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# Manulife Financial Corp. (MFC)

Q3 2019 Earnings Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the Manulife Financial Third Quarter 2019 Financial Results Conference Call for Thursday, November 7, 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 third 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. We will begin today's presentation with an overview of our third quarter highlights 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 annual review of actuarial methods and assumptions.

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 39 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 third quarter of 2019. Solid core earnings of CAD 1.5 billion were in line with a very strong prior-year quarter and was supported by double-digit growth in Asia. We delivered net income of CAD 723 million, which included a CAD 500 million charge related to updates to the ultimate reinvestment rate, URR in accordance with changes issued by the Canadian Actuarial Standards Board.

Core ROE was strong at 13% in the third quarter and 13.3% for the year-to-date. New business value increased 14% from the prior-year quarter with double-digit growth across all regions and was up 20% year-to-date, and our solid core earnings contributed to book value per share growth of 16%. With a LICAT ratio of 146% and leverage now down to 26.1%, the company continues to be in a strong capital position with substantial financial flexibility. We achieved these solid results in spite of notable headwinds, including the temporary suspension of COLI sales in Japan, market volatility, low interest rates, and geopolitical tensions.

Turning to slide 6. We're executing on our five priorities and are once again pleased with the progress that we made during the quarter. Portfolio optimization continues to progress ahead of schedule. In the third quarter, we

renegotiated reinsurance agreements on a universal life block in Canada, which resulted in the release of approximately CAD 120 million of capital. The initiatives announced to-date have resulted in a cumulative capital benefit of CAD 3.9 billion and are expected to release a total of CAD 4.4 billion once fully executed, representing 88% of our 2022 target.

In our long-term care business, we continue to obtain regulatory approvals for premium rate increases and introduced innovative co-pay options to our LTC customers to manage higher rates. We believe there's further opportunity to reduce risk and free up capital for redeployment and we continue to evaluate all options to optimize the remainder of our legacy portfolio.

We aggressively manage costs to drive expense efficiency, which resulted in modest core expense growth of 4% in the third quarter and just 2% year-to-date. As a result, our year-to-date expense efficiency ratios stood at 51.2% compared with our 2022 target of 50%. Expense efficiency initiatives continued to progress well and we're on track to achieve CAD 700 million of pre-tax expense efficiencies this year. And we continue to be well-positioned to achieve our target of CAD 1 billion of expense efficiencies by 2022.

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.

In Asia, we entered into a long-term strategic partnership with the leading online medical platform in Mainland China, and also established a new bancassurance relationship in Vietnam with Asia Commercial Bank.

And in our Global Wealth and Asset Management business, the retail and retirement business lines delivered strong net flows of approximately CAD 3 billion. Year-to-date, core earnings growth of our highest potential businesses outpaced our other businesses by approximately 11 percentage points and represented 56% of total core earnings.

Our fourth priority is about our customers and how we're using technology to attract, engage and retain customers by delivering an outstanding experience. In the US, John Hancock was recognized as one of the best life insurance companies of 2019 by US News & World Report magazine, with the review highlighting the company's strong financial rating, its behavioral insurance offering and straightforward life insurance policies. And in Vietnam, we launched our award-winning ManulifeMOVE behavioral insurance platform that enables customers to live an active and healthy lifestyle while also providing rewards.

Our final priority is high-performing team. Our target is to achieve top quartile employee engagement compared to global financial services and insurance peers by 2022. We recently completed our 2019 Employee Engagement Survey with a greater than 90% participation rate. This year, we changed our engagement service provider to move to a shorter and more focused survey. To help us transition to the new survey, we included a set of questions that measure our year-over-year progress, similar to our prior survey. On those questions, we saw an eight-point increase in employee engagement. I'm pleased with the progress and believe that we're making meaningful headway towards building a high-performing team here at Manulife.

Q3 was another quarter of progress for the company. I'm confident that our momentum will continue to build and that we will deliver on the targets that we've laid out to unlock shareholder value.

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

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## Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

Thanks, Roy, and good morning, everyone. Turning to slide 8 and our financial performance for the third quarter of 2019. We achieved solid core earnings of CAD 1.5 billion in the quarter, and core ROE was 13%. We delivered strong growth in new business value of 14%, while expense growth was a modest 4%. Net outflows were CAD 4.4 billion, which included CAD 8.5 billion of outflows related to the decision by one institutional client in Canada to internalize the management of several large primarily fixed income mandates. We are pleased to have delivered strong net flows of nearly CAD 3 billion in our retail and retirement business lines this quarter, and we maintain substantial financial flexibility with a LICAT ratio of 146% and a leverage ratio of 26.1%. I will highlight the key drivers of our third quarter performance with reference to the next few slides.

Turning to slide 9, core earnings in the quarter of CAD 1.5 billion were largely in line with the prior year on a constant exchange rate basis. This reflects continued expansion of in-force business in Asia, offset by the impact of actions taken over the last 12 months to improve the capital efficiency of our legacy businesses, as well as lower new business volumes in Japan.

Net income attributed to shareholders was CAD 723 million in the third quarter, down from CAD 1.6 billion in the prior-year period, primarily due to investment-related experience charges compared with gains in the prior-year quarter, and a CAD 500 million charge related to updated ultimate reinvestment rate assumptions, in line with guidance issued by the Canadian Actuarial Standards Board.

Of note, investment-related experience charges of CAD 189 million in the quarter were primarily driven by lower-than-expected returns on oil and gas assets within our ALDA portfolio, partially offset by favorable credit experience. However, on a year-to-date basis, the performance of our ALDA portfolio was very strong, resulting in CAD 484 million of investment-related experience gains which allowed us to report CAD 300 million of gains in core earnings, including CAD 100 million in the third quarter.

Slide 10 shows our source of earnings analysis. Expected profit on in-force was in line with the prior-year quarter as in-force business growth of 8% in Asia was offset by the impacts of portfolio optimization actions on our legacy businesses in North America and the annual actuarial review. Excluding these items, expected profit increased by approximately 5% in the third quarter, within the range that we would typically expect.

New business gains decreased 17% from the prior-year period, primarily driven by lower corporate-owned life insurance sales in Japan, partially offset by double-digit sales growth in Hong Kong and Asia Other as well as Canada. Overall policyholder experience in the third quarter was favorable, driven by experience gains in Asia and Canadian group insurance, which more than offset unfavorable lapse-related experience in our US life insurance business. Core earnings on surplus was in line with the prior-year quarter, but the impact of growth in our surplus portfolio was offset by lower gains on equities.

Turning to slide 11, we delivered double-digit core earnings growth in Asia, driven by continued expansion of in-force business, as well as the impact of crediting rate actions on some of our adjustable products. This was partially offset by lower new business volumes in Japan. Core earnings in our Canadian business decreased 8%, primarily due to the impact of ongoing portfolio optimization initiatives and less favorable policyholder experience. In the US, core earnings were in line with the prior-year quarter, as the impact of portfolio optimization activities and less favorable policyholder experience were offset by higher tax benefits and the impact of improved margins in response to product pricing actions taken in recent quarters.

Core earnings in our Global Wealth and Asset Management business declined 3% from the prior-year quarter despite similar average asset levels, primarily due to higher earnings contributions from higher tax jurisdictions. We delivered core ROE of 13% in the third quarter and 13.3% on a year-to-date basis, consistent with our 13%-plus medium-term target.

Turning to slide 12, our continued cost discipline is delivering meaningful benefits. On a constant exchange rate basis, we contained core expense growth to a modest 4% in the third quarter and 2% for the year-to-date. As a result, our year-to-date expense efficiency ratio is 51.2%.

Slide 13 shows our new business value generation and APE sales. In the third quarter of 2019, we delivered new business value of CAD 526 million, up 14% from the prior-year quarter, while APE sales of CAD 1.4 billion were largely in line with the prior-year period. In Asia, new business value increased by 10% from the prior-year quarter, driven by more favorable product mix, partially offset by lower sales in Japan. The primary focus of our Hong Kong business is the domestic market, which has served us well in recent months.

Our new business results were particularly strong in Hong Kong with both new business value and APE sales increasing more than 55% from a year ago, driven in part by the success of our recently launched voluntary health insurance scheme and qualifying deferred annuity products. The Mainland Chinese visitor segment represents a modest component of our business in Hong Kong and accounted for only 14% of APE sales in the third quarter and 18% in full year 2018.

In Canada, new business value increased by 21% from the prior-year quarter, driven by higher insurance sales and a more favorable business mix in group insurance. And in the US, new business value increased 62% primarily as a result of recent actions to improve margins as well as a more favorable product mix.

Turning to slide 14, our Global Wealth and Asset Management business experienced net outflows of CAD 4.4 billion in the third quarter compared with net flows of CAD 0.4 billion in the prior-year quarter. This was driven by a single institutional client in Canada which decided to internalize the management of several large, primarily fixed income mandates totaling CAD 8.5 billion, partially offset by strong net flows of nearly CAD 3 billion in our retail and retirement business lines. Our core EBITDA margin was a solid 28.7%, largely in line with the prior-year quarter.

Turning to slide 15, the LICAT ratio of 146% for our primary operating company was strong at the end of the third quarter, and represents nearly CAD 26 billion of capital above the supervisory target. The ratio is up two percentage points from the prior quarter, primarily driven by the favorable impacts of lower risk-free rates and capital initiatives. Our financial leverage ratio decreased 30 basis points from the prior quarter, primarily due to higher equity. And yesterday, we announced our intention to redeem CAD 1 billion of senior debenture notes at the end of the year, which will reduce our leverage ratio by a further 120 basis points, all else being equal. Net share buyback activity in the third quarter was CAD 262 million, after taking into account dividend reinvestment.

Slide 16 outlines our medium-term financial operating targets and our recent performance. Core EPS growth for 2019 is below our medium-term target, primarily due to the impact of actions to optimize our legacy businesses, lower COLI sales in Japan, as well as a high 2018 comparative. Nevertheless, our core ROE remains on target despite our strong capital position, and we have made substantial progress in reducing our leverage ratio towards the medium-term target of 25%. Expense efficiency and capital release from portfolio optimization actions are also tracking ahead of schedule.

I would now like to turn the call over to Steve Finch, who will discuss the results of our annual actuarial review. Steve?

## Steve Finch

*Chief Actuary, Manulife Financial Corp.*

Thanks, Phil, and good morning, everyone. On slide 18 we have summarized the impact of this year's annual actuarial review, which included our comprehensive review of the long-term care business. The impact on net income was approximately net neutral both in total and for LTC. We recorded a modest net charge of CAD 21 million, including a charge of CAD 8 million to reflect the impact of the LTC study. This was consistent with the estimates provided last quarter. In addition to the LTC study, this year's review included mortality and morbidity assumptions in our Canadian individual insurance business, lapse assumptions across several term and whole life products in Canadian individual insurance and certain investment assumptions for the US and Canada. Overall, our actuarial valuation practices continue to be conservative and our reserves and margins are appropriately aligned with the risks in each of our businesses. I'll now discuss the results of our comprehensive LTC experience study in more detail.

On slide 19, we have highlighted the key drivers of our LTC study. The review included all aspects of claims assumptions, the impact of policyholder benefit reductions, the progress on future premium rate increases, as well as a review of margins for adverse deviation. The net impact on our LTC reserves was approximately neutral.

Our review of claim assumptions led to a strengthening of LTC reserves by approximately \$2 billion. The experience study showed lower termination rates than expected during the elimination or qualifying period, which is the period between when a claim is filed and when benefit payments begin. However, the study also showed favorable incidence as policyholders are filing claims at a lower rate than expected. This was partially offset by a \$0.2 billion benefit to reflect the fact that some policyholders elect to reduce their benefits rather than paying increased premiums on their policies.

Turning to slide 20; as I've stated in the past, our data continues to support the assumptions of both morbidity and mortality improvement, and we strongly believe in the correlation between the two assumptions. We reduced our padded morbidity assumption to 0.25% for 25 years, down from 0.45%, which resulted in a strengthening of reserves by approximately \$0.7 billion. The benefit from morbidity improvement embedded in our padded reserves is now \$0.8 billion or less than 2% of the present value of future claims. Of note, our mortality and morbidity improvement assumptions resulted in a \$0.6 billion higher reserve. In other words, more conservative than if we had assumed no improvement in mortality and morbidity.

On slide 21, we have highlighted the solid progress we have made to date in obtaining regulatory approval for premium increases. Over the last decade, State regulators have approved rate increases amounting to \$8 billion on a present value basis to offset higher future claims costs. As of the end of the third quarter, we had achieved all of the \$2.1 billion in premium increases embedded in our padded reserves following our last comprehensive LTC review in 2016. Consistent with past practice, we continue to be conservative on how much future premium increases we reflect in reserves. In this year's review, we embedded a benefit of approximately \$1.9 billion in our padded reserves, which is about -third of the approximately \$6 billion of premium increases that are yet to be approved by state regulators. Overall, our approach to premium increases embedded in reserves remains at the conservative end of industry practice with the amount reflected representing only 5% of our total reserves.

Turning to slide 22; there's been a significant increase in credible claims data since our last review in 2016 due to the natural aging of the block. Today, over 156,000 of our LTC policyholders have filed claims, of whom 40% filed during the latest study period. More importantly, claims data on older insureds has roughly doubled since the last

study, increasing our confidence and calibrating reserve assumptions as most LTC claims occur when customers are over age 80. In addition to our own data we've drawn from industry studies to supplement our analysis and had our updated assumptions reviewed by two independent consultants, while OSFI requires one reviewer. Given the increase in credible claims data, we modestly reduced certain margins for adverse deviation which resulted in a \$0.7 billion reduction in reserves.

Turning to slide 23; our LTC business is among the most conservatively reserved in the industry. Our provisions for adverse deviation continue to represent a margin of 45% over our best estimate reserves and total IFRS reserves are roughly 30% higher than our US statutory reserves. By contrast, our US peers have average margins of approximately 5% over required reserves based on loss recognition testing. As a result, we remain confident in the adequacy of our LTC reserves in aggregate.

Turning to slide 24, in summary, the impact of our actuarial review on net income in the third quarter was approximately neutral in total including for LTC. We have higher confidence in the adequacy of our LTC reserves given a significant increase in credible claims data. We reduced the benefit of morbidity improvement embedded in LTC reserves and the combined impact of morbidity and mortality improvement results in a higher reserve than assuming no improvement in morbidity and mortality. We have a strong track record of obtaining approval for rate increases, but our approach to embedding premium increases in LTC reserves remains conservative. Overall, our LTC business is among the most conservatively reserved in the industry with a margin of 45% or \$10.9 billion over our best estimate reserves.

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

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And the first question is from John Aiken from Barclays. Please go ahead.

John Charles Robert Aiken

*Analyst, Barclays Capital, Inc.*

Q

Good morning. Roy, it's hard to argue against the success you've had on the portfolio optimization, particularly since we've got LICAT ratio up at 146%. But we're actually seeing now the tangible evidence of the impact that's seen in growth particularly in North America. At what point are we going to see the capital deployed to offset this headwind on earnings? And on this deployment, how long is that going to take before we actually start to see earnings come in to be able to boost the growth that's been moderated over the last little while?

Roy Gori

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

A

Yes, thanks for the question, John. Well, I think you're right. Clearly, portfolio optimization has been a big focus of the organization. We stated at our Investor Day this was going to be one of our big priorities and quite frankly, the first of our priorities. And as we mentioned earlier, we had a goal of CAD 5 billion and we've delivered against CAD 3.9 billion of that goal with the actions that we've already taken, delivering – well, once fully completed, we'll deliver CAD 4.4 billion.

We're also really pleased with the trade-offs that we've had to make from an earnings and from a future earnings perspective as it relates to the portfolio optimization activities. And in spite of the drag that comes with the



earnings on portfolio optimization, we've still been able to deliver really strong ROE. This year, year-to-date, we've delivered 13.3% year-to-date ROE despite the buffers that we have in capital. So, there is a time lag from when we free up the capital to when we deploy it and that again will be something that we'll continue to focus on, and we've been very focused on the way that we deploy our capital. We believe that whilst organically, we still have a lot of opportunity to grow the businesses in the geographies that we operate in. We'll continue to look at increasing the balance sheet strength of our business. Our leverage ratio has come down quite significantly.

And you heard earlier from Phil that we have further opportunities to reduce our leverage and we'll continue to look at buybacks. So, I feel pretty good with where we're at on portfolio optimization. I feel good about the trade-offs that we've made to deliver against the goals on capital and that capital strength will be, I think, a tailwind for us as we look to the future. So, generally, feel quite positive about where we're at there.

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Great. And this is Philip. If I could supplement, just to put a number on the earnings impact of that trade-off, CAD 40 million per quarter in the context of the CAD 3.9 billion of capital that have been released from portfolio optimization activities, and the number on the redemption – use the capital to redeem debt in the fourth quarter at the end of this year, CAD 1 billion being deployed. Our preference is for organic growth and we continue to remain very disciplined when it comes to inorganic activities, but that that is not something that we will rule out. We'll just make sure that whatever we do inorganically is something that would be in the best interest of shareholders.

John Charles Robert Aiken

*Analyst, Barclays Capital, Inc.*

Q

Thanks for the color. I'll re-queue.

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

Meny Grauman

*Analyst, Cormark Securities, Inc.*

Q

Hi. Good morning. Question on Hong Kong. Looking at it from the outside, it seems surprising that you had so much strength in that region just given what's going on and not just politically, but the recession that seems to have been triggered by the political unrest. I'm just wondering how you explain that, how to understand that basically. And if you look forward, if the same conditions persist, would you expect over time to see more of a drag from conditions on the ground? Just trying to get a better understanding of how those conditions are impacting your results.

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Thanks for the question. This is Anil. Let me just step back and give a little bit of the business background on Hong Kong. Our primary focus, as Phil mentioned in his opening comments, is the domestic market, which has resulted in a slightly different mix for us as compared to our peers. The Mainland Chinese visitor business has contributed in the previous quarters roughly in the region of about 18% to 20%. This quarter, as in quarter three of 2019, it contributed 14%.

What we've also been able to do in Hong Kong is significantly increase our distribution strength, so our agency head count is up by 20%, and we have been able to see a broader level of success not only on agency momentum, but also in bancassurance, as well as the volumes that we generate through the broker channel.

In addition to that, at the start of quarter two, the Hong Kong Government announced tax advantage schemes covering health and retirement. Health and retirement are two strategic areas of focus for us and we have again distinct strengths both in health as well as in retirement within Hong Kong. As you would know, within Hong Kong, we are the number one sponsors on the MPF scheme. And again, we have been able to establish ongoing momentum in terms of net flows as well as in terms of AUMs.

On the back of some of these tax advantage announcements that were made in the early part of quarter two, we did launch VHIS. VHIS did get an overwhelmingly strong response and that led to the growth in sales as well as new business value that you see for Hong Kong in quarter three. But again, as Phil alluded in his opening comments, it was not only restricted to VHIS, we also got strong response on the deferred annuity plan as well as some of the past savings products that we had launched at the start of the quarter.

So, the core earnings growth of 28%, the new business value growth of 55%, along with the sales growth of 58% is primarily predicated on the broad level of traction that we've seen in Hong Kong across channels, specifically in the agency force, as well as on account of the tax advantage schemes that were launched in the early part of quarter two. Having said that, we obviously are keeping a close watch on the challenging Hong Kong situation and it's not unreasonable to expect that it could cause some headwinds as we look into the future quarters. But again, we feel confident about our Hong Kong franchise and we've continued to invest in what has been a flagship franchise for us in Asia.

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### Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Great. Thanks, Anil. And this is Phil. If I could just add a couple of things, clearly it's business as usual for us at the moment in Hong Kong, but I'd just like to emphasize that the introduction of the tax deductible solutions both for the insurance products, but also in the retirement products that form part of our Wealth and Asset Management business, that's been a favorable development for us and for the industry, and certainly, we're seeing a very strong initial impact. Once that initial impact is complete, we may see a diminishing ongoing amount of sales. So, we've seen a 55% increase in the volume of sales and that is really as a consequence of the introduction of those products that came in on April 1. And that initial interest, over the course of the coming year, we may see it subside somewhat.

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### Meny Grauman

*Analyst, Cormark Securities, Inc.*

Q

Thanks for that. And then, if I could just ask on the LTC review, if I understand correctly, when you talk about morbidity, you're sort of reiterating that you believe in your view of morbidity, but you're still in this review taking a more conservative stance nevertheless and reducing the padded assumptions. So, I'm just wondering how you make that decision, is it really just sort of a market-driven decision, to say that, we believe in our outlook, but the market wants us to be more conservative? I'm curious how you make that decision to reduce those assumptions.

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### Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Meny, it's Steve here, and it's the morbidity improvement assumption that I believe you're referring to there, and yes, we did a very exhaustive review of our own data there, and as I said, we see evidence of morbidity

improvement and mortality improvement, and I think the key thing is the correlation between the assumptions. When we look at our reserves in aggregate, we look at the overall adequacy of reserves and where we sit in terms of level of prudence on certain assumptions. We feel that we've moved to a more conservative end of the range on the morbidity improvement assumption, but I would acknowledge that we've heard, there's been so much focus on this assumption, while it only represents about 2% of the PV of claims. So, we listened to some of that in terms of making decisions on where to land in the range.

Meny Grauman

*Analyst, Cormark Securities, Inc.*

Q

Thanks for that.

**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. Probably for Anil, a question on the Japan COLI business, which you've mentioned a couple of times this morning, it's clearly weighing here in the near term. We didn't see sales improve much from Q2. So, maybe it's worth circling back. I guess, I'm wondering is the conclusion that the product is back to being in full flight and sales are not getting back to prior levels, and maybe this is the run rate, or do you expect more traction or that to evolve over the next few quarters?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Yes, thanks for the question. Let me start by saying that despite the recent headwinds that we've experienced in Japan, we have delivered double-digit core earnings, a growth in Asia in quarter three, as well as we delivered double-digit growth in core earnings in quarter two. And in quarter three, it specifically has been on the back of the in-force business growth as well as the impact of some of the management actions. It just underscores the diversity and the strength of our diversified franchise in Asia.

On an ex-Japan basis, our core earnings have grown 35% as you probably would have seen from our earnings release. On Japan specifically, the sales were challenged in quarter three. And this was again on the back of the fact that we did experience a temporary cessation of COLI sales in quarter two. The new tax rules got enacted in the early part of quarter three. Soon after that, we re-launched our COLI proposition. We did not get too much traction in both July and August. However, on the back of the revised product that we launched in September, we did see some pick up in momentum in September.

Having said that, I had mentioned during the quarter two earnings call that it will take us a few quarters to really understand the full impact of the new tax rules on COLI. And our focus has also been diversifying and reducing our dependence on COLI. So, we have been expanding our channels to offer non-COLI products. So, for example the retail products grew by about 18% in quarter three. And again, on other wealth products, specifically in our tied agency force in Japan as well as on the MGA side, we saw a double-digit growth.

So, the focus has been, as I said, both on revising and coming up with newer ideas in COLI as well as focusing on some of the other non-COLI products, but I again wanted to reiterate that it's still early days, we've just had a couple of months of experience. And I think it's going to take us at least a quarter if not two to realize the full impact of the new tax rules on COLI.

Steve Theriault

*Analyst, Eight Capital*

Q

Thanks for that and fair enough. I'm sure July and August are seasonally slow months as well. So, we'll continue to look at that. So, second question; Roy, you talked about the buyback a little bit earlier. You used about half the buyback last year, you re-filed for another 5% (sic) [3%] buyback. Can you just refresh us on how you're thinking about its use going forward? And I guess specifically, with now very good visibility to get to that 25% leverage ratio, maybe even a bit better, does that make you inclined to be a bit more aggressive with the program?

Roy Gori

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

A

Yes, thanks, Steve. We've been obviously very active with our NCIB. Since we initiated our program, we've repurchased 70 million shares, a total value of CAD 1.5 billion. In Q3, there was a repurchase of CAD 443 million. If you net that against the DRIP, we returned about CAD 260 million worth of capital. So, we feel good about how we've been executing against our NCIB program. And clearly, as we improve our LICAT ratio and as we feel even more confident about our balance sheet strength, we believe that that gives us even more flexibility to think about how we deploy our capital. And as I've said many times, being in a very strong position from a capital and balance sheet perspective just gives us much more optionality and abilities to think through how we deliver against our medium to long-term targets for the franchise.

And again, as I highlighted earlier, I think we've done that in a very efficient way, the trade-off in terms of the freeing up of capital has been a very good one for the company, not only from a returns perspective, but also from a risk profile perspective. So, we continue to look at share buybacks as an important way to return capital to the shareholder and to improve our returns and we'll again I think continue to focus on being a net returner of capital when we think about the future quarters.

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

And this is Phil, just to supplement and it goes back to a year ago when we introduced the NCIB. The context for introduction of the NCIB was that we had released substantial amounts of capital as a consequence of portfolio optimization and in the case of the year ago, it was a CAD 1 billion from a number of reinsurance transactions. We very much like the tactical flexibility that the NCIB provides and we're not yet done with portfolio optimization. We've released CAD 3.9 billion of capital from those initiatives. We've got a CAD 5 billion target. So, that's one of the ways in which we expect to continue to utilize it.

Steve Theriault

*Analyst, Eight Capital*

Q

Thanks very much.

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

Gabriel Dechaine

*Analyst, National Bank Financial, Inc.*

Q

Hi. I have got a question on the COLI and on the capital. COLI sounds like you've launched the new product. What's the sales outlook there and dollar for dollar, will the sale of a new product be as – being a new business gain producing as the old product was?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

So, on COLI sales, as I said, on the back of the enactment of the new rules, we did not see too much traction in July and August. We did have – we did launch a revised version of the COLI product in September. We did see some pickup. Roughly, the total sales of COLI for Japan in quarter three was about 15% of the total Japan sales. And again, as I mentioned earlier, I think it's going to take us a couple of quarters to understand the full impact.

Now, we also understand that the tax advantage on COLI products has significantly diminished. So, it's difficult for us to predict as of right now, as to where the COLI sales are likely to settle. But my sense is, it's going to be lower than what we had seen or encountered in 2018. But as I said, we're watching it closely, I think between quarter four of this year and quarter one of next year, we should be able to get a good grasp of it.

Gabriel Dechaine

*Analyst, National Bank Financial, Inc.*

Q

Okay.

Roy Gori

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

A

I'll just add, because your question was also on the profitability of the new product. Gabriel, we don't clearly disclose profitability by products or the margin on each product, but you know that we would have very clear guidelines on minimum thresholds that each product would need to deliver against to be able to go to market. So, that's something that we are very disciplined against.

Gabriel Dechaine

*Analyst, National Bank Financial, Inc.*

Q

All right. My next question on capital deployment, I guess people are acknowledging your position has improved substantially and the buyback is nice, but a lot of investors I talk to are annoyed by the DRIP discount that we saw a CAD 90 million of buybacks this quarter, but 7 million of shares issued under the DRIP. I'm wondering if you've thought about that a bit more and why you still have that structure in place and maybe it's that you're issuing under the DRIP above of where you're buying and that's the tactical edge that you're talking about?

Roy Gori

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

A

Yes, thanks, Gabriel. I'm not surprised to get this question. And again, we continue to feel that the DRIP is a really valuable and important element of our toolkit as it relates to capital management. We have been a net returner of capital as you highlighted. We've repurchased CAD 90 million worth of shares, but we issued 7 million shares or 7.6 million shares in DRIP. But the net of the two was with the repurchase of 11.7 million shares or return of capital of about CAD 260 million as I mentioned earlier.

And since the inception of both programs, we've returned more than CAD 800 million worth of capital. So, we again are really pleased with the strength of the capital position that we're in and the balance sheet, and we're going to continue to look at our optionality as it relates to deployment of capital, but we're going to be a net returner of capital and the DRIP is a toolkit that I think gives us even greater flexibility and strength.

Gabriel Dechaine

*Analyst, National Bank Financial, Inc.*

Q

My two-question limit.

Roy Gori

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

Okay.

A

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

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Good morning and thank you for taking my questions. The first one is on LTCs for Steve Finch, about the adjustment for expected clean cost, and then also the impact of the re-increase in reserves. I was just wondering if you can provide a little bit more color in terms of the moving pieces. I understand the lower termination and elimination period was partially offset by incidence and a little bit of a benefit reduction. Especially on the termination side, what you've been seeing in terms of how much lower the termination relative to your expectation and what were the changes that you made that added to the reserves?

Q

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

Okay. Thanks, Humphrey. So, I think it's also important – I'll comment on what that driver is, but I'll also comment first on what we're not seeing, which I think is notable as well. Specifically, we're not seeing longer length of stay on claim, which I think is important. We're not seeing claims shifting to higher cost side of care and we're not seeing increased usage of the amount of benefits. So, a bit of context for what we're seeing on the termination experience that you referenced. A number of years ago, we made operational changes to standardize our claims adjudication process and make it more proactive much earlier in the assessment, and that resulted in a reduction in incidence rates and a reduction in termination rates in the elimination period.

A

In our 2016 study, all of those impacts of the operational changes were not fully apparent in the data. Termination experience tends to lag incidence experience. And at that time, we reflected the emerging data that we had. And we move forward to 2019 and our 2019 study has significantly more terminations and incidence experience which increases our confidence in setting our assumptions. In addition, during the study period for 2019 has homogeneous data. So, no major operational changes that can make identification of trends a bit more challenging. So, that's really the driver that we're seeing.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

That makes sense. And then, shifting gears back to the global WAM about the kind of single fixed income mandate of CAD 8.5 billion outflow, do you still have any exposure to that particular client? And then, also, how should we think about the earnings impact which I think should be pretty modest, but I just want to make sure that's the case.

Q

Paul Lorentz

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

Yeah, thanks, Humphrey. It's Paul here. As Phil mentioned, it was a redemption of a large Canadian institutional client. It was a sub-advised mandate. The redemption – well, there was a decision made to internalize those assets. There were no real performance concerns raised to us by the client, which is important to note on and

A

you're right, the relatively, the earnings impact of this is relatively immaterial due to the thin margins of a mandate of that size.

In terms of our exposure to the client, we still have assets with them. We're one of the larger multi-manager still in their platform. And at this point, there is no indication that they have any plans to change that relationship with us.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

So, for the assets that you – that they still have with you, are they similar to a generic core fixed income product or a more specialty product?

Paul Lorentz

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

A

They're a little bit different in terms of the type of product and the magnitude wouldn't be as big as what this redemption was.

Humphrey Hung Fai Lee

*Analyst, Dowling & Partners Securities LLC*

Q

Okay. Got it. Thank you.

**Operator:** Thank you. The next question is from Sumit Malhotra from Scotiabank (sic) [Scotia Capital]. Please go ahead.

Sumit Malhotra

*Analyst, Scotia Capital*

Q

Thanks. Good morning. First for Anil or maybe Phil. Just looking at the impact of new business in the Asian segment, you folks have given us some disclosure six months ago on what exactly the Japan COLI business was contributing to this line. We obviously saw the decrease last quarter, but a good level of bounce back in Q3 sequentially. Is this primarily related to the introduction of the new product in Japan, because as has been mentioned on the call, it didn't look like the sales in Japan rebounded as sharply as this contribution did?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

Phil, I'll take it and then you can add your comments. So, Sumit, this is Anil. Thanks for the question. So, the sales, as I mentioned, the COLI sales were roughly about 15% of the total sales in Japan. And I guess, we saw a little bit of step up in momentum in the month of September. The total impact from a year-on-year basis on new business gain lines for our COLI sales in Japan on a post-tax basis is approximately CAD 25 million. And again, that's as I said, as you rightly said is on account of the lower sales that we experienced in this quarter. And specifically, from a year-on-year perspective, it becomes more challenging, because quarter three and quarter four of last year were very strong months or very strong quarters, I should say for the COLI sales in Japan.

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

And this is Phil, just to supplement. As we said earlier, at the total company level, we've seen a decline in the impact of new business, compared to the same quarter of last year, it's a 17% decline. That is driven by the experience in Asia and the most significant component of that, as Anil said, was the COLI business in Japan.

But to add to that explanation, another contributor was in fact Hong Kong and the business that we've written in Hong Kong, we have seen quite significant sales of the Voluntary Health Insurance Scheme products. Those products are sales that generates strain rather than gain upon initial issuance, and therefore that's also been the contributor to the year-on-year decline and the impact of new business.

That doesn't mean the businesses is poor, the new business value, in other words, the present value of future statutory profits remains strong, but it's a consequence of the Canadian accounting with these being annually re-priceable, renewable products.

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**Sumit Malhotra**

*Analyst, Scotia Capital*

Q

And I think the bottom line we're getting to here is, you look at this set of results for Manulife and whether it's some of the divestitures or the product changes in Asia, we're seeing a slower growth rate and Asia is certainly having to carry almost all of the earnings growth for the company relative to the other businesses. With what's going on in Japan and Hong Kong, Anil, you made mention to the consistent double-digit growth that this business has produced. Do you still feel that that's a reasonable outlook in the context of these factors we're talking about?

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**Anil Wadhvani**

*General Manager, Asia, Manulife Financial Corp.*

A

So, Sumit, as you know, I can make forward-looking statements, but we've had the headwinds on COLI sales in Japan in quarter two. We had that pretty much transgress into quarter three as well. And in both these quarters, we were able to deliver double-digit growth on core earnings as well as on new business value.

I think one of the key things is the diversification strength of our Asia business. And as you can tell, on an ex-Japan basis, our core earnings are up 35%, our new business value was up 31%. And that's on account of the fact that we have been investing consistently in expanding our distribution. Our agency head count at a pan-Asia level is now up 18% year-on-year, and that has translated into a very significant growth for us on active agents, which in turn is contributing to the ongoing sales as well as the new business value growth. So, I think the diversification strength of our Asia franchise came through in quarter two, we believe, despite the challenges and it did come through again in quarter three.

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**Sumit Malhotra**

*Analyst, Scotia Capital*

Q

Last question is for Steve and then maybe Phil again. Certainly appreciate the increased disclosure that you folks have given us with respect to long-term care over the last year and especially this new information today. With this in mind and this greater transparency, is there any change in how frequently you're planning to review the assumptions and trends in this business? I know it's been triennial for as long as I can remember anyway. Is this enhanced disclosure the first step into perhaps communicating more frequently with how this business is performing?

And related to that, just to take back to Investor Day a year-and-a-half ago, one of the slides you showed us indicated that long-term care profitability or earnings from in-force were going to increase at a decent rate through 2024. Do any of the changes you've enacted in the review this year impact that profitability outlook?



Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Thanks, Sumit. It's Steve, I'll start, and Phil can add. So, just a reminder that we track the experience on this business on a quarterly basis, so very, very frequent. And each year, as Chief Actuary, I'm required to sign off on overall reserve adequacy. So, if there were any material changes that impacted what I believe the adequacy of reserves, we would have to update more frequently.

In this business, it's a very long-term business as you know, so it takes a while for trends to begin to emerge if experience changes. So, the plan is to keep on a three-year cycle, but we will certainly be looking in a lot of depth on a much more regular basis and we'll think about what we disclose around that.

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Yeah. Nothing for Phil to add on that.

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Okay. And then in terms of the impact on run rate earnings, it didn't have a material impact on the run rate earnings. If you look at the slides which shows the PfAD levels before and after the basis change on LTC, it only went down by \$200 million, so that's not going to have any material impact on run rate earnings. Overall, we did see a little bit of geography change from the basis changes, so reduction in earnings on in-force of roughly CAD 10 million pre-tax, and that's offset by a pickup in the policyholder experience line. So, that's sort of the run rate impacts that we're seeing from the overall basis changes.

Sumit Malhotra

*Analyst, Scotia Capital*

Q

Thanks for your time, guys.

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Thanks, Sumit.

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

Doug Young

*Analyst, Desjardins Securities*

Q

Hi. Good morning. Just on expected profit, again, it was flat. Phil, you mentioned a few items that take it up to 5% and I apologize I missed it and so if you can reiterate that. But where I'm going is, if we have the same headwinds as we do, which is weighing on expected profit, is it fair to say that over the next year or two years, achieving your 10% to 12% EPS growth target looks a bit challenged or are there other items that can help push you into that range?

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Hey, Doug. This is Phil. Thanks for the question. So, expected profit growth, there are two items that I highlighted earlier; one was the impact of legacy transactions in the US and Canada. And to put a number around that, the year-on-year headwind, if we compared third quarter of 2019 compared to the third quarter of 2018, it's in the order of CAD 35 million. So, that's clearly weighing on expected profit growth. The other component that I highlighted is the impact of the annual actuarial review, as Steve just said, that's about CAD 10 million. So, if we adjust for those two items, we would get to a normalized growth of 5% in the current quarter.

What we've said before and I think this is a good indication is that, the normal run rate we would expect or level of growth for expected profit in the order of 6% and that of course would be higher in our Asia insurance business than the rest of the world. But I think that's a good indication. And that's one component of the overall 10% to 12% that is a part of our medium-term financial operating guidance.

Other elements that make that 10% to 12% credible are that we expect Wealth and Asset Management to be accretive to earnings in the medium term – accretive to earnings growth in the medium term. We expect new business in Asia to contribute to growth and we also have the bottom-line impact of the expense program that as you can see from our efficiency ratios is just over 51%. That is having a meaningful impact on our level of profitability and therefore earnings growth. So, I think 10% to 12% is still credible, but it is challenging in the context of what's going on in the external environment. We're seeing reductions in interest rates, we're seeing challenges in Japan with COLI for example. But I think we have a diverse business with tremendous growth opportunities.

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**Doug Young**

*Analyst, Desjardins Securities*

Q

Okay. And then, just second on long-term care insurance fees, again, I apologize. You've talked about embedding \$1.9 billion for price increases, I believe. And I think you mentioned what the total would be, and I think it was around \$6 billion. Just want to clarify that.

And then, the other one is just on long-term care insurance. I noticed your IFRS reserves as a percentage of NAIC was actually increased to about 32% first and it was 30% I think back in 2018 when you gave us that disclosure at the Investor Day. Is there anything to take from that increase in the gap between your Canadian and the NAIC reserve?

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**Steve Finch**

*Chief Actuary, Manulife Financial Corp.*

A

Thanks, Doug, I'll take those in order. So, on the premium increases, yes. So, we've embedded \$1.9 billion. And then, you can see on page 21, as a result of this review and the carryover from the continued rate filing efforts that we have ongoing, the estimated total ask is about \$6 billion. There is a process that we have to go through with the updated experience go through the rules and requirements, so that number may change a little bit, but \$6 billion is a solid estimate. So, yes, just under a third of the total amount we're embedding in our padded reserve assumptions. And as I said, we've shown a really good track record here having achieved all of the amounts that we had embedded in our padded reserves from the 2016 review.

Then on your second question about level of IFRS reserves relative to the US stat, I'd say about 30%, the IFRS is more market sensitive, so it does bounce around a little bit. I think that that excess has been about 25% to 30% depending on where interest rates are. I think the way I look at it – I think what's really important in terms of the difference between our book of reserves under the IFRS standards and US GAAP reporters, which are very different rules, results in us having margins on each of the assumption that adds up to 45% over best estimate, and under US GAAP rules, very different construct. And as you see from the S&P report that we put information

on one of the slides shows that the industry average is about 5% margin over last recognition. So, we think there's fundamental difference in our reserving that its – makes the reserves very robust.

Doug Young

*Analyst, Desjardins Securities*

Q

Great. Appreciate the color. Thanks.

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

David Motemaden

*Analyst, Evercore ISI*

Q

Hi. Good morning. Thanks for taking the question. Just a question for Steve on the long-term care review, and I saw that you lowered the incidence assumption, which was an offset to the lower termination rate. Just wanted to drill down exactly on what you're seeing on incidence across the attained ages. And I'm specifically interested in what you're seeing in attained age plus – 85 plus and how you change your assumptions there?

Steve Finch

*Chief Actuary, Manulife Financial Corp.*

A

Right. Thanks, David. And going back to the comments that I made about some of the operational changes that were not fully apparent in our 2016 study, so what we found overall is that we've got lower termination experience and lower incidence, in part because the full impact of those operational changes were not reflected in all the data that we had for 2016. So, that's more of the fundamental thing that we're seeing.

In terms of answering your question, as I pointed out, we do have an increase in data at the older ages and our updated assumptions are well in line with the experience that we're seeing across the ages. When we get into the very older ages, we do supplement over age 90 or 95. We also supplement with industry data in terms of looking at trends in terms of how the rate of increase in incidence rate. But we feel quite good. We spend a lot of time making sure that our fit of assumptions was in line with our experience and where we think the experience is going.

David Motemaden

*Analyst, Evercore ISI*

Q

Got it. And I guess just on the increase in the amount of data that you have, do you think that this makes it more likely that you can transact on the book in terms of maybe some sort of risk transfer or like I guess just how are counterparties viewing the increase in data especially at the older ages? Are they – do they think it's credible or maybe a little bit of bit of color on how that's being viewed in the marketplace?

Naveed Irshad

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

A

Hi, David, it's Naveed Irshad here. So, obviously, the data is something that we've recently reviewed. And I would say, with respect to narrowing the range of potential future outcome is more credible experience here. So, to that extent, we would expect in any discussions with external parties that the credibility data will have improved and that will be reflected in any market pricing.

David Motemaden

*Analyst, Evercore ISI*

Q

Okay, great. And also, just a question around capital. I guess just generally, what do you guys think your excess capital position is right now? And also, I think last time rates were this low in Hong Kong, there was a need to inject capital into the Hong Kong local entity. Do we need to do that again, now that raised your testing those lows again?

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Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

This is Phil. David, thanks for the question. I'll start with the Hong Kong piece first; you're right. So, when we last saw quite substantial drops in interest rates in Hong Kong, we did inject capital into that business. We haven't needed to inject capital into the business this year as a consequence of lower rates, but what we have done is defer remittances; and there's no doubt that lower interest rates do create a capital headwind in Hong Kong. But that is our solution, the deferral of remittances, and there are other tools at our disposal as well, such as reinsurance, should we see things deteriorate further.

To your question on capital management, I think we are in a strong capital position, and this is exactly where we did want to be and that is one of the objectives of the portfolio optimization component of our strategy. With 146% LICAT ratio, that is above what you would typically expect to see as that. So, we do have capital to deploy. And that is why, we are taking actions such as taking opportunities to redeem maturing debt issuances or debt issuances that become available for redemption, so that we can deploy that capital in a way that further strengthens the balance sheet; and also deploy capital in a way that rewards shareholders and that's the context for the NCIB, and also our commitment to the 30% to 40% dividend payout range with the fourth quarter annual review cadence.

I can't give a number on above what LICAT ratio would be considered excess. I think there's always a judgment as to what that is. But we do have flexibility in how we deploy capital, including to support all of our organic growth opportunities and potentially inorganic opportunities. But as I said earlier, we'll be very disciplined when it comes to inorganic options.

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David Motemaden

*Analyst, Evercore ISI*

Q

Okay. Thanks for the answers, guys.

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Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Thanks, David.

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

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Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Yeah, thanks. A quick numbers question and then a follow-up. Throughout the release, it talks about in the Corporate segment an increase and then withholding tax accrual and in the US segment a tax true-up. If you can give us those, what each of those numbers were?

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Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Hi, Tom. This is Phil. So, yes, you can see in the Corporate segment, lower earnings in the order of CAD 14 million, I think, if we compare this quarter to the same quarter of last year. One of the drivers for that is higher withholding tax accruals, and that simply is that we accrue for withholding tax on remittable earnings from the US above a certain NAIC threshold. So, I don't have the exact number for that in front of me, but we can give you a call offline, I think.

The second item on US tax accruals. But actually, both in the US segment and in Wealth and Asset Management, you see some noise in the tax line this quarter compared to the same quarter of last year and the run rate. And really, that is part of an annual process where we true-up tax accruals. It just so happens this quarter in the US. That has a favorable impact relative to the prior year. And WAM it has a modestly unfavorable impact relative to the prior year, but in fact, both this year and last year were favorable. And if you compare the tax that you're seeing relative to the run rate, I think that's a good estimate of the dollar impact.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Okay, thanks. And then, with respect to all this discussion about new business gains in COLI in Japan, I mean, the way I look at this is the new business value margin in Japan. Third quarter of 2018, we just sold a boatload of this COLI stuff in Japan, it was 27.7%. Now, you hardly sell any in it, it's up in the 36% range. Sounds like what you're selling in Japan is a lot more profitable than what you saw before. It just happened there that the way the earnings were booked on the COLI stuff before is it fronted it more and now it's more in the expected profit. Is that safe to say? And once we kind of lap this COLI noise from Q3 and Q4 2018, would we be back to more of a reasonable cadence in terms of Asia, expected profit and new business gains growth?

Anil Wadhvani

*General Manager, Asia, Manulife Financial Corp.*

A

So, Tom, hi, this is Anil. So, that's right. I mean, COLI, we firstly have a portfolio of offerings in Japan, because the way we think about it is that we are addressing different needs of clients across different segments and I had alluded to the fact that we're trying to drive a greater balance between COLI and non-COLI sales and we've seen some progress in that direction. On the COLI margins piece, yes, the margins have gone up by about 8 percentage points to 36%, but that's also on account of the fact that we've been very disciplined around our expenses, and ensuring that we're driving a much more optimal product mix on the back of the slowdown that we've witnessed on the COLI side. And in many ways, it's a testimony to the fact that we have different levers to be able to mitigate some of the headwinds that have been presented to us in Japan.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Okay. Thanks for that color.

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Thanks, Tom. This is Phil again. Just to get back to you on that number you asked for a moment ago, the withholding tax accrual that we've made in Corporate for remittable earnings from the US CAD 25 million.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Okay. So that hurt the earnings by CAD 25 million in Corporate, is that right?

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Correct.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

And on the tax true-up in the US segment, do you know the dollar amount there?

Philip Witherington

*Chief Financial Officer, Manulife Financial Corp.*

A

Yeah. It's sort of in the order of CAD 15 million.

Tom MacKinnon

*Analyst, BMO Capital Markets*

Q

Thank you.

**Operator:** Thank you. There are no further questions registered at this time. I'd like to turn the meeting back over to Ms. O'Neill.

Adrienne O'Neill

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

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

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

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