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# Manulife Financial Corp. (MFC)

Q1 2019 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Please stand by. Your meeting is ready to begin. Please be advised that this conference call is being recorded.

Good morning, and welcome to the Manulife Financial First Quarter 2019 Financial Results Conference Call for Thursday, May 2, 2019. Your host for today will be Ms. Adrienne O'Neill. Please go ahead, Ms. O'Neill.

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### Adrienne O'Neill

*Global Head of Investor Relations, Manulife Financial Corp.*

Thank you, and good morning. Welcome to Manulife's earnings conference call to discuss our first quarter 2019 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).

We will begin today's presentation with an overview of our first quarter highlight and an update on our strategic priorities by Roy Gori, our President and Chief Executive Officer. Following Roy's remarks, Phil Witherington, our Chief Financial Officer, will discuss the company's financial and operating results. We will end today's presentation with Steve Finch, our Chief Actuary, who will discuss the company's embedded value.

After the prepared remarks, we will move to the question-and-answer portion of the call. We ask each participant to adhere to a limit of two questions. If you have additional questions, please re-queue and we will do our best to respond to all questions.

Before we start, please refer to slide 2 for a caution on forward-looking statements and slide 31 for a note on the use of non-GAAP financial measures in this presentation. Note that certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from what is stated. The slide also indicates where to find more information on these topics and the factors that could cause 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

*President & Chief Executive Officer, Manulife Financial Corp.*

Thank you, Adrienne. Good morning, everyone, and thank you for joining us today. Turning to slide 5. Yesterday, we announced our financial results for the first quarter of 2019. We delivered strong net income and core earnings of CAD 2.2 billion and CAD 1.5 billion, respectively, with both measures increasing significantly year-over-year. And the strong core earnings contributed to core ROE of 14.2%.

New business value generation increased 31% with solid growth across all operating segments. We also reported embedded value of CAD 55.6 billion as of December 31, 2018, an increase of 17% year-over-year. Net flows were negative, but improved substantially from the prior quarter. And EBITDA margins improved, due in part to operating efficiencies as we continued to leverage our global scale. The company also continues to be in a strong capital position with increased financial flexibility.

Turning to slide 6. We continue to execute on our five priorities and are pleased with the progress that we made this quarter. Portfolio optimization continues to progress well. In the first quarter, our initiatives resulted in the release of more than CAD 300 million of capital. We sold ALDA, which released CAD 250 million of capital, bringing the total release through ALDA sales to CAD 2.1 billion. We've now exceeded our CAD 2 billion target. And while we may sell a few more alternative long-duration assets in the coming months, the program is largely complete.

We also completed a reinsurance transaction on the Canadian legacy block and executed on the New York portions of the previously announced pay-out annuity reinsurance transactions. The initiatives announced to date have cumulatively released CAD 3.3 billion of capital and are expected to release a total of CAD 4 billion once fully executed, representing 80% of our 2022 goal.

We continue to aggressively manage costs to drive expense efficiency. We achieved total expense saves of CAD 300 million in 2018 and are on track to save a total of CAD 500 million in 2019. These savings contributed to flat year-over-year core expense growth in the first quarter, which in conjunction with pre-tax core earnings growth of 8%, drove a 2.1 point improvement in our expense efficiency ratio to slightly below 50%. And as I mentioned last quarter, the previously announced initiatives that are currently in flight, are expected to deliver CAD 700 million of expense savings in 2020.

Our third priority is to accelerate growth in our highest potential businesses and we aspire to have these businesses generate two-thirds of total company core earnings by 2022. These businesses continue to perform well and accounted for over half of total company core earnings.

Our highest potential businesses grew 13% in the first quarter, more than six times the pace of our other businesses, including those that we categorize as legacy. In particular, Asia delivered core earnings growth of 17% and 23% growth in new business value. Global WAM core earnings declined 1%, dampened by lower AUMA levels early in the quarter. However, margins remained strong and we're confident in the outlook of our Global WAM business.

Our fourth priority is about our customers and how we're using technology to delight them and to deliver a great experience. This will be achieved by putting customers first and our ambition is to increase our Net Promoter Score by 30 points. We've implemented NPS systems throughout the organization that track both relational NPS and transactional NPS. Timely reporting of this metric will enable us to adapt quickly to ensure that we're focused on delivering the best customer experience. Our NPS score was 1 in 2017 and 9 in 2018, an improvement of 8 points, which represents substantial progress towards our aspiration to increase NPS by 30 points.

Our final priority is high-performing team. Our target is to achieve top quartile employee engagement compared to global financial services companies by 2022. In April, we made several important changes to our leadership team that will better position us to accelerate our transformation. These changes result in our new Head of Technology, the Chief Marketing Officer and a newly created Head of Global Operations, all reporting directly to me.

With these leadership changes, we'll not only continue to deliver on our goal of becoming the most digital, customer-centric global company in our industry, but also move forward with greater speed and focus, unlocking significant long-term value for all our stakeholders. I believe that we've accomplished a great deal in the first quarter and are off to a good start for 2019.

Phil Witherington will now review the highlights of our financial results. Phil.

## Phil Witherington

*Chief Financial Officer, Manulife Financial Corp.*

Thank you, Roy, and good morning, everyone. Turning to slide 8 and our financial performance for the first quarter of 2019, we achieved another quarter of strong core earnings and net income. We delivered solid top line growth in our insurance businesses with double-digit growth in new business value. Although we experienced CAD 1.3 billion of net outflows, redemptions have moderated significantly following a very challenging fourth quarter. I will highlight the key drivers of our first quarter performance with reference to the next few slides.

Turning to slide 9. We generated core earnings in the quarter of CAD 1.5 billion, up 15% from the prior year on a constant exchange rate basis. This was driven by the favorable impact of new business in Asia and the U.S., higher investment income in our surplus portfolio, including the impact of the recovery in equity markets on seed money investments, greater expense efficiency and improved policyholder experience. This was partially offset by the impact of actions to optimize our portfolio, namely reinsurance agreements and the sale of ALDA.

Net income attributed to shareholders was CAD 2.2 billion in the first quarter, driven by strong core earnings, investment-related experience gains outside of core earnings and the direct impact of markets. Of note, we delivered investment-related experience gains of CAD 427 million in the quarter, driven by higher-than-expected returns on our ALDA portfolio and favorable credit experience. This allowed us to report CAD 100 million of investment-related experience gains in core earnings and CAD 327 million outside of core earnings. Gains related to the direct impact of markets reflected the recovery in global equities, partially offset by the impact of narrowing corporate spreads.

Slides 10 shows our source of earnings analysis. Expected profit on in-force increased 2% on a constant exchange rate basis as growth in expected profit of 8% in Asia was largely offset by the impacts of reinsurance transactions on legacy blocks and our ALDA portfolio mix initiative.

We delivered solid new business gains in the quarter, primarily due to strong sales of our corporate segment product in Japan ahead of potential changes in tax regulation, higher sales, repricing activity and a more favorable product mix in our U.S. Insurance business as well as the continued success of Manulife Par product in Canada.

Overall policyholder experience in the first quarter was favorable, driven by Asia and the U.S. Long-term care policyholder experience was neutral this quarter, continuing its trend of being roughly neutral on average since our last triennial review. Core earnings on surplus increased compared to the prior year quarter, driven by higher investment income, including mark-to-market gains on seed fund investments in the Corporate and Other segment.

Turning to slide 11. We delivered double-digit growth in core earnings in Asia and solid growth in the U.S. despite the impact of recent actions to optimize our legacy portfolio. Core earnings in our Global WAM business was largely in line with the first quarter of 2018 as lower fee income from lower average retail AUM was mostly offset by actions to drive cost efficiencies. The growth in core earnings drove an improvement in our core ROE to 14.2% in the first quarter, above our target of 13%. However, we are not ready to claim victory as we continue to focus on achieving sustainable, consistent performance through the cycle for this metric.

Turning to slide 12. We continued to make progress on releasing capital from our legacy businesses in the quarter. We released approximately CAD 250 million of capital through ALDA sales in the first quarter and have released CAD 2.1 billion cumulatively, exceeding our CAD 2 billion target for this program.

In Canada, we signed a reinsurance agreement on a portion of our individual annuities business, releasing CAD 65 million of capital. And in the U.S., we executed on the remaining portions of the previously announced reinsurance of our payout annuity blocks. The initiatives announced to date, once fully executed, are expected to deliver CAD 4 billion of the overall CAD 5 billion target. We view the ALDA sales program as largely complete, but we'll continue to dispose of ALDA when it makes commercial sense to do so and this may release a modest amount of additional capital.

Turning to slide 13. Our continued cost focus is delivering meaningful bottom line benefits as is evident by the improvement in our expense efficiency ratio. Our core expenses in the first quarter of 2019 were in line with the prior year quarter on a constant exchange rate basis, as a modest increase in Asia was offset by declines in our North American businesses. Expense growth compared favorably to our pre-tax core earnings growth, resulting in an improvement in our expense efficiency ratio for the quarter.

Slide 14 shows our new business value generation and APE sales. In the first quarter of 2019, we delivered new business value of CAD 519 million, up 31% from the prior year quarter. This was driven by growth in APE sales of 23% as well as improved margins in North America. In Asia, new business value increased 23% from the prior year, driven by higher sales across Japan, Hong Kong and Asia Other, partially offset by less favorable business mix.

As I mentioned earlier, sales of the relatively lower margin Corporate segment product in Japan increased significantly ahead of potential changes in tax regulation. Coupled with a decline in interest rates in Hong Kong and a less favorable product mix in Asia Other, this drove a 2.3 percentage point reduction in the NBV margin for Asia.

We have temporarily suspended sales of COLI products in Japan until the tax regulations are further clarified. These products contributed approximately \$45 million post-tax to new business gains in the first quarter of 2019, approximately \$15 million higher than in the fourth quarter of 2018 and \$35 million higher than the first quarter of 2018.

In Canada, new business value increased 27% due to the continued success of our recently launched Manulife Par product. And in the U.S., new business value more than quadrupled due to improved margins as a result of recent repricing, a more favorable product mix and a 20% increase in APE sales.

Turning to slide 15, our Global WAM business experienced net outflows of CAD 1.3 billion during the first quarter. This was primarily due to lower gross flows in institutional asset management and U.S. retail. We also reported higher redemptions in our U.S. retail business, in part from the rationalization of a number of small investment management teams to focus on differentiated capabilities where we can generate further scale, as well as portfolio rebalancing by a large advisor.

Our Asia and Canadian businesses attracted net inflows in the first quarter, despite lower gross flows in institutional asset management. And our EBITDA margin improved as we continue to tightly manage expenses, offsetting the impact of lower fee income in the quarter.

Turning to slide 16. The LICAT ratio of 144% for our primary operating company was strong at the end of the first quarter and equates to CAD 24 billion of capital above the supervisory target. The 1-point increase in the ratio was primarily driven by strong net income and our portfolio optimization initiatives, partially offset by debt redemption. The impact of markets in the quarter was neutral.

Our financial leverage decreased 160 basis points from the prior quarter due to higher retained earnings, including strong net income and the redemption of CAD 500 million of subordinated debt, partially offset by a stronger Canadian dollar. Net share buyback activity in the first quarter was CAD 17 million after taking into account dividend reinvestment. We will continue to tactically buyback shares in 2019.

Slide 17 outlines our medium-term financial operating targets and our recent performance. Core EPS growth and core ROE are both exceeding our targets. Our capital position remains strong and we have made progress reducing our leverage ratio towards the medium-term target of 25%.

I would now like to turn the call over to Steve Finch, who will cover embedded value. Steve.

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## Steve Finch

*Chief Actuary, Manulife Financial Corp.*

Thanks, Phil, and good morning, everyone. Yesterday, we released our 2018 Embedded Value Report and on slide 19, we illustrate the change in embedded value for the company. Of note, embedded value as at the end of 2017 was restated to reflect the transition from the MCCSR capital regime to LICAT on January 1, 2018. This resulted in embedded value at the end of 2017 being reduced by CAD 1.4 billion.

We reported embedded value of CAD 55.6 billion as of December 31, 2018, an increase of 17% from the prior year. Since we started disclosing this metric in 2014, embedded value has grown at an annual rate of 10%.

In 2018, contributions from new business and in-force, called embedded value operating profit by some peers, increased embedded value by CAD 6.5 billion or 14%. This compares favorably with the compound annual growth rate of 11% since the start of 2014.

New business accounted for a strong CAD 1.7 billion of the 2018 increase, a 20% increase from 2017 on a constant exchange rate basis. The increase in embedded value also reflects the appreciation of the U.S. dollar, Hong Kong dollar and Japanese yen relative to the Canadian dollar, which more than offset the normal course payment of common shareholder dividends.

Importantly, embedded value of CAD 55.6 billion or CAD 28.20 per share, reflects only a portion of the value of our businesses, as it attributes no value to the future new business and only tangible book value to our growing Wealth and Asset Management businesses, as well as our P&C reinsurance operations and Manulife Bank.

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



## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] The first question is from Tom MacKinnon from BMO Capital. Please go ahead. Your line is open, sir.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Yeah. Thanks very much. Good morning, everyone. Two questions here. One has – with respect to Asia, and I noticed there's – which you showed on page 13 of your SIP, was some experience gains in Asia in the quarter. Typically, these things have been negative and in this quarter they were positive 15. So, wondering what that is related to, how it relates to policyholder experience or expense experience? And I have a follow-up.

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Hi, Tom. This is Anil. So, let me kick it off and I'll then hand it to Steve. So as you know, we have been very focused on improving policyholder experience and taken a number of steps across a broad set of markets in Asia. What we've witnessed is a meaningful improvement in both claims experience and lapse experience year-on-year. So, we've had positive claims experience in quarter one. And while our lapse experience is negative, it continues to improve from a year-on-year basis as well.

We've also seen some improvements on the maintenance expenses end as well from the year-on-year perspective, and a combination of these factors is really driving the positive impact that you're seeing on policyholder, in fact, total experience for Asia. Steve?

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Yeah, just to supplement, it was great to see the favorable policyholder experience claims gains really across the region – that were not one big number, but across the region. And as Anil pointed out, nice to see lapse experience improving.

In terms of that experience gain line, Tom, that you referred to on page 13, that also includes expense experience, so a portion of our Asia regional overhead. And I would point out there's a bit of geography between the Asia segment and the U.S. segment related to an intercompany reinsurance. So that benefited Asia a bit this quarter with the offset in the U.S.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

And how should we be looking at that number then going forward, Steve? Should we be thinking it's going to be net neutral now or – it's typically been negative? Was there something that inflated it artificially in the quarter?

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Well, the geography item was close to CAD 10 million. I won't forecast experience gains. Like I said, it's great to see the positive experience, but it's hard to forecast because in previous quarters they've been modestly negative.



Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

All right. And is there any update when you might be back in the Japan COLI market and/or any of your competitors coming back in the market? I assume you're waiting for the new regulations and the new tax code to get drafted with respect to this product, but can you give us some timing?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Sure, Tom. So, let me step back and explain a little bit in terms of what's going on in Japan because I think it's a topical subject and I'm sure there's a broader interest in what's happening there.

So in February, there was an indication that there is going to be a revision to the tax laws in Japan specific to the COLI product. And in line with the rest of the industry players, we temporarily suspended to offer the COLI product. Now, what happened was that we had a pretty healthy pipeline and that led to an increase in the bookings of COLI as we went through quarter one, because we obviously did not want to disadvantage our customers, but did at the same time suspend our COLI sales.

We since then have received the consultation paper from the tax authority and we are doing a number of things. So firstly, the good news is that the laws are not going to be retroactive and we are in the process of responding to the consultation paper. We believe that the points that have been enumerated in the consultation paper will eventually convert themselves into the regulation.

Additionally, we are looking at our existing products in light of the tax change and then seeing how we can redesign them to be able to make it more attractive for our COLI customers because we still believe that there is going to be a significant need, no matter the changes, that we're going to see on the tax laws.

The third piece is, again, I think in light of some of the changes, it's going to offer up an opportunity or two for us to come up with new product ideas. So this is not the first time that we are dealing with regulatory change. We have had a number of regulatory changes across markets and have been able to successfully respond to it. And we feel confident that we should be able to come up with new value propositions in light of the changes.

And last but not the least, we are also training our corporate channel to offer other retail and other wealth products. Just to remind you that we have a number of value propositions in Japan other than COLI. So, we have the whole of life, we have a combination of savings and investments, we have the regular premium annuity product, we offer them in both foreign exchange and yen denominated offerings. So we have a number of offerings and we are in the process of training our corporate channel.

So I just want to reiterate the fact that this is not the first time that we are responding to regulatory changes and, what I just said, we feel pretty confident to be able to, A, respond to the consolidation paper, but also design value propositions in light of the new tax laws.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

And how long should we – the lift you've got from new business gains from that COLI product, albeit they were inflated in the first quarter as a result of sales pulled forward, if you will, how long should we envision that to be lower than a run rate? So if we look at that thing, it's sort of been in the 20% to 30%-ish range on a run rate from

Japan COLI. How long should we envision that that would be closer to zero or how quickly would that be replaced by something else?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Yeah. So I think it's a little tough for me to predict as to what that number is going to look like. So as I said, what we believe is once we've responded to the consultation paper, which is due on the 10th of May, I believe that based on our past experiences we should be able to get clarity in about three to four weeks' time and post that we should be able to go back into the market with our modified, as well as some of our newly crafted value propositions. So, we are expecting to get further clarity within the quarter. But it's hard for me to say when that is going to appear, but we are obviously getting our value propositions ready as and when we do get the clarity from the regulators in Japan.

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Yeah. Tom, let me add, I think as Anil said, it's really hard to pinpoint when we'll see the complete clarity as it relates to tax regulations, but we are encouraged by the consultation paper and the progress that's being made there and we're obviously pivoting accordingly.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Okay. Thanks for the color.

**Operator:** Thank you. The next question is from Steve Theriault from Eight Capital. Please go ahead.

Steve Theriault

*Analyst, Eight Capital*

Q

Thanks very much. A couple of questions from me. First, starting with WAM and nice bounce obviously in AUM. But can we talk about flows for a minute? This quarter or last quarter, there's been commentary around team rationalizations, rebalancing. Last quarter, I think there was mention of an absence of short-duration product. We've gotten quite used to positive WAM flows for a long string of quarters. Can we talk a little bit about how big an uphill battle it is to get back to consistent positive flows or is it an uphill battle? And is part of this just a function of the disruption at the end of the year and so on?

Paul Lorentz

*Global Head of Wealth and Asset Management, Manulife Financial Corp.*

A

Yeah. Thanks, Steve. It's Paul here. Yeah, we will give variability in our results quarter-to-quarter, but our expectation is that we will continue to capture positive net flows in the long-term because of the quality and diversification of our business. More specifically, if we look at this quarter, I guess a couple of high level points at the Global WAM level, then I'll talk to the U.S. specifically.

But it's important to note that the comment Phil made on the rationalizing investment teams, that was worth about CAD 1.6 billion in the quarter. Without that, we actually would have been positive for the quarter at the Global WAM level. So, I wanted to first point that out.

Just some other points. Net flows were positive for Asia and Canada in the quarter. Our institutional business surpassed CAD 100 billion in AUM for the first time ever. And our global retirement business continues to capture market share from an already strong position. So, the franchises are in a really good spot.

Looking more specifically at the U.S., the team decision was roughly CAD 1.6 billion in outflows. Just some context on that decision. We felt we had a number of teams that were not sufficiently differentiated to scale. We made the decision to exit those. We retained about 80% of the assets and other mandates and what's leaving in Q1 is really institutional, separately managed accounts where they came to us for that specific mandate and so that left. That decision was accretive to earnings and accretive to EBITDA margins. So overall, we're quite confident in the decision we made for the business.

There was another impact in the quarter as it relates to model allocations, that Phil mentioned, from a large advisor. That is not a new decision. That's the same decision that was made in Q4. And if you recall, on the call, I mentioned some of that allocation would trickle into Q1. That was worth CAD 900 million in the quarter. So, the combination of those two is CAD 2.5 billion. So those are the two events that impact the results the most.

As it relates to the short-term and ultra-short bond that I talked about in Q4, if you take the short-term and ultra-short, it was still the top selling category in Q1 where we don't have a solution. We are in the midst of working on a solution to launch to complete our portfolio; probably be in the market by mid-year. But we did some risks start coming back on. Intermediate bond, as an example, was a top three category in net sales, and we do have a product there and saw a material uptick in our net sales in that quarter.

So, we're feeling good that we have the right product set as investors look to add more risk to their portfolios and I think overall, we believe we're well positioned to capitalize and grow on this and drive positive net flows like we've done over the last consecutive nine years.

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Steve Theriault

*Analyst, Eight Capital*

Q

And the team rationalizations, that's fully run its course as far as you can see...

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Paul Lorentz

*Global Head of Wealth and Asset Management, Manulife Financial Corp.*

A

Yes, it has.

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Steve Theriault

*Analyst, Eight Capital*

Q

... [indiscernible] (00:32:32)?

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Paul Lorentz

*Global Head of Wealth and Asset Management, Manulife Financial Corp.*

A

Yeah, so all the decisions have been done. The last components were these institutional separately managed accounts and its clients decided to leave. And those teams for the most part had exited by the end of calendar year 2018.

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Steve Theriault

*Analyst, Eight Capital*

Q

Okay. Thanks for that. And second one, quicker one, I think. Canadian individual insurance sales were up almost 50%. Can you talk a bit about how much of that is the new-ish Par product? And are you now in full flight with respect to Par in terms of where you'd like to be in terms of penetration levels relative to the broker network or is there still brokers getting acclimated to you guys being back in the Par market?

Mike Doughty

*General Manager, Canada, Manulife Financial Corp.*

A

Thanks, Steve. It's Mike. So, we're very pleased with the growth and the penetration that we've had with the launch back into the Par market. And that really has been the sort of engine driving, both our sales growth and our new business value growth, which was also significant in Q1.

In terms of what kind of runway is left, I think there is more growth potential. We actually will be launching in the next month the other half of Par, which is the life pay, which represents a significant portion of the market. So, we continue to think that there is both advisors that have not yet sold Manulife Par that we just need to reach, but also opportunities to add a product.

The only other thing I'll add is I think we were pretty vocal about the fact that we believe that by getting back into the Par market, we could start to attract other business from those same independent advisors and we're quite pleased to start to see our term business, our living benefits business, our Vitality business were all up in the first quarter. So, we're feeling quite confident about our prospects there.

Steve Theriault

*Analyst, Eight Capital*

Q

Okay. That's great. Do you have a number in terms of what sales would be ex Par for Canada versus the, I think, 44%?

Mike Doughty

*General Manager, Canada, Manulife Financial Corp.*

A

In terms of a percentage, we really didn't have it in the first quarter of last year. So it's sort of an infinite increase. Our actual volumes of Par were CAD 25 million in the first quarter.

Steve Theriault

*Analyst, Eight Capital*

Q

Okay. That's great. Thanks so much.

**Operator:** Thank you. The next question is from Gabriel Dechaine from National Bank Financial. Please go ahead.

Gabriel Dechaine

*Analyst, National Bank Financial*

Q

Good morning. I'll stick to the two questions here and ask about the buyback first. And what you mean exactly by you're going to be tactical, because we've seen a pretty big drop-off in the activity from Q4 to Q1 and on a net basis, it's almost insignificant, although I do like seeing new buybacks below where you're issuing under the DRIP?

Roy Gori

*President & Chief Executive Officer, Manulife Financial Corp.*

A

Yeah. Thanks, Gabriel. Roy, here. So, I think the overarching comment that I'd start with is that we're obviously delighted with our capital position and this is really the result of our focus on portfolio optimization, which has been a priority for the company, and seeing that we're delivering results there is obviously tremendous.

And very specifically in relation to the buyback, we continue to believe that our stock is undervalued, and that we will be a net acquirer of shares. So, we'll be buying back shares today. Since the program started, we've repurchased 33 million shares and we've issued approximately 18 million under the DRIP. So, we have been a net repurchaser of shares and we're expecting that that's going to continue throughout the course of 2019 given where the stock levels are relative to where we think the appropriate value of the stock is.

Gabriel Dechaine

*Analyst, National Bank Financial*

Q

Okay. Then for the actuaries or CFOs in the room, or whoever, the URR guidance there, the potential charge of CAD 500 million, is that something that you would include in the Q3 actuarial review, or could it drift into Q4? And, I guess, more broadly is there any indication of how that could affect your overall actuarial review this year, taking into consideration the LTC thing as well?

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Right. Thanks, Gabriel. It's Steve. So, this month the Actuarial Standards Board issued an exposure draft on the URR and the draft included a reduction of 15 basis points to the long-term URR, which is the most important for Manulife. We do expect that this should be finalized around the third quarter. So as of right now, we would anticipate booking in the third quarter. And based on our calculations, we expect this will be approximately CAD 0.5 billion post-tax charge, which is consistent with the sensitivity disclosure that we provided at the end of 2018 as well. You hit on the other parts of the annual review, and as is typical, we would anticipate providing some information and guidance when we release our Q2 results.

Gabriel Dechaine

*Analyst, National Bank Financial*

Q

All right. I'll leave it there. Thanks.

**Operator:** Thank you. The next question is from Humphrey Lee from Dowling & Partners. Please go ahead.

Humphrey Lee

*Analyst, Dowling & Partners*

Q

Good morning, and thank you for taking my questions. Just to follow up on WAM, especially on flows. You've talked about the wire houses rebalancing or some spillover effect in the first quarter in a tune of CAD 900 million. Do you anticipate any additional spillover impact in the coming quarters or do you feel like that's largely behind you?

Paul Lorentz

*Global Head of Wealth and Asset Management, Manulife Financial Corp.*

A

Yeah. Thanks. Thanks, Humphrey. It's Paul here. We're not aware of any material model allocation decisions new from Q4. Any of the ones announced in Q4 have now been complete. This was the last one from the large advisor. So at this point, we are not aware of any ones that would trickle into next quarter.

Humphrey Lee

*Analyst, Dowling & Partners*

Q

Got it. And then looking at Asia WAM, your EBITDA was down year-over-year, even though your AUM may grew during the period. I was just wondering is there any one-off expenses coming through in the quarter or anything that is notable for the result in Asia in the quarter.

Paul Lorentz

*Global Head of Wealth and Asset Management, Manulife Financial Corp.*

A

Yeah. No, I think if you look back to Q1 of the previous year, there were some one-time benefits that were non-recurring. And I guess the other point is that if you look at the markets, the Asian markets were down for the entire year for the most part, unlike North America, which ended the end of the year. So, some of that is just the change in AUM and some of it is a one-time benefit in Q1 of the prior year.

Humphrey Lee

*Analyst, Dowling & Partners*

Q

Got it. Thank you so much.

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Humphrey, just one additional point to that. So, if you look at year-on-year, you're right, our Asia earnings on WAM are slightly down. But we've also seen an upswing quarter-on-quarter. So the Asia WAM earnings have been sequentially down from quarter two of last year. This is the first quarter after three quarters that we have seen a material upswing quarter-on-quarter. So, I just wanted to reiterate that.

Humphrey Lee

*Analyst, Dowling & Partners*

Q

Appreciate that. Thanks.

**Operator:** Thank you. The next question is from Scott Chan from Canaccord Genuity. Please go ahead.

Scott Chan

*Analyst, Canaccord Genuity*

Q

Good morning, everyone. Just switching over to the U.S. side, if I look at your core earnings by segment, U.S. Insurance was up 31% year-over-year. Can you maybe talk about that? How much of that growth came from closed business versus new insurance sales or new business?

Marianne Harrison

*General Manager, U.S., Manulife Financial Corp.*

A

Yeah, it's Marianne here. Thank you very much. Most of it is coming from new business. So, we saw a lot higher sales volume in the quarter, and we've seen improved product margins. One of the things I had said about a year ago now was that we were really focused on our brokerage business in the U.S. and making sure that we had profitable business. So, a lot of work has been done in terms of some repricing work, expense rationalization as

well. And so, we're in a much better position from a margins perspective, and then with the added volumes as well. That's been the big driver on the insurance side.

Scott Chan

*Analyst, Canaccord Genuity*

Q

Okay. And maybe while I have you, on the U.S. Annuities side, it was down 31% year-over-year, so the opposite. Is there anything to note on that side?

Marianne Harrison

*General Manager, U.S., Manulife Financial Corp.*

A

So the biggest thing on the Annuities side is the reinsurance deal that we did at the end of the fourth quarter, the payout annuities that we reinsured. That was about CAD 20 million worth of impact on the earnings.

Scott Chan

*Analyst, Canaccord Genuity*

Q

Okay, great. And just lastly, there's been a lot of media reports last night and for last several months on China opening up the banking insurance to foreign firms. And just at a high level, just wondering if there's any thoughts on how that could affect Manulife? Is there certain segments that could be affected or certain segments that could open up to you guys?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Yeah. So China obviously is a big priority for us, and a big growth driver for Asia and overall for our company. And the positive steps that we have seen coming out of China in terms of ownership rules, I think we're absolutely delighted with that.

I just want to remind you the fact that we have a very strong joint venture on the ground with Sinochem. We have 51%, which is a majority stake, and a lot of our success that we've seen in China over the last three to four years is attributable to the strong partnership that we have on the ground. So while we are obviously excited about some of the development, we obviously have to take our partner along, and we have had an exceedingly strong partner on the ground, which has contributed to the success that we've seen in China.

Roy Gori

*President & Chief Executive Officer, Manulife Financial Corp.*

A

Yeah. Scott, I'll just add to Anil's comments. I think he covered the key points, but we obviously welcome the intention of the regulators to open up the market. That's something that obviously is in the best interest of the industry overall. But, as Anil pointed out, we are in a very unique position in China in that we do have 51% share, and that is not normally the case. There is a rule that limits foreign ownership to 49% currently. So we have benefited from that, but we also have a great partnership, which has really helped us to achieve the growth that we have achieved, and we don't see our partnership as a limiting factor in any way, shape or form.

Scott Chan

*Analyst, Canaccord Genuity*

Q

Okay. Thank you very much.

**Operator:** Thank you. The next question is from Sumit Malhotra from Scotia Capital. Please go ahead.



**Sumit Malhotra***Analyst, Scotia Capital*

Q

Thank you. Good morning. I'm going to start with Anil. So, appreciate the disclosure on the contribution that the COLI new business gains have made. Just looking at the numbers that you've provided here in aggregate. So, on a U.S. dollar basis, your Asia growth rate continued in the double-digits, but if we back out these COLI new business gains year-over-year, you're down to something like 4%. So, I think the direct question I'd have is with the changes you're anticipating, like should we be thinking about the new business gains going to zero, or is there an offset that maybe I haven't fully appreciated? And in the interim, how do you think this affects your aggregate growth rate in the Asia franchise?

**Anil Wadhvani***General Manager, Asia, Manulife Financial Corp.*

A

Hi, Sumit. So, as you said earlier as well, this is not the first time we've been faced up with a regulatory challenge. In fact, if I would draw your attention to the quarter one of last year – in fact, the first half of last year, COLI sales did get impacted. The reasons were different because we got some excessive competitive pressure, and we held our ground to protect our new business value, but we did get and we have seen similar circumstances before.

I also wanted to point out the fact that we run a very diversified franchise in Asia. So, it's not that we are only dependent upon Japan. We have good growth in Hong Kong and some of the Other Asia markets.

With respect to the numbers that you mentioned, Sumit, if you look at the Asia core earnings ex of COLI, on a constant rate basis, the number that I have is 6%. And if you broadly look at how Hong Kong and Other Asia has grown, we continue to be pretty pleased with the core earnings growth that we have witnessed in quarter one. So, Hong Kong grew 17% year-on-year on core earnings. And while Other Asia shows 1%, that is on account of the fact that we had a one-off positive item in Singapore reinsurance in quarter one of 2018. So, if you normalize for that, Other Asia would grow on a normalized basis by 16%. So, it's not that we are only dependent upon one market. We have a diversified set of franchises. And just given the opportunity and the potential that we have in our Asian markets, we feel there's enough trajectory and enough runway for us to continue our growth in Asia.

**Sumit Malhotra***Analyst, Scotia Capital*

Q

So, the impact on sales and new business gains from this change are pretty evident, but, one, I want to make sure – I appreciate here is that – for you or for Steve. Is there any other ramifications to Manulife from these tax changes? Will we see something impacting experience in Japan as a result of these changes, or should it only be sales and new business value that are impacted?

**Anil Wadhvani***General Manager, Asia, Manulife Financial Corp.*

A

So we don't believe so. And I just wanted to ensure that I reiterate that COLI products are not off the shelf. They're just going to get modified in light of the new tax changes, right? And, as we said, we've been accustomed to responding to some of these regulatory changes in the past. And again, given the product suite that we have, given the diversified nature of products that we offer in Japan, we feel pretty confident to be able to come up with value propositions that will continue to be attractive for the COLI segment in Japan.

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

It's Steve. I would just add that in terms of the potential impact on policyholder experience, the changes would be grandfathered. So, we wouldn't anticipate adverse impact there.

Sumit Malhotra

*Analyst, Scotia Capital*

Q

Thank you for that, guys. Last one for me is going to go to the balance sheet. So, continued good progress on leverage. I think we're at the lowest level in terms of balance sheet leverage in more than three years. So, for either Phil or Roy, you introduced the NCIB and the discount on the DRIP at the same time. With leverage having improved significantly, what would have to happen for you to remove or what's the situation or the factor that would cause you or allow you to remove the discount on the DRIP?

And then, maybe somewhat related, Phil, you had mentioned there's another CAD 1 billion of debt redemptions that are pending in 2019. Have you reached any conclusion on how much of that will have to be refinanced? And I will leave it there. Thank you.

Phil Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Thanks, Sumit for the question. This is Phil. You're absolutely right. We have ended the quarter in a strong capital position, 144% LICAT ratio, and that does provide us with significant financial flexibility. We have executed on redemptions of debt to deploy some of that capital. So, there was an additional CAD 500 million of sub debt redemption in the first quarter.

With respect to how we see future debt redemptions playing out, we are committed to our 25% leverage ratio target. We do have CAD 1 billion of debt available for redemption in the fourth quarter, and we'll make a decision on that closer to the time based on the facts around capital position and market factors, but we really do have the financial flexibility to be able to redeem that, should we wish to do so.

Also, worth noting that in the first quarter of next year, 2020, we have another CAD 500 million of debt that's maturing that provides some flexibility there, should we wish to redeem it at that time to further act on the leverage ratio.

Now, in terms of your questions on the NCIB and the DRIP, we like the combination of the NCIB and the DRIP as tools that we can use as part of our overall capital management strategy. I think it is worth being explicit in the statement that we consider the current capitalization of the company to be below what the underlying value is. So, we're very satisfied and comfortable in continuing to buy back shares in the current environment.

And as Roy mentioned earlier, we have actioned since the NCIB was introduced. We brought back approximately 1.8% of the company's share capital. And in dollar terms on a net basis, net of DRIP, that's a return of CAD 370 million of capital to shareholders, but we feel there's further for us to go. So, we will continue to tactically execute, but we have no intention to withdraw the DRIP. There will be a net return of capital, but no intention to withdraw that.

Sumit Malhotra

*Analyst, Scotia Capital*

Q

And I'll stop here. I mean, you've done a good job in buying back stock at book value, but I would think if you don't need the – so I think you bought back 33 million shares and issued about half of that via the DRIP. If the leverage

ratio and capital are moving in the right direction, why do you need that additional equity pickup from the DRIP would be my question, and I guess that's one we can talk about going forward.

Phil Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

It's really a tool in our capital management toolkit that provides flexibility for us, Sumit. So, I think given that we have an NCIB that has the capacity up to 5%, we have the flexibility with the two items combined to return capital to our shareholders.

Sumit Malhotra

*Analyst, Scotia Capital*

Q

Thanks for your time, Phil.

**Operator:** Thank you. The next question is from Meny Grauman from Cormark. Please go ahead.

Meny Grauman

*Analyst, Cormark Securities*

Q

Hi, good morning. Question on expenses. Strong performance in Q1. Core efficiency ratio below your 2022 target. So I'm just wondering, is this performance a reason to sort of say that you achieved your target, that victory is here, or is there something in there that you would expect to be more volatile going forward in terms of your core efficiency ratio?

Roy Gori

*President & Chief Executive Officer, Manulife Financial Corp.*

A

Yeah. Let me start, Meny, then I'll hand over to Phil. Obviously, we've been focusing very deliberately on expenses and cost management, and directionally we're really pleased with the results. In 2018, we saw expenses grow only at 3%, which is significantly lower than the historic average of our expense growth.

And in Q1, as Phil highlighted, expenses were flat to the prior year quarter, so 0% growth. I wouldn't over-read 0%. I think directionally, we're focused on really containing expenses, and there's still much, much more for us to do. And the fact that we're under our long-term target of 50% efficiency, that's going to bounce around a little bit. So, we might bounce under it in one quarter, and then we're slightly up in another.

Directionally, we want to get to the 50% goal consistently, and obviously, we'd be aiming for even lower than that. So, the key message I'd leave you with is that expense efficiency in driving optimization of our business is a big, big priority. We see it as a huge value enabler. We're seeing good traction and good results. There's still much more for us to do in that space, and we will obviously be investing in key strategic priorities that, again, provide the foundation of future growth. So that is another key important element of our expense management equation.

Phil, would you add anything?

Phil Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Yeah, just a couple of supplements. Thanks, Roy. So, the first item I'll say is that we've emphasized throughout that this is about efficiency, and not only taking costs out of the organization. So being able to fund growth is very important to us. So, a key metric that we look at is that differential between the rate of growth in pre-tax core

earnings and the rate of growth in our expense base, and the gap between those two is effectively what drives the improvement in the efficiency ratio. So, I think it's fair to say what we'll be shooting for in the coming quarters and years. We'll be growing revenues or core earnings pre-tax at a higher pace than general expenses.

Second point that I would like to make is around the variability you might see with the expense ratio. There is an element of seasonality to expenses. It's always hard to predict earnings business momentum. So, I think this is a ratio that may bounce around from quarter-to-quarter, including as we make reinvestments to fund future growth, which is something that we said we would do at Investor Day. We said we'll reinvest CAD 1 billion over a five-year period to reinvest in the execution of our strategic initiatives. So there's much more work for us to do so that we can get to a position where we deliver an expense efficiency ratio of 50% or less quarter-after-quarter. So there's no room for complacency here.

Meny Grauman

*Analyst, Cormark Securities*

Q

Thanks for that. And then, just a second question, just on seed capital. We're seeing a lot of volatility there, and I appreciate the markets from Q4 into Q1 are a big part of that. But the question is, is that an acceptable amount of volatility in your eyes? If you continue to see this movement, would you reconsider those seed capital investments, or is there something you can do to temper that volatility?

Phil Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Thanks for the question. This is Phil again. So, seed capital investments are actually really important parts of our wealth and asset management strategy. It provides us with the ability to launch new customer solutions and that provides us with a competitive advantage. We have a risk appetite that determines how much we're prepared to invest in seed capital initiatives, and we're well within that appetite.

So, in the fourth quarter, we said that we had experienced CAD 115 million of decline in value of seed capital investments. And that really was, I think, an exceptional quarter, and it's somewhat reassuring that when you look at the first quarter of 2019, the majority of that bounced back. It came back, and that's part of what has caused the improvement year-on-year in core earnings of 15%.

And I would just like to highlight as we look at the impacts of seed capital investments in Q1 and link that with the favorable impact that we're seeing from factors such as new business gains, the extent to which the first quarter results are flattered by a number of favorable items, it's in the order of CAD 100 million in aggregate.

Meny Grauman

*Analyst, Cormark Securities*

Q

Thank you.

**Operator:** Thank you. The next question is from David Motemaden from Evercore. Please go ahead.

David Motemaden

*Analyst, Evercore ISI*

Q

Hi, thanks. Just a question for Anil, and just the new business value margins in Asia Other were down a bit year-over-year. Just wondering what geography and what products specifically drove that down, and if there are any changes that you're making to the mix to improve that going forward?

**Anil Wadhvani***General Manager, Asia, Manulife Financial Corp.*

A

Thanks for the question, David. So, if you look at Other Asia, historically, David, Other Asia has been the fastest-growing segment for us and it should not come as a surprise, just given the fact that we have several high-growth markets that constitute Other Asia.

In quarter one, as you can tell, we grew our sales by 20% and our new business value by 10%. There were a couple of factors that impacted new business value. So, one was the product mix. We had a successful launch of the first quarter sales campaign in China, and while we got increased sales on our critical illness offerings as compared to year-on-year, we got more than expected volumes on the savings products. So that had an impact on the product mix as compared to what we had anticipated in China, but in a positive way. But had a downstream impact on new business value.

Secondly, we also saw a decline in interest rates in China, and that also had a knock-on impact on new business value. But in terms of the trajectory that we are witnessing and, again, just given the under-penetration of insurance in most of our Other Asia markets, again, we feel that there is a significant runway for us to continue the growth that we've witnessed in the Other Asia segment in the past.

**David Motemaden***Analyst, Evercore ISI*

Q

Got it. And just to level set, I guess how big is China as a percentage of the total Asia Other new business value?

**Anil Wadhvani***General Manager, Asia, Manulife Financial Corp.*

A

So we can't disclose that, David, but it is a significant part. I would just leave it at that. I guess, importantly, the investments that we are making in China, and just the way we are positioned in China across our insurance joint venture, MTEDA, the WFOE, the MOU that we have at ABC, we feel very confident that we have a strategic advantage in terms of the way we would like to grow our business in that critical market.

**Phil Witherington***Chief Financial Officer, Manulife Financial Corp.*

A

And, David, this is Phil. Just to supplement, we can reach out to you offline to draw your attention to some of the country by county disclosures we had made for our business in Asia as part of our 2017 Investor Day. That provides a good indication of how significant China is relative to Asia as a whole.

**David Motemaden***Analyst, Evercore ISI*

Q

Okay. Great. Thank you. And then, just a question for Steve. LTC experience is neutral in the quarter. Just wondering if you can give some of the puts and the takes. And I would assume it's a favorable mortality quarter from a seasonality perspective, but any sort of detail you can provide on the puts and the takes for the LTC experience this quarter would be great.

**Steve Finch***Chief Actuary, Manulife Financial Corp.*

A

Sure, David. So, what we saw – interesting – if we go back to last year in the first quarter, we saw elevated levels of mortality across our businesses, and we reported gains in long-term care, gains in annuities offset by losses on life claims. We didn't see that phenomenon to anywhere near the extent that we saw it in 2019.

But what we did see in LTC, which was neutral this quarter – as I've commented in previous quarters, some of the same trends were there that we've seen higher-than-expected claims costs offset by higher-than-expected lapses on policies where there's been a premium increase or through benefit reductions. So those factors are part of our comprehensive review of assumptions that's ongoing now, as well as the favorable progress that we've made on achieving in-force premium increases. So those trends will all be reflected in our annual assumption update in Q3.

David Motemaden

*Analyst, Evercore ISI*

Q

Okay. Great. Thanks for the answers.

**Operator:** Thank you. The next question is from Doug Young from Desjardins Securities. Please go ahead.

Doug Young

*Analyst, Desjardins Securities*

Q

Good morning. I guess my first question is for Naveed. Just wanted to understand how the rate environment has impacted your ability to transact on the legacy block. And I guess, where I'm going is in this quarter there was a reinsurance deal done in Canada, but it was relatively small. I would have expected a little bit more activity, and I know there's a lot more going on behind the scenes. So, hoping just to get a bit of an update.

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

A

Okay. Thanks, Doug. So, Naveed here. So, in terms of the rate environment, we have a number of processes that we're looking at right now. We have not seen a pullback yet in terms of what we have on the market. It's certainly something to keep an eye on.

Talking to some of the potential reinsurance partners, we're seeing that a lot of this is very much dependent on the reinsurer investment strategy, and many of them are using asset classes where there actually hasn't necessarily been a big pullback. So, again, we're not really seeing that impact yet in any of the pricing.

Doug Young

*Analyst, Desjardins Securities*

Q

Okay. So, no real big shift in terms of your pipeline at this point in time, doesn't sound like...?

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

A

Not yet. And, again, as we've talked about before, we're targeting a number of ongoing transactions every quarter. So I think you're going to continue to see that.

Doug Young

*Analyst, Desjardins Securities*

Q

Is it more single and double versus larger? Is that the way you've, I guess, characterized it in the past? I guess that hasn't changed either.

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

Well, we're definitely going for the singles and doubles, but we have some other things in the mill also.

A

Doug Young

*Analyst, Desjardins Securities*

Okay.

Q

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

So we'll definitely deliver on the ongoing regular transactions with potential for more.

A

Doug Young

*Analyst, Desjardins Securities*

I'd ask what those are, but I'm sure you're not going to tell.

Q

I guess second, just on the long-term care insurance, and I don't know if this is for you, Naveed, or Marianne. I think there's been discussion in the past about the landing spot experience, and I'm just curious how the landing spot experience has been going relative to expectations. I know you've been doing copays as another way to try to manage the book. I'm just wondering how that's going relative to expectations.

And, Steve, you brought it up, progress on in-force premium increases. Just wanting to see how that's gone relative to what your expectations that you gave a while back.

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

Yeah. Doug, it's Naveed again. So, on the landing spots, where we're able to offer them, we continue to see positive experience relative to expectations. Oftentimes, we'll get 50%-plus of policyholders elect the landing spot in view of the premium increase, and that sort of trend is continuing.

You mentioned the copay. That's a new landing spot that we've been implementing, getting regulatory approvals for throughout the last few months. We've been getting our initial approvals on that. Implementation of that will be later this year. So, we haven't seen the experience yet, but we'll continue to monitor.

A

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

And it's Steve here. With respect to the progress on premium increases, I answered a question last quarter on this. And at Investor Day, we had disclosed that our reserves included only CAD 0.8 billion of future premium increases, and I disclosed last quarter that we had achieved CAD 0.5 billion of that. We continue to make progress. And as part of our Q3 disclosures, we'll provide updates on further progress.

A

The last thing that I would point out there is a reminder that while we're conservative in terms of what we include in our reserves, there's multiple billions of dollars above that that we have filed for and expect to achieve over time.



Doug Young

*Analyst, Desjardins Securities*

Great. Thank you.

Q

**Operator:** Thank you. The next question is from Paul Holden from CIBC World Markets. Please go ahead.

Paul Holden

*Analyst, CIBC World Markets*

Thank you. Good morning. So I'm going to ask a follow-up on that long-term care and then the prospect for rate approvals in the context of some of your competitors, or at least one competitor highlighting that certain state regulators that have been reluctant to give rate approvals seem now much more accommodative. So, without giving us any numbers, I'm wondering if, at least, you can comment on if you're seeing the same trend and probability and progress has improved more recently.

Q

Marianne Harrison

*General Manager, U.S., Manulife Financial Corp.*

So it's Marianne here. Yes, we are seeing some states where, in the past, they hadn't approved, and now they're talking about doing some approvals. They've been very small. There hasn't been a large number of them. In general, we've been doing pretty well across all of the states. Getting 100% in some spots, but in other spots, they're basically giving us a cap, and then we come back year after year, but overall, it's been fairly good experience that we're seeing, but like I said, some of them – you do have to go back multiple years.

A

Paul Holden

*Analyst, CIBC World Markets*

Okay. Next question is related to the interest rate environment. And this one is more, I guess, geared at your NBV margins and Asia, but perhaps you can also just globally into the conversation. Rates are definitely lower than probably where most of us would have expected. So what actions, like real actions, can you take to offset that, whether that's in the investment portfolio, repricing, if you think about it in the context of expense efficiencies, et cetera, versus just what the URR impact is, but the real business implications and how you respond to it?

Q

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

Hi, it's Steve. I'll start on that, and if Anil wants to add on Asia. What we've seen typically is that when interest rates move, typically what will happen over time is markets will respond, right. So, products will be repriced. In general, higher interest rates are better for Manulife, better for the industry, but we've been shifting to non-guaranteed products where you can pass through the experience, both positive and negative, so that doesn't have as much of an impact on the NBV.

A

And more broadly in Asia, we think the bigger driver is the growth and success that we've had across the region is sustainable scale that showed up in our NBV and our new business gains that you've seen over time. And I think when you look over the medium or longer term, all those aspects are there, and the opportunity to expand NBV and NBV margins remains.

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Yes. So, I just had a couple of points to supplement that. So, in each of our geographies, we have opportunities to improve new business value, and we are not necessarily at the scale that we would like to be. And even in a market like Hong Kong, where we have scale, we still believe that there is an opportunity to improve our new business value margins as we acquire scale.

So we have a couple of other levers, like we're driving consciously a much more stronger product mix. That should drive better margins for us. As well as Phil mentioned, driving a lot of focus on expense efficiency as well. Just because we are a growth region does not mean that we do not have an opportunity to do a better job on expense efficiency.

Paul Holden

*Analyst, CIBC World Markets*

Q

Okay. So the trend to higher NBV margins is not disrupted by lower rates, is the message.

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Yeah. I think there are multiple levels, right. We're pressing forward on all levels, as Steve mentioned as well.

Paul Holden

*Analyst, CIBC World Markets*

Q

Okay. Good. Thank you.

**Operator:** Thank you. The next question is from Darko Mihelic from RBC Capital Markets. Please go ahead. Your line is open.

Darko Mihelic

*Analyst, RBC Capital Markets*

Q

Thank you. Good morning. Just a few questions. All of my questions are actually related to slide 12 of your presentation this morning, and they're really geared toward Naveed and Roy. The first couple of questions on this slide, I have been keeping a running total of the cost of the CAD 4 billion, but on this slide if we can think about it in the following way, maybe you can give me a couple of numbers here to sort of compare against the ones that I have. How much has this cost you, the CAD 4 billion of the CAD 5 billion target in terms of actual book value? What was the lost earnings? And then, the more difficult question, how much has this saved you in terms of earnings volatility or how much has this lowered risk for the company? And then, I have a follow-up.

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

A

Hi, Darko. It's Naveed here. I can give you the answer on the foregone earnings. So, as you know, for all of these transactions, we've talked about how much earnings give up there is. So, in the first quarter, the total earnings foregone related to the CAD 3.3 billion executed and the CAD 4 billion line of sight was CAD 33 million of foregone earnings. So that includes CAD 7 million on the ALDA side, and the rest related to reinsurance transactions.

Darko Mihelic

*Analyst, RBC Capital Markets*

Q

Okay. Great. And no measure possible on the risk or what has this saved us in terms of volatility or...?

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

A

There's probably no single measure we can give you on that. Certainly, when you look at the blocks where we have done the reinsurance, we've taken out interest rate risk, we've taken out longevity risk. ALDA is self-explanatory. But, I guess, no specific measure on that.

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Yeah. It's Steve. I would just add that where we're taking ALDA out, it's really in the guaranteed segments where we can't pass that – it's the shareholders' account. So we have seen reductions. It's reflected in our disclosures, all other things being equal in our disclosures around impact of shocks to our ALDA portfolio.

The other thing that I look at in terms of risk reduction are some of the organic things that we're doing, such as in long-term care. The landing spots reduce the future benefits, so it reduces the variability around LTC claims. So, we look at the risk reduction from a variety of different standpoints from the inorganic as well as the organic work that Naveed's team is doing.

Darko Mihelic

*Analyst, RBC Capital Markets*

Q

Okay. Thank you. And then, just the overall strategic question then is as I look at this, the way I've sort of thought about your actions to date, and I don't want to diminish them in any shape or fashion, but it seems as though the CAD 4 billion of the CAD 5 billion has been what we would call if we're thinking through this like the low-hanging fruit and maybe the easier sort of transactions to sort of do, and which leaves me with the question of, well, there's still an awful lot of capital tied up in the businesses precisely that are more concerning. So, the question then is does the CAD 5 billion target need to be reevaluated, and how much more difficult will that last CAD 1 billion be to get you to the CAD 5 billion?

Roy Gori

*President & Chief Executive Officer, Manulife Financial Corp.*

A

Yeah. So Darko, let me start, and I'll ask Phil and Steve to jump in. And I think the first thing I'd say is that when we decided that this was going to be a focus and a priority for the organization, I think it sent a very clear message that this is where we felt there was a lot of value and upside for the franchise. And the first thing I'd say is I'm delighted with the progress that we've made. We set the CAD 5 billion target over five years and we got line of sight to the CAD 4 billion well and truly ahead of our 2022 ambition.

And as Naveed pointed out, we've been very efficient with how we've executed that in terms of the earnings foregone. And, again, if you look at our Q1 results, the fact that we were able to see a LICAT ratio at north of 140 together with a core ROE of 14-plus-percent, I think that really does bring home the key point that this has been a very efficient way to drive capital allocation. But you're absolutely right. Of course, we're going to be focusing on the low-hanging fruit first, and it is going to get harder.

This is what we anticipated, what we expected, but we still feel very optimistic about our ability to not only achieve our target, and once we do, we'll assess where we are and see whether the next phase of our efforts in this space need to include and incorporate a new vision for our focus area. I'd say that, again, the other point of focus, which, again, has been very important for us from a capital optimization perspective, has not just been the inorganic plays, but the organic focus on legacy is also generating tremendous value. And Naveed sort of touched on some

of the things that we're doing there, but I wouldn't discount the focus on legacy, both from an inorganic perspective, but also the organic.

Phil Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Yeah. And this is Phil. If I could just supplement, it's really important to us that at the start of the program, we really got moving and demonstrated that we were able to execute on large reinsurance transactions because I think it had been something that we talked about for some time, but it was really only in 2018 that we made significant progress on that.

So, it was somewhat intentional that we actioned on the lower-hanging fruit, as you described it, up front in the program, but I think it's also fair to say that we are looking at some of the more difficult blocks. That is something that is high on our priority list. Can't provide an update now, but you just need to know that we are looking at it.

In terms of the guidance that we issued, CAD 5 billion remains our target. It's too early at this point to provide any update to that guidance, but we're very confident that we can get to the CAD 5 billion or exceed that target.

Naveed Irshad

*Head of North American Legacy Business, Manulife Financial Corp.*

A

Yeah. It's Naveed here. I would just like to supplement. There's actually still some more runway on the reinsurance transactions, the so-called low-hanging fruit. Like you saw, the Canadian longevity transaction in Q1, we are continuing to be engaged in a number of processes. And at the same time we are pivoting to the larger, more problematic blocks, as Phil suggested, and we're pivoting on two organic initiatives.

In Q4, we ran a seg fund transfer program. That freed up CAD 120 million of capital. We're running another program in Q2. We are piloting a buyout program on structured settlements in the U.S. in Q2. We are looking at piloting a buyout program on a no-lapse guarantee universal life product in the U.S. later this year, as well as a buyout program on the U.S. VA GMWB product either in Q4 of this year or Q1 next year. So, I still feel good about the runway of initiatives.

Darko Mihelic

*Analyst, RBC Capital Markets*

Q

Okay. Thanks very much for that answer.

**Operator:** Thank you. There are no further questions registered. At this time, I will return the meeting back to Ms. O'Neill.

Adrienne O'Neill

*Global Head of Investor Relations, Manulife Financial Corp.*

Thank you, operator. We will be available after the call if there are any follow-up questions. Have a nice morning all.

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

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