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# EDITED TRANSCRIPT

MFC.TO - Q3 2025 Manulife Financial Corp Earnings Call

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## PRESENTATION

**Operator**

Thank you for standing by. This is the conference operator. Welcome to the Manulife Financial Corporation third quarter 2025 results conference call. (Operator Instructions) And the conference call is being recorded. (Operator Instructions)

I'd now like to turn the conference over to Mr. Hung Ko, Global Head of Treasury and Investor Relations. Please go ahead.

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**Hung Ko** - *Manulife Financial Corporation - VP, Global Head of Treasury and Investor Relations*

Thank you. Welcome to Manulife's earnings conference call to discuss our third quarter 2025 financial and operating results as well as our refreshed strategy that was announced yesterday afternoon. Our earnings materials, including webcast slides for today's call, are available in the Investor Relations section of our website at manulife.com. In addition, I would like to note that a video recording of our refreshed strategy presentation and the related materials are also available in the same section of our website.

Before we start, please refer to slide 2 for a caution on forward-looking statements and slide 33 for a note on the non-GAAP and other financial measures used in this presentation. Please note that certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from what is stated.

Turning to slide 4. We'll begin today's presentation with Phil Witherington, our President and Chief Executive Officer, who will provide a highlight of our third quarter 2025 results and a strategic update, including an overview of our refreshed strategy. Following Phil, Colin Simpson, our Chief



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Financial Officer, will discuss the company's financial and operating results in more detail. After their prepared remarks, we will move to the live Q&A portion of the call.

With that, I'd like to turn the call over to Phil.

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

Thanks, Hung, and thank you everyone for joining us today. Before I start, I'd like to thank Marc Costantini, who's with us on the call today, for his outstanding contributions to Manulife throughout his career at the company and wish him well in the next chapter of his career. Marc's 2 stints with Manulife total more than 25 years. And in his most recent role as Global Head of Inforce Management, he had an immense impact in a short period of time, including the completion of several monumental reinsurance transactions, which unlocked significant value for shareholders. While we're sad to see him go, we know he will flourish as a CEO, and we wish him nothing but the best.

In-force Management has been embedded as a capability in our organization, and it will remain an important enabler of our commercial success. Naveed Irshad, President and CEO of Manulife Canada, has taken on an expanded role and assumed responsibility for In-force Management and Reinsurance globally, while continuing to lead the Canada segment.

Shifting back to the purpose of today's call, yesterday, we announced our third quarter 2025 financial results. At the same time, we unveiled our refreshed enterprise strategy, which builds on our strengths, is growth focused, and is anchored in our ambition to be the number one choice for customers.

Materials related to our refreshed strategy, including a video, are available in the Investor Relations section of our website, but I want to highlight a few key takeaways. To deliver on our ambition, drive sustainable growth for the long term, and build on our total shareholder return momentum, we're pleased to introduce new and elevated strategic priorities.

Maintaining a diversified and balanced portfolio is important to us, as it provides resilience and access to multiple sources of growth, without overreliance on any single market.

We continue to be well positioned to capture the exceptional growth opportunities across Asia and Global WAM, and I'm pleased to share that we have reached an agreement with Mahindra, a leading conglomerate and consumer brand in India, to form a joint venture to enter the India insurance market, subject to regulatory approvals. Mahindra is an incredibly strong and trusted partner with whom we have an existing asset management relationship, and I'm excited about expanding our partnership further. Our continued focus on Asia and Global WAM will be accompanied by deliberate investments to enhance and strengthen our leadership position in our home market and maintain a scaled presence in the US, which remains the largest insurance market and the largest economy in the world.

We will also leverage our early leadership in AI to become a truly AI-powered organization, and we will utilize our strengths in product, digital innovation and partnerships to become the most trusted partner for our customers' health, wealth and financial wellbeing. These efforts will be further enabled through superior distribution, making it easier for customers, agents and partners to engage with us, and of course, through our winning team and culture, which is critical to every aspect of the execution of our strategy.

At our Investor Day in 2024, we announced various key performance indicators and targets, including total shareholder return, employee engagement and Net Promoter Score, which we remain focused on delivering. I am incredibly excited about this next chapter for Manulife, and am confident that executing on our strategy will further strengthen our ability to deliver on both our 2027 financial targets and sustain our growth for the next decade and beyond.

Moving on to our quarterly results on slide 7, which reflects our continued focus on execution and demonstrate the strength and diversity of our businesses. We generated strong insurance new business performance this quarter, with each insurance segment delivering growth of 15% or greater in new business CSM, providing clear evidence of our future earnings potential. While Global WAM experienced net outflows of $6.2 billion, which Colin will discuss in more detail shortly, it continued to generate positive operating leverage with margin expansion year-over-year.



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From a profitability standpoint, core EPS grew 16% from the prior year supported by a record level of core earnings, reflecting strong underlying business growth in Asia, Global WAM and Canada segments, along with other factors, which Colin will talk about further. Our strong core earnings generation contributed to third quarter core ROE of 18.1%, demonstrating that our core ROE target of 18%-plus by 2027 is within reach, and we remain confident that we'll deliver on it.

Our balance sheet remains strong with a LICAT ratio of 138% and a leverage ratio of 22.7%. And we generated another quarter of book value per share growth, with an increase of 7% from the prior year, while continuing to return a significant amount of capital to shareholders.

On to slide 8, I'd like to dive a little deeper into the recent performance of our high-potential businesses, particularly Asia and Global WAM as they remain critical elements of our refreshed enterprise strategy. Over the past several years, both segments demonstrated strong track records of generating consistent growth and resilience through a volatile operating environment.

The performance from both Asia and Global WAM has meant that on a year-to-date basis, our highest potential businesses are contributing 76% of core earnings, exceeding our 2025 target of 75%.

Asia had another outstanding quarter of growth, delivering a 29% year-on-year increase in core earnings to a record level. Our NBV margin also remained resilient, improving year-on-year to 39%, backed by the solid growth in new business during the quarter. In Global WAM, we also delivered a record level of core earnings, maintaining another quarter of strong growth and this was our eighth consecutive quarter of double-digit pre-tax growth from the prior year. And our focus on disciplined growth, with proactive expense management, enabled us to continue to generate positive operating leverage and steadily increase our core EBITDA margin, which expanded by 310 basis points year-on-year to 30.9% this quarter.

These are great results. And as I reflect on the future and what comes next, I'm confident that our refreshed strategy, supported by clear priorities, will position us to deliver sustainable growth and achieve our new ambition to be the number one choice for customers.

With that, I'll hand it over to Colin to discuss our quarterly results in more detail. Colin?

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**Colin Simpson** - *Manulife Financial Corporation - Chief Financial Officer*

Thanks, Phil. The third quarter was indeed a strong quarter for Manulife, where we continue to demonstrate the ongoing strength, quality and resilience of our business. Let's begin on slide 10, where we talk about our growth in the quarter. The momentum in our insurance new business performance continued in the third quarter. Our APE sales increased 8% from the prior year, with strong contributions from our North American businesses. This resulted in continued growth in our value metrics with 25% and 11% growth in new business CSM and new business value, respectively.

Growth in new business CSM was strong, with each insurance segment delivering growth of 15% or greater compared to the prior year quarter. In fact, our total new business CSM increased over 20% year-over-year for the fifth consecutive quarter, further highlighting the strength of our diversified franchise and providing an encouraging read-through to the future earnings potential of each business. Headwinds in North American Retail and our US Retirement channel led to net outflows of $6.2 billion for Global WAM following six consecutive quarters of positive net flows. In our Retail business, this was primarily due to continued pressure in the intermediary and wealth channels, while the headwinds in our US Retirement business were anticipated as elevated markets resulted in higher absolute level of participant withdrawals.

Moving on to slide 11, which summarizes the main earnings drivers when compared to the same period last year.

We continue to see growth in our insurance businesses in Asia and Canada, which contributed to a higher insurance service result. We also saw a net favorable impact from the annual actuarial review of methods and assumptions, or “basis change”, during the quarter. Although this was partially offset by unfavorable claims experience in the US, I would note that US insurance experience improved from the previous quarter, even though claims severity remains somewhat elevated on a small number of policies, in contrast with last year's favorable experience.



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Moving down on the DOE table, you'll note a year-over-year improvement in our net investment result, mainly due to a release in the expected credit loss or "ECL" provision driven by updates to our parameters and models, compared with an increase in the provision in the prior year.

Note that we continue to expect an ECL charge of $30 million to $50 million per quarter on average, and year-to-date, the increase in ECL is $86 million post tax. Excluding the impact of the ECL, our core earnings growth would have been 6% compared with the prior year.

Global WAM continues to be a significant contributor to our core earnings and reported a 19% growth in pre-tax core earnings this quarter. You'll notice the lower income tax amount despite the growth in our core earnings. This is mainly driven by an adjustment to our year-to-date withholding tax accrual, reflecting the use of our internal funding for the Comvest acquisition. Finally, I would also add that the most recent US reinsurance transaction with RGA reduced our core earnings by $12 million across multiple lines of the DOE.

Turning to slide 12. Core EPS increased 16% from the prior year, reflecting the strong double-digit growth in core earnings as well as the impact of share buybacks. In fact, even after adjusting for ECL, we saw strong growth of 11%. We reported $1.8 billion of net income this quarter, which reflects neutral market experience where a $291 million gain from higher-than-expected public equity returns was offset by a charge of $289 million in our ALDA portfolio from lower-than-expected returns. Our ALDA performance was primarily impacted by lower-than-expected returns on private equity and commercial real estate investments as well as our timber assets, reflecting a recent decline in commodity prices.

During the quarter, we also completed our annual basis change, which included our comprehensive triennial review of our US long-term care business or "LTC". The basis change resulted in a net favorable impact of a $605 million decrease in overall pre-tax fulfillment cash flows, which comprised a $1.1 billion increase in CSM partially offset by a modest decrease in net income of $216 million post tax, as well as a small impact to OCI. I would also note that the overall impact of the LTC study was slightly favorable, largely driven by favorable re-rate experience and assumed future premium rate increases as well as updates to reflect higher terminations, partially offset by higher utilization of benefits given the higher cost of care. The premium increases included amounts tied to future asks as well as approvals in excess of our prior assumptions, illustrating our conservatism in embedding these into our reserves.

It is important to note the favorable net impact from the basis change further validates the prudence of our reserves. We reported a modest favorable impact on core earnings this quarter, and we also expect a similarly modest positive impact on core earnings going forward. More information on the basis change is available in the appendix of this presentation.

Moving to the segment results. We'll start with Asia on slide 13, where we generated solid growth across all new business metrics despite a very strong prior year comparable. APE sales increased 5% from the prior year, led by strong growth in Asia Other.

While Hong Kong sales declined year-on-year compared to a very strong prior year quarter, we generated sequential growth of 4%. The overall increase in sales contributed to solid growth in value metrics, with new business CSM and new business value increasing 18% and 7%, respectively. All of this, together with improved product mix, drove NBV margin expansion from the prior year of 2.5-percentage-points to 39%. Asia core earnings also delivered another strong quarter of strong year-on-year growth, increasing 29% as we benefited from continued business growth momentum, the net favorable impact of basis change, and improved insurance experience, as well as a release in the ECL provision compared with an increase in the prior year quarter.

Over to Global WAM on slide 14. Global WAM continued to build on its growth momentum, delivering record-level core earnings with a solid 9% increase year-on-year. This was again supported by higher average AUMA and higher performance fees, as well as continued expense discipline, partially offset by lower favorable tax true-ups and tax benefits.

On a pre-tax basis, we achieved our eighth consecutive quarter of double-digit year-over-year growth, delivering a 19% increase in the third quarter. Net flows were challenged this quarter, resulting in net outflows of $6.2 billion. Our Retail business saw net outflows of $3.9 billion related to our North American intermediary and wealth channels, followed by net outflows of $1.6 billion in our Retirement business. Here, we saw higher outflows due to market appreciation, as people generally had higher account balances, which resulted in ordinary course withdrawals also being higher. Our Institutional business also saw modest net outflows of $0.7 billion and with the close of our third infrastructure fund in the quarter, we expect this to be a positive contributor to flows as money is deployed over the course of next year.



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Despite the challenges in our net flows, we delivered another quarter of positive operating leverage with core EBITDA margin of 30.9%, which expanded 310 basis points from the prior year, or 80 basis points sequentially, backed by our continued proactive expense management. With regards to eMPF, I can confirm we officially commenced our onboarding to the new platform in Hong Kong on November 6th and thus expect to reflect an impact to core earnings in our Retirement business starting in the fourth quarter.

Next, let's head over to Canada on slide 15, where we delivered another quarter of solid results. APE sales increased 9% from the prior year, reflecting continued double-digit growth in our Individual Insurance business, primarily due to higher par sales. Our Individual Insurance business was the key contributor to a strong new business CSM growth of 15% year-on-year as our Group Insurance business does not generate CSM.

We also delivered a solid 4% year-over-year growth in core earnings, driven by higher investment spreads as well as continued growth in our Group Insurance business and favorable insurance experience in Individual Insurance. The basis change provided additional uplift, but these drivers were partially offset by less favorable insurance experience in Group Insurance.

Lastly, our US segment's results on slide 16. In the US, we delivered another quarter of strong APE sales growth of 51%, fueled by higher broad-based demand for our suite of products. This momentum led to more than doubling of our new business CSM and a 53% increase in new business value. Core earnings decreased 20% year-on-year, primarily due to unfavorable life insurance claims experience this quarter compared with favorable experience a year ago, along with lower expected investment earnings.

These impacts were partially offset by a release in the ECL provision compared with an increase in the prior year as well as favorable lapse experience in our Life business. While large claims variability presented challenges, the fundamentals of our US business remain strong and position us well for steady earnings in the long term. Our confidence is reinforced by the sequential improvement in core earnings and the continued strong growth in our new business metrics this quarter, which bodes well for our future earnings in the segment. Looking beyond our earnings, it's worth noting our overall LTC insurance experience was once again modestly positive, including favorable incidents reported in the CSM.

Bringing you to our book value on slide 17. Even after returning nearly $4 billion of capital to shareholders year-to-date through dividends and share buybacks, we continue to grow our adjusted book value per share which was up 12% from the prior year quarter to $38.22. On a stand-alone quarter basis, we continue to demonstrate our strong cash generation capability and returned over $1.3 billion of capital to shareholders, including both dividends and share buybacks during the period. And as Phil mentioned in our refreshed strategy update, we expect our remittances for 2025 to be approximately $6 billion, putting us well on our way to achieving our cumulative 2027 target of at least $22 billion.

Let's now move to our balance sheet on slide 18. Our LICAT ratio remained strong at 138%, providing a $26 billion buffer above the Supervisory Target Ratio. Our financial leverage ratio improved sequentially as well as year-on-year, standing at 22.7% and remaining well below our medium-term target of 25%. Together, these metrics highlight the strength and stability of our robust capital position and balance sheet, which provide ample financial flexibility to drive future growth.

And finally, moving to slide 19, which summarizes the progress against our 2027 and medium-term targets. I'm pleased with our overall financial performance this quarter, in particular, with record core earnings supported by our continued top-line momentum, despite some headwinds that impacted our net flows and ALDA performance. This quarter, we also generated core ROE of 18.1%, with a meaningful expansion of 1.5 percentage-points year-on-year. As Phil highlighted in our refreshed strategy update, we have a clear path to achieving our 2027 core ROE target of 18%-plus, and I'm confident in our ability to do so.

Overall, our third quarter results reflect the ongoing strength of our underlying business performance and the quality of our portfolio. And when combined with our focused execution against refreshed strategic priorities, I'm excited for the future and the opportunities that lie ahead.

This concludes our prepared remarks. Before we move to the Q&A session, I would like to remind each participant to adhere to a limit of two questions, including follow-ups, and to requeue if they have additional questions. Operator, we will now open the call to questions.



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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

John Aiken, Jefferies.

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**John Aiken** - *Jefferies LLC - Equity Analyst*

Good morning Phil, I'm very intrigued about the venture that you announced in India. I was hoping you might be able to give us a couple of more details in terms of what type of products you think you're going to be offering. What you bring to the table, in what I believe is a very competitive marketplace? And then finally, the regulatory approval process, how long do you think that will take before you can actually open shop for business?

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

John, this is Phil. Thanks for the question and the first question today. Certainly, the announcement we made yesterday of our intention to enter the India market through a JV with Mahindra is very exciting. We've been looking at an India market entry from an insurance perspective for many years and have been really observing the environment to wait for the right moment. And what we've seen in recent years is that the regulatory environment has moved favorably, the digital infrastructure within India has moved very favorably; there's been consistent economic growth and market maturity within the insurance sector, as well as that, there has been a notable increase in wealth across the India population, and that creates insurance needs and provides an ability to purchase insurance products.

And, I think, a really important component of our entry strategy here is really moving with the right partner, and Mahindra, who's been our partner on the asset management side since 2020, is a fantastic partner and has not only substantial local knowledge, but a strong brand as well as a distribution infrastructure. So, in terms of some of the specific questions that you ask on what we bring to the table, we bring our global expertise in the insurance sector to this partnership. And it's not only about product development, but it's also an aspect such as risk management, which is so important to managing insurance businesses. It's too early to get into a topic such as which product will -- what the products will look like. I expect it would take in the order of 12 to 18 months to get this operation off the ground and up and running, including the regulatory approval process that you referenced, and I look forward to providing updates along the way.

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**Operator**

Alex Scott, Barclays.

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**Alex Scott** - *Barclays Services Corp - Equity Analyst*

Hey, good morning. I wanted to see if you could talk a little bit more about what you're seeing in some of your Asian markets and the growth has been pretty good. What's your outlook for contingent strength of sales over the next couple of years?

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**Steven Finch** - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Yes. Thanks, Alex. It's Steve Finch here. I can take that. Yes, as you noted, we've had some strong momentum in results in Asia as Colin covered. We saw continued solid momentum in sales growth in the quarter with our new business value metrics up 7% on NBV, 18% up on CSM, new business CSM, which bodes well for our future earnings.

And we've seen broad-based success across multiple markets; continued strength in the value metrics in Hong Kong. And then in Asia Other, we had a strong result in our China business, as well as continued momentum in Singapore, our Indonesia agency and as well as our bank partner in



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the Philippines. So, we've continued to see broad-based success. And what we see is the market fundamentals and customer demand remain strong and aligned with the strategy that Phil updated on. We're continuing to make the investments for growth, and we're well positioned to capitalize in markets across the region.

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**Alex Scott** - *Barclays Services Corp - Equity Analyst*

That's helpful, thank you. So, the next question I wanted to ask about your private credit exposure. See if you could put numbers around some of the different forms of private credit you have. And also, just ask if you have any comments, just on some of the comments that have been made by industry participants out there that have been a little more critical of private credit recently.

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**Trevor Kreel** - *Manulife Financial Corporation - Chief Investment Officer*

Alex, it's Trevor. Thanks for the question. So yes, in terms of private credits, just for context, our below investment-grade private credit portfolio is around CAD4 billion. It's a little bit less than about 1% of our general account assets. It is -- the strategy is largely focused on middle market lending to private equity-sponsored companies. It's pretty diverse by issuer, sector and sponsor. And we do manage and underwrite these assets in-house. I would say we see our participation as kind of being on the low end of the risk spectrum. Our performance has actually been quite strong even with COVID, even with the rate increases. And the credit expense has actually been, I think, well within our loss assumptions.

So, we are actually quite happy with the strategy. In terms of use of private credit, I would say, we're always looking at new asset classes to diversify the balance sheet. I think, given the nature of private credit – the ratings, the term, and the fact that it's floating rate, the most natural home for us on the balance sheet is probably our par and adjustable liabilities, where investment experience is passed back to the policyholders. So, I think, we might look to add a little bit more there where we thought it was sort of appropriate for the balance sheet.

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**Operator**

Gabriel Dechaine, National Bank Financial.

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**Gabriel Dechaine** - *National Bank Financial Research - Analyst*

Good morning. First question is for the -- the GWAM business, the Mandatory Provident Fund fee changes that are going to start having an effect in Q4. So, we all are aware of this, but you alluded to some actions you would take, and you contemplated this regulatory change when you laid out your 2027 vision. Maybe you can shed a bit more light on what some of these offsets are, how impactful it could be when they could become effective, I guess?

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**Paul Lorentz** - *Manulife Financial Corporation - President & CEO, Global Wealth and Asset Management*

Yes. Thank you. It's Paul Lorentz here. Just on that, the guidance we provided around about USD25 million a quarter remains intact once we get through the entire transition. So, we did transition earlier this month. It will take us some time to decommission systems, obviously, reduce our FTE footprint there because we're no longer servicing the business. So, you'd expect to see some of that come through, those costs continue into Q1, and then we would expect most of those to disappear into Q2. In terms of outlook for Q4, we did end the quarter with higher AUMA versus the average. So, there is a little bit of upside there in terms of revenue, but that would be offset by the eMPF coming in for two months of the quarter. And then in Q1, we would obviously get the full run rate coming through.

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**Gabriel Dechaine** - *National Bank Financial Research - Analyst*

So just to put a finer point, are you expecting to fully offset at some point in the future or not?



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**Paul Lorentz** - *Manulife Financial Corporation - President & CEO, Global Wealth and Asset Management*

So, most of the expense actions we took were upfront to try and get ahead of it. That's why we've seen such an improvement in our margin, frankly, leading up to the transition. So, we are very proactive in terms of not waiting for the transition to happen. So, we feel we've taken most of the costs out, except for those that are remaining, which will disappear in Q1.

**Gabriel Dechaine** - *National Bank Financial Research - Analyst*

Okay. Then, a question on the actuarial review, which I always am hesitant to ask about because it could get a little bit technical. But, in the LTC components, specifically, there's a familiar pattern: you increase your morbidity reserves, essentially, and then offset that with future premium increases expected. But, on the medical cost inflation that you're observing, you talked about higher utilization because of rising health care costs. Is that just another way of saying the utilization is -- well, is it actually higher or it's the same utilization and it's just costing you more? Because it's kind of a nuanced message there. And what kind of, I guess, inflation are you factoring into this updated assumption? Up to 10% a year or something like that? I don't know.

**Stephanie Fadous** - *Manulife Financial Corporation - Chief Actuary*

Gabe, it's Stephanie. Thank you for the question. So, for the LTC triennial review, what we saw is a modest favorable impact that's in line with the experience that we would have seen since the last review. But as you point out, there were different parts. And if we dive in a little deeper, we have been seeing utilization losses for a number of quarters. And to your question, that is a result of higher medical inflation. So, this is something we were focused on. And we fully address what we've observed, and we are also reflecting elevated inflation for a little longer period of time. There were also, as you point out, other parts that led to positives. We had absorbed consistent termination gains, which led to a favorable impact to reserve. And we have also reviewed our premium rate increase assumption, which we remain very conservative and embedded less than 30% of the total outstanding ask.

**Gabriel Dechaine** - *National Bank Financial Research - Analyst*

Got it. And any sense of what medical cost inflation you're assuming?

**Stephanie Fadous** - *Manulife Financial Corporation - Chief Actuary*

So, as I mentioned, we did reflect that. The medical cost inflation has come down since its peak, but it's still slightly elevated. We reflected that that would persist a little longer before returning to our longer-term view. And, I think, I would leave it with our longer-term view is higher than general inflation expectations.

**Operator**

Tom MacKinnon, BMO Capital.

**Tom Mackinnon** - *BMO Capital Markets - Analyst*

Yes. Thanks very much, good morning. A question maybe for Phil here. Just the thinking behind this refreshed strategy. I mean you came out with these 2027 targets about 16 months ago; you're standing by them. Is it really a new team, you wanted to kind of refresh it because you've got a new kind of leadership team?



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And I noticed that now you're talking about kind of more balanced growth across the portfolio. I'm just interpreting it, leave it up to you to here to paraphrase. But investing to grow in Canada and the US, how should we be thinking about that in terms of outlook for share buybacks? They still look like that's going to be fairly robust. But yes, maybe you can address some of those points I've raised.

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

Thanks, Tom. This is Phil. And there's quite a lot in there to unpack. So, if I miss something out, please do call me out on it, and I'll provide a supplement. But the logic for the refreshed strategy update, I do acknowledge that the strategy we've had for the past eight years has served the company tremendously well, we've been through a period of hugely successful transformation.

And we felt, having achieved what we wanted to achieve with the last strategy as a leadership team, we felt that this was the right time to take a fresh look. And something that I've said before is that given that the external environment continues to evolve, it's really important that the strategy is never static, that we always look at what's changing externally and how do we position the company. Yes, of course, to deliver on our 2027 targets, but have a much longer time horizon beyond that when we think about setting the company up for long-term success.

So Tom, you picked up on something that's really important and that is balanced growth. And having a diversified organization is something that we truly value. It's something that provides resilience. One of the things that is not changing as part of this strategy is that Asia and Global Wealth and Asset Management remain compelling growth opportunities, and we will do everything within our means to fulfill that opportunity. But at the same time, given the transformation that has been delivered over the course of the past eight years, our new business footprint in both Canada and the US is attractive. We're generating attractive margins, and we see an opportunity to invest to grow our new business in the US and Canada; and in particular, in the US, to grow new business so that it sustains our scale.

And that, therefore, is the relevance, I think, to our overall portfolio diversification, we sustain a level of diversification within the overall organization. On this topic as well, our strategy clarifies that we do believe that it's important to be in the mega economies of the future, and we have a hugely successful business in the US, both on the GWAM side and on the insurance side with John Hancock. We have a successful scale business in China. And where we saw a strategic gap was the scale of our presence in India. And that was really the logic for us taking decisive action to enter the India insurance market. There are other elements of our strategy that I won't go into, but I'd just call out that being a leader in AI and an AI-powered organization is important to us. And I think that's very important to our overall competitive position and future success.

But Tom, you referenced the importance of capital generation. And I do want to emphasize that we expect to continue the strong capital generation that the company has seen in recent years. Colin referenced our expectations for remittances for 2025. I think that's a good example, $6 billion. And when it comes to capital deployment and share buybacks, our highest priority is unchanged, and that's to organically invest in our business, as well as sustaining and growing our shareholder dividend.

And then, for what's left over, buybacks and strategic M&A are possibilities. But I will emphasize, when it comes to strategic M&A, the bar is high, and that means that buybacks – we expect to continue to be an important form of capital deployment for us. I hope that covers all the points you raised, Tom.

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**Tom Mackinnon** - *BMO Capital Markets - Analyst*

No, that's fulsome. Thank you so much, Phil. And congratulations to Marc Constantini as he kind of moves on to his next role here. So, all the best.

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**Operator**

Doug Young, Desjardins Capital Markets.

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**Doug Young** - *Desjardins Securities Inc - Analyst*

Hi, good morning. I'm going to go back to the actuarial review. And there was, I think, a change in methodology in Asia, correct me if I'm wrong, from the PPA to the GMM; and I think this had a decent positive impact on the CSM. And so, I'm just trying to understand why the shift and what impact did that shift have on core earnings in the quarter and, with all the moving parts, the core earnings going forward, Colin I think you talked a bit about it, will have a positive impact. Can you put a finer point on what that positive impact might be?

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**Stephanie Fadous** - *Manulife Financial Corporation - Chief Actuary*

Thanks Doug. It's Stephanie. I'll start and see if Colin wants to add. But you're right. So, in terms of the impact of the annual review, which was favorable and led to a reserve reduction of $605 million, a large part of this was driven by a change in how we account for some health insurance contract in Hong Kong. We're moving from the PAA approach, or what you would call short-term insurance contract, to reserving for the lifetime. I'd add that since we implemented our IFRS 17, we've been studying industry practice, and we found that most players accounted for these products over the lifetime, so we're now aligning with this practice. What this does is we've capitalized our cash flows in the reserve, and we've set up a CSM to offset it. No impact to total insurance contract liability. In terms of the impact to core earnings for this item, and there are small timing differences. So, there will be a modest favorable impact. And then you asked about the impact of the annual review overall on core earnings. Due to the favorable impact, we saw an increase in CSM which will lead to an increase in CSM amortization of approximately $30 million per quarter.

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**Doug Young** - *Desjardins Securities Inc - Analyst*

Per quarter, okay. And is there any other changes being contemplated?

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**Stephanie Fadous** - *Manulife Financial Corporation - Chief Actuary*

At this time, with no other changes of the type being contemplated.

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**Doug Young** - *Desjardins Securities Inc - Analyst*

Okay. And then just second, on the credit side, thanks for the detail on private credit. But what got my eye is, it seems like the parameter movements caused a reversal of credit provisions this quarter, and it was kind of tied into the positive moves in equity markets. And everyone can see the positive move in equity markets. But I was a bit surprised that positive move in equity market has an impact on the ECL or as significant impact on ECL. So, I just wanted to kind of understand the mechanics there a little bit.

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**Trevor Kreel** - *Manulife Financial Corporation - Chief Investment Officer*

Hi, Doug, it's Trevor. Thanks for the question. So yes, in terms of the ECL, as you noted, there was a $44 million release, which was better than the charge than we saw in Q2. And just to remind people, the ECL charge is broadly two main components. The first one is basically the impact of defaults and rating changes, which you would expect.

And then there is, secondly, this modeled impact reflecting changes in the broader economic environment. And we include both of those components in our definition of core earnings. As you said, for Q3 specifically, the majority of the benefit was driven by this positive impact from the market movement impact or the market environment impact driven by strong equity markets.

So I guess to your question, so we use a third-party model, and that third-party model basically generates this market environment impact and it includes a variety of metrics. So, equity markets is one, volatility, interest rates, et cetera, and how those have actually been correlated to credit experience in the past. So that's what the model is basically doing. It's not a linear impact but, given the strength of equity markets and the



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consistency of that strength, the model obviously picked it up and felt that the environment was obviously much less risky than it had been in prior quarters, and that leads to the release.

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**Doug Young** - *Desjardins Securities Inc - Analyst*

And I guess the point is, I mean, this obviously was favorable this quarter, but this is another area where if equity markets were to decline, you could see the reverse happen, I guess that's kind of obvious, but --

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**Trevor Kreel** - *Manulife Financial Corporation - Chief Investment Officer*

Yes, exactly. Yes, that's right.

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**Operator**

Paul Holden, CIBC.

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**Paul Holden** - *CIBC World Markets Corp - Analyst*

Yes, good morning. First question, I want to ask about the Hong Kong APE sales. Obviously, they were quite strong over the prior four quarters and now a little bit of a decline year-over-year. So really, I guess what I want to understand is what should we expect over the next few quarters as you continue to lap up some pretty good comps. Do you think you can produce positive growth in sales? Or is it going to be similar to this quarter, or maybe there's a bit of, I don't know if you call it, a normalization in growth?

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**Steven Finch** - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Yes. Thanks, Paul. It's Steve here. And as you noted, the Hong Kong, the APE was down modestly year-over-year. And that was off, as Colin noted earlier, a very strong base the prior year. And your point about growth, we've seen year-to-date, the APE has increased 46% year-over-year. So, that demonstrates the growth that we've had. In addition, while the APE declined in the quarter, our value metrics performed strongly.

So in Hong Kong, we are happy with these results. NBV and NB CSM were up 10% and 12% year-over-year, respectively. And that was due to some favorable mix, some additional health and protection that we saw in the quarter. In terms of outlook in Hong Kong, Q4 was another strong last year. We typically see seasonal variability, so we'd expect some drop off in Q4 and picking up again in Q1.

But if I back up to look at the underlying fundamentals and look a bit further out than that, the market fundamentals do remain very strong, and demand is high from our customers. We also see that in Hong Kong, and in Singapore as well – an international financial center, and there's a strong flow of funds. So, the underlying drivers are favorable, and we're making significant investments in our capabilities to support customers and distributors. So, as we look out over the medium term, we remain very optimistic about the Hong Kong market.

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**Paul Holden** - *CIBC World Markets Corp - Analyst*

Okay. Second question is going back to the strategy refresh. So, I want to get a better sense of how we should think about the earnings trajectory for Canada and US. When I hear investments in those markets, I think about maybe in the short term, higher expenses as a result of those investments, but longer-term growth rates. Is that the right interpretation?

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

Paul, this is Phil. Thanks for the drill-down question there on the strategy. The way I see this, I mean, we only have one target when it comes to medium-term earnings growth and that's the 10% to 12% core EPS. But my expectation, and this is the leadership team's expectation, is that each of our segments contribute to that growth. And the lens that we've applied in resetting the strategy is really to make it clear that growth will not only come from Asia and Global WAM, the US and Canada will be important contributors to that. And so, this is about investing to sustain scale, investing to sustain capital generation, investing to sustain growth rates. And I don't want to get too precise or issue any formal guidance.

But I think what's reasonable are: we're not looking double digits for Canada and the US, but it's sort of low to mid-single digits for the US and a little higher for Canada. But I think we have great businesses in North America, and this strategy really clarifies that we see those businesses being an ongoing and important part of the overall portfolio.

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**Operator**

Mario Mendonca, TD Securities.

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**Mario Mendonca** - *TD Cowen and Company LLC - Analyst*

Good morning, Phil, a related question. So, when I reflect back on what the US business was in the past and what it's become, I remember, as I suspect many people on the call do, that the US business was a much broader business – long-term care, universal life, variable annuities, variable universal life; there was a lot going on, but it was a really messy business as well.

So, as you think about this refresh in the US, is the point that -- is the goal to drive higher sales levels in your existing product mix? Or will you return Manulife to its former self with just a much broader product suite in the US?

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

Thank you, Mario, for the question. And let me be really clear up front: there is no intention in the US or John Hancock to go back to the days of variable annuities and that higher market risk types of products. There are really two elements to our strategy, and I'll come on to this.

What we're really thinking about is, when we reflect on the transformation that we've delivered in the US over the course of the past seven to eight years, is we've created differentiation through our focus on behavioral insurance that promotes health and wellness. And that creates differentiation in the market that has enabled us to be successful in what I would say is quite a niche footprint in the high net worth, focusing on the high net worth customer segment.

It's profitable. The business we write is profitable. The margins are now at a similar level to the margins that we generate on average in Asia. So, the question for us is twofold. One is: how do we potentially broaden the scope of solutions that we provide to customers, but within our risk appetite? So, not going back to where we were 10, 15, 20 years ago. And secondly, how do we take the solutions that we have and enable those solutions to be accessed not only by high net worth individuals, but affluent individuals and families and emerging high net worth individuals? So, that's really an expansion of the relevant customer segments that we focus on. And, I feel, with some of the strategic changes that we're making in the US and the team that we have, we're very well positioned to be able to deliver on that opportunity and sustain our scale, earnings and capital generation from what is the largest economy and the largest insurance market in the world.

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**Mario Mendonca** - *TD Cowen and Company LLC - Analyst*

So Phil, does that mean that you stick with your existing product suite? I couldn't quite figure that out.

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

In the near term, we're sticking with our existing product suite and scaling that or moving that into additional customer segments. We are also looking to be fully transparent, Mario, also looking at opportunities in adjacent products that help fulfill a wider range of customer needs, but within our risk appetite. And we have robust risk disciplines that apply not only in the US but around the world.

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**Mario Mendonca** - *TD Cowen and Company LLC - Analyst*

Okay. A quick follow-up question. Look, none of this is free. I see that the efficiency target is no longer formally part of your strategic refresh, but I appreciate that it's still a priority. Would it be fair to say that the sub-45% efficiency ratio, that's something you could sacrifice in the near term in pursuit of this refreshed strategy in Canada and the US?

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

Actually, Mario, we're not withdrawing our sub-45% targets when it comes to efficiency ratio. I expect that to be maintained. And going in the other direction on this. Yes, we'll be investing in our businesses. But part of our investments at an enterprise level include becoming an AI-powered organization. And we're already seeing the benefits of our investments and leadership position in AI pay off, when it comes to mitigating expense growth and providing an ability for the organization to do more with less. And so, I think there are forces moving in both directions that will enable us to continue to be efficient.

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**Mario Mendonca** - *TD Cowen and Company LLC - Analyst*

And Marc, congratulations on a great career there and hope to see you in your new role.

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

He's smiling. Thanks Mario.

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**Operator**

Darko Mihelic, RBC Capital Markets.

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**Darko Mihelic** - *RBC Capital Markets Inc - Analyst*

Hi, thank you, good morning. Just a real quick question on corporate. There's a bit of noise in there. You actually have a negative CSM. Colin, how should I think about this business unit on a go-forward basis from a modeling perspective?

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**Colin Simpson** - *Manulife Financial Corporation - Chief Financial Officer*

Good to hear from you. Corporate was a little bit more different to the trend, actually, and a large part of that was the withholding tax accrual release that we made in respect of the Comvest acquisition. But I think going forward, you would expect us to have a result of $300 million to $400 million in this line, and that reflects further investments in central products. You mentioned the CSM, the negative CSM; that is related to our COLI product that we've owned for many years. It's really just an intercompany settlement and nothing to really focus on. It will be steady for the next few quarters.

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**Darko Mihelic** - *RBC Capital Markets Inc - Analyst*

Okay. Thank you. And a question for Steve Finch. Steve, the question is really twofold. One is: your agent count is still declining. Maybe you can talk a little bit about what it is you're doing there, and does it affect sales power? And then on top of that, just quickly, how should we think about the build-out of India in terms of the earnings drag for the next couple of years?

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**Steven Finch** - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Thanks, Darko. And on the agency side, our focus there, our strategy is building out a high-quality and professional agency. And it's not really driven by that metric in terms of number of agents. So, if we look at other metrics in terms of top-tier agency, our APE per active agent is growing significantly, our NBV per agent is also growing materially. And we've seen growth in our agency sales this year as a result of this. One of the other objective measures there, is a measure of top-tier agents, is the Million Dollar Round Table. Manulife was third globally in terms of number of MDRT qualifiers in '24, and the run rate is in the 20s, 20% for growth tracking through 2025 as well. And what we're continuing to do to drive this, is we're making investments. And broadly speaking, those investments are training and development, really investing in our people to be able to recruit high-quality agents, train them very well, develop them into leaders, and create highly professional agents, along with investments in technology and tools, AI tools that are making the agents more efficient providing better service to our customers, identifying from all the data that we've got on customer interactions, what the next best need for the agent would be.

And we're seeing benefits from these investments. So, we are pleased with what we're seeing come out of these investments in the agency strategy. It's one of the core distribution engine of the franchise representing a little over a third of the sales.

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

And Steve, did you want to cover the India earnings question? Okay. You go ahead, Steve.

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**Steven Finch** - *Manulife Financial Corporation - President & CEO, Manulife Asia*

Yes. Thanks. As Phil said earlier, we still have a ways to go to get the entity set up. We're not giving those forward projections at this time in terms of financial metrics, but we look forward to updating on that in the future.

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**Philip Witherington** - *Manulife Financial Corp - President & CEO*

Yes, that makes sense. And just to supplement, in terms of one financial metric we can provide is we expect the capital cost of India over the course of the next decade to be around USD400 million capital injection. In the first five years, that's around USD140 million to USD150 million. And I think that helps really to put some parameters around what the overall financial dynamics are, but a hugely exciting move for Manulife.

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**Operator**

Thank you. And this concludes the question-and-answer session. I would like to turn the conference back over to Mr. Hung Ko for any closing remarks.

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**Hung Ko** - *Manulife Financial Corporation - VP, Global Head of Treasury and Investor Relations*

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

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**Operator**

Thank you. This brings to a close of today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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