorable. And then can you maybe build into the discussion, expected profit was down 8% year-over-year. So we're seeing kind of conflicting messages, maybe you can kind of package that together.

**Mike Doughty** - *Manulife Financial Corporation - General Manager, Canada*

Let me start and Steve, you can jump in. So I think you pointed it out that the biggest driver was clearly the improved experience that we've had in our group business. We had a very strong quarter really across all the product lines. But the one that swings the most is the long-term visibility part of the group where we've had a very significant focus on that business. And I'd say it's successful because we have a very shared interest with



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the employer, right? So you can think about how you manage that business, there's really 3 kind of core components: you reprice the business on an annual basis based on experience, you can adjust plan design and you can make sure that you have the appropriate support to get employees back to work that have an incident. And in all of those cases, we are joined at the hip with our clients in making that happen. So that was the biggest factor in moving the experience. And you're right. I mean, the significant earnings growth that you saw in that quarter is not the kind of increase that you would expect to see in a mature Canadian market. So backing that out as you sort of look forward is not inappropriate. From an earnings and in-force perspective, Steve, I'm sure can add to this. But there was a number of items, some of them are, I would say, one-offs. But there were some items like we did the big reinsurance deal in the first quarter that has an ongoing headwind towards our earnings on in-force. There was some changes at the long end of the yield curve which is driving that down. So it is a combination of factors.

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

Thanks, Mike. So just to add a couple of things. Also new business gains were a nice increase based on product actions that were taken in 2017 that helped drive the year-over-year comparison. And on the earnings on in-force, Mike is correct in terms of a number of smaller items. I would say we don't expect that downward trend to continue. It was a number of smaller items Mike hit on slightly lower interest rates, some impact of hedging and some seasonality in results. So that's what is driving this quarter's results.

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

And maybe if I can get just one clarification. In Asia, the SOE, Steve, the underlying drove a 48% increase or was up 48% on a pre-tax basis. What goes into other in the SOE?

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

Other, yes. Other, in the quarter, there's a number of tax items, actually. And it's really geography between the tax line and the other line. So for instance, minority tax on minority interest. So it's primarily geography.

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**Operator**

The following question is from David Motemaden of Evercore.

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**David Kenneth Motemaden** - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

I just had a follow-up on LTC and a lot of my questions have been asked already. I just wanted to ask just what exactly are you assuming for morbidity improvement within your reserves? Just as a reference, Prudential had assumed a 1% a year improvement for 20 years. Just wondering if you could help us understand what you're assuming there.

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

Sure, David. Our assumption is under 0.5% for 25 years on the padded basis. And the other comment I would make is that I think some in the industry may have the improvement on the total morbidity cost of the total claims cost. Our assumption is only on incidents, which which would represent a little over half of the total claim cost.

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**David Kenneth Motemaden** - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

Got it. And just you said it's, I guess, under 0.5% a year for 25 years on a padded basis. What is it on a best estimate basis? If you could help me with that as well.

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

I don't have that handy.

**David Kenneth Motemaden** - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

Okay. And I guess you kind of mentioned it, but I guess just wondering on the various factors in morbidity. Could you just describe how incidents or frequency trends have been trending as well as severity?

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

Sure. So I guess what we've seen in our results and we talked about this in previous quarters, we've seen higher claims costs overall offset by higher lapse rates. In terms of incidents, I don't think we've seen any increasing trends there. The last time that we looked at the assumptions, what we saw was that we had strengthened our termination rates. And then in terms of utilization, how much benefits being utilized? We're seeing that that's coming in around expectations and there hasn't been any trend there.

**Operator**

The following question is from Tom MacKinnon of BMO Capital.

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

A question about Japan. We've got core earnings kind of declining here and insurance sales declining. Annuity sales are up, and you've got improving NBV and NBV margins. So looks like you're changing the mix of this business. What drove the decline kind of year-over-year in terms of core earnings? They've been sort of running flat. And how long does this improvement in business mix take before it's going to translate into some core earnings lift?

**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

So Tom, thanks for the question. This is Anil. So as we had indicated in quarter 1 as well, we had faced a lot of competitive pressure in Japan in the COLI segment. And we've kind of held our ground and been very prudent about some of the pricing actions. In addition to that, as you rightly pointed out, we have been driving a different product mix and focusing on foreign currency products that we're kind of distributing through both our bank and retail channels, which is really kind of translating to some of the margins gains that you're seeing in Japan. What we are focused in Japan is as you pointed out, is firstly, to ensure that we kind of get the right product mix, but also we have a couple of products on the handle that will be targeted to the COLI market in a bid to kind of reverse the trajectory of deferred tax. So a combination of factors plus driving a much tighter discipline on expense should kind of order well for the NBE margin in Japan.

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

Yes. Tom, let me just add to Anil's comments. So I think the business mix change and the focus on margin in profitability has been a driving force for us over a number of years. And we're now starting to see that much more so in the new business value. The other factor that I think we should all just remember and at least consider when we look at our quarterly results is that we had an exceptional quarter 2 of last year. In fact, in Japan, Q2 of 2017 demonstrated a growth of 45% on the prior year from an NBV perspective. So that's also impacting the year-on-year numbers to some extent.



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

And how long before it generally takes some of this improvement in mix and NBV margins? How long before that translates into some core earnings growth? Maybe Phil might be able to provide color on that.

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

Yes. Thanks, Tom. So the NBV that we generate you'll see through flowing into the earnings in 2 ways: of course, new business value and the growth in the expected emergence of in-force. We do see new business gains from Japan. And I think if you look at our earnings results, there's an element of resilience given the rate in sales decline in the quarter. But I think you can expect to see a gradual build in expected earnings from in-force. But the impact of that is naturally slower than new business value, which does indicate the full value at the point of sale.

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

So probably just improving new business gains and a little bit of modest impact and uptick from expected profit?

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

That's right.

**Operator**

The following question is from Mario Mendonca of TD Securities.

**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

I'd like to follow up on a couple of questions that are already been asked. First on Asia, so new business gains are 35% of your pre-tax earnings, and we are clearly seeing the APE start to slow down and insurance sales slow down. And at some point, I suppose you'll maximize the benefits of all this margin improvement. I guess where I'm going with this is, maybe for Roy, is it conceivable that Asian earnings could actually just really slow in 2019? Or do you have something else in store to drive the story going forward?

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

Well, thanks for the question, Mario. Now we see that we've got a lot of drivers for future growth. And one of the biggest driving forces that we've been able to execute against at the last 2 or 3 years is just getting scale in markets where we've had significantly less scale, that we've got a very strong and big business in Hong Kong. And where we have scale, like we do in Hong Kong, our margins are actually very comparable to the leading players. But in many of our other markets, we're only just building scale. So we still see quite a lot of runway to improving margin. If you look at the margin of our entire business in Asia, it's still significantly lower than some of our leading competitors. So we think scale has a big room for growth. We think that, again, driving continued focus on bancassurance. We've got 9 exclusive bancassurance arrangements in Asia. We've only penetrated about 5% of that customer base, so that again will be a driving force for us to continue to grow our business. And then again on the agency front, we see productivity improvements as well as absolute growth in agency. So we certainly do not see or are forecasting a reduction in our momentum in Asia. We think that we're going to build on a strong platform. We've got some headwinds, as Anil pointed out, in relation to Japan, but we're quite optimistic about the growth prospects.



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**Mario Mendonca** - TD Securities Equity Research - MD and Research Analyst

Okay. Let's flip over to Long-Term Care and again, maybe slightly different way of looking at it. When Pru took the mortality or sort of morbidity hit, essentially what they said is, their experience was just not showing. It was not showing up as mortality and morbidity improvements. Now Steve, when you said that your experience is consistent with your best estimate assumptions, were you talking about assumptions in totality or individually? Essentially, are you seeing them, the 0.5% or maybe call it 1%, if you do it on padded? Are you seeing that kind of morbidity improvement?

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

Sure, Mario. You're right. The experience that we're seeing that's neutral is in aggregate. It's actually very difficult to separate out and identify morbidity improvement. And I think that's one of the reasons why there's been debate on this. There are studies that demonstrate that there is evidence of morbidity improvement in the general population. I think it's been more challenging to get definitive in the insured population. But it's something that we're continuing to study closely as we will for all the assumptions.

**Mario Mendonca** - TD Securities Equity Research - MD and Research Analyst

So if you can't get it for the general population, can you get it for your book? Or is it not reasonable to estimate for your own book of business?

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

We continue to drill in and evaluate it. It's hard to isolate.

**Mario Mendonca** - TD Securities Equity Research - MD and Research Analyst

So at this point, you don't know whether you're getting morbidity improvement?

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

We believe we are, but it is an area of judgment.

**Mario Mendonca** - TD Securities Equity Research - MD and Research Analyst

Okay. Then if that's -- say, \$1.6 billion. Is the \$1.6 billion based on the best estimate assumption?

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

The \$1.6 billion is the padded assumption.

**Mario Mendonca** - TD Securities Equity Research - MD and Research Analyst

The padded assumption. Okay. So presumably, it would be something materially higher or higher on an unpadded basis?

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

It would be higher. I don't have the handy what the number would be on padded.





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**Mario Mendonca** - *TD Securities Equity Research - MD and Research Analyst*

And then you're saying that the other assumptions are sufficiently strong enough to offset that. Are you like the rate of pricing, price rate acceptance, and morbidity. You're suggesting that those are sufficient to offset the padded or unpadded morbidity improvement. Is that what you're telling us?

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

Yes. I guess what I'm saying is we still believe that there is a correlation between mortality improvement and morbidity improvement. So I'm not saying that it's an area that we don't believe our assumptions. The area, the one assumption that I pointed out where I think it's clear to understand is the assumption around future price increases where we've embedded \$0.8 billion in our reserves. We've made progress since that disclosure at Investor Day. And our outstanding premium increases that we're seeking is multiple times that. So that assumption is definitely conservative.

**Operator**

The following question is from Linda Sun-Mattison of Bernstein.

**Linda Sun-Mattison** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

I have just two quick question. Number one is on the Asia growth. I noticed that outside Japan, growth has been very strong, especially in Hong Kong where some of your competitors or peers have seen a slowdown, in China business has declined and that you reported strong growth and also in Other Asia. I try to understand how going forward the next 12 months, this may change or whether we can see this momentum to continue.

**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

So Linda, hi. This is Anil. So you're right that we have seen ongoing momentum in Hong Kong and Other Asia. It's on the back of a few things. I know I alluded to a few of them. So one is, we have been investing in our agency channel, both in terms of taking the absolute number of agents, but also kind of focusing on the active agent ratio as well as unproductivity. Some of our banca partnerships, from a penetration perspective, we still have low single-digit penetration. And there is still a lot of runway for us to be able to kind of tap into some of the opportunity on the banca partnerships. Importantly, we've been spending a lot of time investing in simplifying and digitizing our customer experiences. On one side, it has a positive impact on customer experience, but also it has enough on impact on our cost. And that, in effect, will also kind of lead to margin improvement as well as good momentum that you are mentioning about. So we feel the foundation of Southern Asia is pretty solid, and we have seen consistent growth over the past many quarters and feel pretty positive and confident about the future as well.

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

And Linda, as you mentioned, we've been, perhaps, a little bit more conservative in relation to our appetite for MCV in Hong Kong. And that certainly put us in good stead as that market has come under challenge. So we think, again, that's been a driving force for our Hong Kong business, that is the focus on the domestic Hong Kong market. So that certainly helped.

**Linda Sun-Mattison** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Yes. And following on this Southeast Asia, we know that you had management change or challenge in Indonesia. But I believe 2 quarters ago, you've got a new management CEO in Indonesia. Just want to get a quick update on Indonesia business, where you are, are you seeing possible market share gain?

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**Anil Wadhvani** - *Manulife Financial Corporation - General Manager, Asia*

Yes. So we have a new leader in Indonesia, as you rightly pointed out. And our first half and second quarter results, included, have been very, very strong. The APE has been in higher teens, and I'm talking about the growth rate. The NBV margin has been in excess, the NBV growth story has been in excess of 50% in the first half of the year. So we have seen some very good traction on account of our focus on driving the agency, leveraging the bank partnerships. And we have significant bank partnerships in Indonesia. We have Danamon. We have DBS, who now have acquired the ANZ franchise. So that's starting to kind of yield very good returns to us. So we feel again pretty positive and clearly, the new leader has made an impact over the last 3 quarters.

**Linda Sun-Mattison** - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Great. May I just ask a quick follow-on question on shift back to North America. The \$300 million projection of cost saving, annual cost saving, I try to understand what are the assumptions behind this? Are these simply headcount reductions so you will see the impact go through your P&L? And what may go wrong so that these projected savings cannot be realized?

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

Hi, Linda. This is Phil. Thanks for the question. So the \$300 million, it's actually relatively simple in terms of how we have calculated that benefit. There are 3 components that I'll talk about in priority order. The first is reduced employee costs. Employee costs are the most significant cost of the organization, and a key driver of the \$300 million benefit is the voluntary programs that we have put in place in Canada and the U.S. So that will be part of the driver, very transparent. The second component will be real estate. And again, very simple conceptually, we're combining our head office footprints in the United States and in Canada into a single building in each market and that delivers cost savings. Execution of those actions will be completed over the next 12 to 18 months, so you'll see the benefits in the run rate by the end of 2019. And the third component, which is relatively modest in the short term and is a contribution to the overall \$300 million by the end of 2019, is the consolidation of our legacy IT systems in the U.S. The really important point there is that by consolidating our legacy IT systems in the United States, it gives greater variability in the costs. So it translates fixed cost into more of a variable cost.

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

And Linda, I'd just add that we're very confident we'll deliver and execute against that \$300 million save goal, and we'll deliver a run rate on that in 2019. And beyond that, we're already working on other initiatives to deliver against our bolder addition of \$1 billion worth of expense savings again that we articulated at the Investor Day. So this is really a bigger and much stronger focus for the franchise. We're seeing it through initiatives, as Phil highlighted earlier, we're seeing it just through the culture and focus on expense management. And again, in the quarter, we delivered a real strong expense containment with only 4% growth in our total expense base.

**Operator**

The following question is from Darko Mihelic of RBC Capital Markets.

**Darko Mihelic** - *RBC Capital Markets, LLC, Research Division - Financials Analyst*

I just wanted to revisit your commentary on Asia and the quest for scale. Can you maybe just highlight for us just the 2 that would be more top of mind where you're closer to building scale and having a vast improvement in margin. And the reason for my question - well, maybe I'll just let you answer and then I'll give you sort of an idea as to why I'm asking it.



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

Yes. Let me maybe start and then I'll ask Anil to sort of jump in. Again, we see it. Obviously, Asia is a huge opportunity for us from a growth perspective. And well, in fact, as we mentioned at Investor Day, in Asia, we talked about the fact that 4 years ago, we only had 3 markets where we had more than \$100 million worth of annual APE sales. And now, we have more than 7 markets. So we've really been on a drive towards getting scale in the markets where we have actually been subscale. To answer your question specifically, Darko, the big driving forces for us on that journey has been bancassurance and agency. And then more recently, our efforts on the digital front. But again, I just would like to just reinforce, on the bancassurance front, obviously, we secured the DBS deal. But we've also got quite an extensive portfolio of exclusive bancassurance agreements across our portfolio in Asia. And we're really working very hard to ensure that we monetize that opportunity. And as I mentioned earlier, we've only just penetrated 5% of the 17 million customers that are part of that exclusive agreement. So we think there's a lot of upside to continue down the path of executing on the banca front. And then again on agency, we see growth in 2 ways: one is through the absolute growth of the agency; and then secondly, through improvements in productivity. So we, again, have been executing against that and delivering against that game plan. But we think that we can step that up and take that to a new level together with the focus on shifting the product mix to more profitable products. But Anil, I'm sure has got some other comments that he could add to that.

**Anil Wadhvani** - Manulife Financial Corporation - General Manager, Asia

Yes. So back on base markets. We believe we have scale. I think Hong Kong is one of them, and we've spoken about it. And again, the margins that you see in Hong Kong kind of reflect some of the scale benefit that's kind of flowing through. Singapore again is a good example. And again on the DBS partnership, I mean, we were #7, #8 player, not too far back. And we, now, in quarter 1, are the #1 insurance player in the Singapore market. So that's a good evidence of some of the scale that we're starting to attain in some of the critical markets in Asia.

**Darko Mihelic** - RBC Capital Markets, LLC, Research Division - Financials Analyst

Okay. I guess the concern or the way I would sort of think about this is that with the DBS deal, you're just gaining or scale. But those benefits sort of peter off as we go forward. So without some sort of an inorganic move, the concern is that Asia's earnings growth could slow. But I can revisit that again with you. But I mean, that's the crux of my angle here on Asia. It's almost as though we're still benefiting from DBS disproportionately, but that should peter off as we go into 2019 and 2020.

**Anil Wadhvani** - Manulife Financial Corporation - General Manager, Asia

Yes. I mean, it's different in different markets, Darko. And the beauty about our channel mix is that we have a pretty diversified channel mix across agency and across banca. So they are overwhelmingly kind of dependent on one or the other. So for example in Hong Kong, as we were explaining, agency is a key driver there as in Singapore is the DBS partnership. So it's slightly different in different markets. And I guess that is where the mix and the balance that we have in our distribution channels come through.

**Darko Mihelic** - RBC Capital Markets, LLC, Research Division - Financials Analyst

Okay. And let me just follow up with a stupid modeling question because you pique my curiosity with one of the things I saw on the setback. I mean, when I look at Canada, sales in every single category is down year-over-year. And I realize it's a large-case sale last year that didn't repeat. But I'm just curious, with all these sales reductions across-the-board, why your commissions actually up 8%? And is there some sort of an accrual thing that happens at the end of the year given the current state of sales?

**Mike Doughty** - Manulife Financial Corporation - General Manager, Canada

Well, it's Mike. Let me talk about sales. I mean, I think from a commission perspective, we continue to pay renewal commissions on a big portion of the block. So it's not going to be completely related to some of the sales that we see. But I mean, you're right. The big driver in the drop-in sales



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in Canada was a very high large-case sale that we had in the previous year. And there is natural volatility in that part of the market. But you've also seen that our insurance business, individual insurance sales have been down as we've repriced and really tried to focus on the quality of the business and the margins that we're getting on those business. We're pleased with that in that it's showing up now in our new business gains, in our new business value, which is starting to perform very well. But we do want to continue to grow our volumes, and we recently announced our re-entry into Par, which we're quite pleased with the early response that we've had to that. So we're expecting that to be quite positive on the individual perspective. But certainly, I think your core question around are we happy to have sales decline? No, we're not. We wanted to get to the point where we're comfortable with the risk and the margins that we have. And now, it's all about growing our volumes.

**Operator**

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

**Robert Veloso - Manulife Financial Corporation - Vice President, Investor Relations**

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

**Operator**

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

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