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MFC.TO - Q2 2026 Manulife Financial Corp Earnings Call

EVENT DATE/TIME: AUGUST 06, 2026 / 12:00PM GMT

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PRESENTATION

Operator

Thank you for standing by. This is the conference operator. Welcome to the Manulife Financial Corporation second-quarter 2026 results conference call. (Operator Instructions) and the conference is being recorded. (Operator Instructions)

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

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

Thank you. Welcome to Manulife's earnings conference call to discuss our second-quarter 2026 financial and operating results. Our earnings materials, including the webcast file for today's call, are available in the Investor Relations section of our website at manulife.com.

Before we start, please refer to slide 2 for a caution on forward-looking statements and slide 32 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 second-quarter 2026 results, a strategic update, and an overview of our latest long-term care reinsurance transaction.

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

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

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

Thanks, Hung, and thank you, everyone, for joining us today. Before we begin, I'd like to take a moment to recognize and welcome the newest members of our executive leadership team that we announced in May. Patrick Graham has assumed the role of President and CEO of Manulife Canada. Patrick previously led our Hong Kong and Macau business and brings deep expertise across both distribution and health that will help accelerate our Canada growth strategy.

I'd also like to congratulate Jodie Wallis on her expanded mandate as Chief AI Officer, which now spans both AI and enterprise data. Jodie remains instrumental in driving responsible AI adoption at scale to support growth, improve efficiency, and enhance customer experience, and her appointment to the executive leadership team further reflects the importance of this work across our enterprise.

In addition, Stephanie Fadous and Shamus Weiland have taken on broader responsibilities. These important leadership changes further strengthen our team, both at the enterprise level and in our key markets. I'm confident they position us to deliver on our strategic priorities and drive sustainable growth. I'll now provide an overview of our second-quarter financial performance before turning to the standalone long-term care reinsurance transaction we just announced.

Let's start on slide 6. We delivered strong results this quarter, demonstrating disciplined execution and the benefits of our diversified portfolio. Our insurance businesses generated strong top-line results with APE sales growth of 21% year over year, supported by double-digit growth across all segments. APE sales momentum remains strong in Asia, which was driven by broad-based contributions from key markets such as Hong Kong, Singapore, and Japan, and was supported by our high-quality agency force, which I will discuss further momentarily.

Growth in overall sales drove a double-digit increase in value metrics, including year-over-year new business CSM growth of 16%. This contributed to CSM balance growth of 20%, positioning us well for future earnings generation. In Global WAM, record gross flows supported net inflows of $0.4 billion this quarter. Net inflows were driven by strength in our Institutional business, including continued contributions from CQS and Comvest.

In terms of profitability, core EPS grew 16%, reflecting 12% growth in core earnings and the benefits of continued share buybacks. This strong result was led by Asia, where core earnings grew 21% from the prior year to a record level, as well as Global WAM, where core earnings increased 9% despite the impact of the transition to eMPF.

While we saw some insurance experience headwinds in Canada and the US, the overall results reflect the strength and resilience of our diversified business. And we delivered a solid core ROE of 16.3%, up 130 basis points from the prior year quarter.

Turning to our balance sheet, we maintained a strong capital position with a LICAT ratio of 136% and a leverage ratio well below our medium-term target, providing us with substantial financial flexibility and supporting continued return on capital to shareholders through dividends and share buybacks.

Turning to slide 7, we continue to make strong progress in the execution of our strategy, which is underpinned by our ambition to be the number-one choice for customers. Our distribution capabilities and product innovation remain important differentiators positioning us to meet evolving customer needs.

In Asia, we achieved a 9% year-over-year increase in Million Dollar Round Table members, the highest increase among the top 10 multinational insurers, reflecting continued progress in scaling our high-quality agency force. In fact, APE sales per active agent increased over 30% year over year in the second quarter. This speaks to the effective execution of our agency strategy, including efforts to enhance the quality of

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our agency force through Manulife Business Academy training programs, AI-enabled capability building, and broader advisor excellence initiatives.

In addition, we expanded our global high-net-worth offerings with two innovative insurance solutions that address the evolving wealth protection and legacy planning landscape. This includes the introduction of an insurance savings solution that uniquely combines the benefits of our participating life products with investment diversification through a Manulife-CQS strategy, further differentiating our value proposition to high-net-worth individuals. In Global WAM, we expanded our ETF-based offerings for North American retail customers, and in the US, we enhanced our variable universal life offering, broadening the reach of our life insurance solutions while delivering greater protection, flexibility, and long-term value.

Being an AI-powered organization is a key priority within our refreshed strategy, and our continued innovation and industry recognition reflect the meaningful progress that we're making across the enterprise. We are proud to be recognized by Evident as the number one life insurer for AI maturity for the second consecutive year, ranking first in North America and top 3 overall among 30 major insurers across North America and Europe. We were also recognized for our AI-enabled underwriting capabilities in Canada and named the model insurer for Data, Analytics & AI by Celent.

And in Global WAM, we launched new scalable agentic AI solutions. The portfolio of solutions includes document intelligence readers and knowledge assistants, which are enhancing customer experience while driving greater operational efficiency.

Finally, the rollout of our enterprise AI platform continues, providing our AI developers and data scientists with a scalable and secure foundation to design, build, and govern AI responsibly. It allows us to reuse capabilities across businesses and markets, accelerating delivery and reducing duplication. This platform lays the foundation for accelerated development and AI value generation.

Overall, these achievements and the recognition we've received underscore the meaningful progress that Jodie and the team have made embedding AI across our organization. Similarly, we're proud of our longevity leadership, where we're helping customers achieve better health and wealth outcomes across their lifespan, while driving sustainable growth for our business.

In collaboration with the MIT Age Lab, our U.S. Insurance and Retirement businesses launched a first-of-its-kind Longevity Preparedness Tool, helping customers assess and improve their readiness for living longer, healthier, and better lives. We also enhanced our health and wellness offerings for eligible Canada Group Retirement and Private Wealth customers through preferred-rate access to select health and wellness solutions.

And in Hong Kong, we're providing customers with greater healthcare options, quadrupling our medical specialist network to more than 900 providers through our strategic partnership with Bupa. Collectively, these achievements highlight the meaningful impact that we're making to empower customer health, wealth, and longevity.

Before I turn it over to Colin, I'd like to discuss the long-term care reinsurance agreement with Munich Re that we just announced, which is our third long-term care transaction within the past three years. A couple of elements of this transaction differentiate it from our prior deals. First, it is a full risk transfer of biometric risk on $3.2 billion of reserves at 80% quota share. And second, it is a standalone long-term care block.

The pricing is similar to our previous transactions with a modest negative cede, further reinforcing the robustness of our reserves and assumptions. The transacted block is an older vintage but has richer benefits, including greater lifetime benefits and policyholder inflation protection, compared with our retained book.

Inclusive of prior transactions, we will have reduced LTC morbidity risk by 24%, significantly improving our overall risk profile. The impact to capital is expected to be largely neutral, as the benefit from reducing morbidity risk required capital is offset by the release of the associated risk adjustment and the ceding commission.

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Unlike our previous deals, there is no capital benefit from the disposal of investments as no assets are being transferred. Foregone core earnings is relatively immaterial at C$30 million per annum in the first year, and that will reduce over time as the block runs off. More broadly, this transaction demonstrates how we are continuing to de-risk our in-force portfolio through innovative actions.

Looking ahead, we continue to focus on improving our long-term care portfolio through organic initiatives that will enhance risk-adjusted returns and drive shareholder value. For example, our long-term care transformation program is focused on helping customers remain healthier and more independent for longer, and reducing fraud through enhanced claims management. The program is already generating strong results with current run rate LTC claim savings of over 6%, which also helped contribute to the attractiveness of the transacted block.

In closing, I am pleased with our performance this quarter and delighted to have delivered a third long-term care in-force reinsurance transaction. We continue to execute on our strategy, innovate across our diversified business, drive sustainable growth, and deliver insights and solutions to help our customers across their lifespans and for generations to come.

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

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

Thanks, Phil, and good morning, everyone. This quarter, we delivered strong results, underscoring our continued focus on high-quality growth and value creation. Before opening the line to questions, I will walk you through our results.

Let us begin on slide 10 to discuss our top line. We delivered strong APE sales growth underpinned by double-digit increases across all insurance segments, including over 20% in both Canada and Asia. This momentum translated into double-digit growth in value metrics, with new business CSM increasing 16% year-over-year. In Global WAM, net inflows of $0.4 billion reflected strength in our Institutional business, partially offset by outflows in Retirement and, to a lesser extent, Retail, which I will expand on shortly.

Turning to slide 11, I will walk you through the key drivers of our earnings this quarter compared with the second quarter of 2025. Our higher net insurance service result was driven by continued growth in Asia as well as the net positive impact of last year's actuarial assumption review. This was partially offset by insurance experience, including unfavorable experience in Canada compared to net favorable experience in the prior year, partially mitigated by much improved -- though still negative -- claims experience in U.S. Life. I will provide more detail on insurance experience in Canada and the U.S. momentarily.

Moving down the DOE table, our core net investment result increased 10%, primarily driven by a lower charge in the expected credit loss provision, or ECL, partially offset by lower investment spreads in the U.S. Lastly, Global WAM generated 10% growth in pre-tax earnings.

On to slide 12, and as Phil mentioned at the top of the call, core EPS increased 16% year-over-year, driven by strong core earnings growth and ongoing share buybacks. This quarter, we generated net income of $2.1 billion, exceeding core earnings as higher than expected returns on public equities, more than offset lower than expected returns on ALDA. As we've seen across the industry, market conditions continue to weigh on valuations and returns in certain alternative asset classes.

Moving on to the results by segment, we'll start with Asia on slide 13. APE sales increased 21% from the prior year, driven by double-digit growth in Hong Kong, Singapore, and Japan, partially offset by lower sales in mainland China and other markets. The strong sales reflects double-digit growth across Agency, Banca, and other third-party sales, demonstrating the strength of our diversified multi-channel distribution network.

It also drove strength in our value metrics, though this was partially offset by changes in business mix. In Hong Kong, APE sales growth of 37% year-on-year reflected higher sales of savings products across all channels. This performance reflects the breadth of our franchise with our domestic customer base driving the majority of sales this quarter and remaining a core strength of our business.

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With regards to core earnings, Asia delivered another quarter of strong results. Year-over-year, core earnings increased 21%, driven by continued business growth and the net favorable impact of last year's basis change, partially offset by less favorable insurance experience.

Now, moving on to Global WAM on slide 14. We were encouraged to see a return to net inflows this quarter, driven by strength in our Institutional business, including continued contributions from CQS and Comvest, and supported by another quarter of record gross flows. This positive result was partially offset by outflows in North American Retirement and Retail, though we did see continued momentum across Canada Wealth and Asia more broadly.

In the Retirement channel, outflows reflected higher plan sponsor redemptions and increased net member withdrawals due to higher account balances from market appreciation. Retail outflows were primarily driven by active mutual fund redemptions through third-party intermediaries in Canada, although trends improved on a sequential basis.

Even as we continue to navigate pressures in certain areas of the business, this quarter's positive net flow result reflects the strength and resilience of our diversified platform. We generated solid core earnings growth of 9% from the prior year, driven by higher average AUMA and contributions from the Comvest acquisition, partially offset by the impact of the eMPF transition in Hong Kong and higher expenses due to business growth. These factors also supported our core EBITDA margin reaching 31.2%, expanding 110 basis points from the prior year.

Next, turning to Canada on slide 15. This quarter, APE sales increased 23% year-over-year, reflecting growth across all lines of business, led by higher large case sales within Group Insurance and continued strong participating life sales within our individual business. This, along with increased margins in Individual Insurance and Annuities, drove strong growth of 29% in new business CSM, while new business value was largely flat due to lower margins and product mix changes in Group Benefits.

Core earnings declined 10% year-over-year, mainly due to unfavorable claims and expense experience within Group Insurance, as well as normal claims variability in Individual Insurance. Relative to the first quarter of 2026, overall insurance experience improved modestly, reflecting the impact of the actions we are taking in Group Benefits, though this was partially offset by the unfavorable claims experience in Individual Insurance. We now expect overall Canada insurance experience to trend to neutral by the end of the year as our Group Benefit case managers help members return to work, although elevated expenses from our transformational investments should persist to the end of the year.

Lastly, let's discuss our U.S. segment's results on slide 16. APE sales grew 12% year-over-year, supported by product enhancements and distribution expansion initiatives, while growth in our value metrics was impacted by product mix. Core earnings rebounded year-over-year, reflecting improved claims experience in both Life and LTC, as well as a lower ECL provision charge, partially offset by lower investment spreads.

While Life claims experience was unfavorable this quarter, it improved meaningfully from the prior year. We view the result as being within the normal range of variability and when considered alongside the gain in the first quarter of 2026, is close to neutral on a year-to-date basis. LTC experience was once again favorable across both the P&L and CSM.

Turning to slide 17, our adjusted book value per share continued to grow, increasing 15% year-over-year to $41.12. We achieved this growth while returning $5.3 billion of capital to shareholders over the past 12 months. For the standalone quarter, we returned $1.4 billion to shareholders through a combination of dividends and share buybacks, underpinned by our continued strong cash generation.

Let's now turn to our balance sheet on slide 18. Our capital position remains strong, with a LICAT ratio of 136%, representing $26 billion in excess of our supervisory target ratio. Our financial leverage ratio of 22.2% remains well below our medium-term target of 25%. Together, these metrics highlight the robustness of our balance sheet and the strength of our capital position, providing significant financial flexibility and positioning us well for the future.

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To close, slide 19 highlights our progress against our 2027 and medium-term targets. We're pleased with the progress we have made towards our financial targets, underpinned by strong results from two of our high-growth businesses, Asia and Global WAM.

While there is more to do to achieve our core ROE target, this quarter saw 130-basis point increase compared to the prior year quarter. We remain committed to delivering against our targets, while at the same time further improving our risk profile, as evidenced by the standalone LTC reinsurance transaction, another milestone for Manulife.

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 re-queue if they have additional questions. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Aiken, Jefferies.

John Aiken - *Jefferies LLC - Equity Analyst*

Good morning. I know it's early days, but I was wondering if you could give us your thoughts on the Chinese government's tax on offshore insurance policies, how that may affect your business in the region.

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Thanks, John. It's Steve Finch here. I'll take that question. I'll start with taking a step back and just sort of frame the size of the business and with respect to MCV business. Manulife has a diversified business in Hong Kong, and our core strength is our domestic franchise, which represents about 75% of sales year to date. So MCV is an important part of the business at 25%. It can vary from period to period.

As you note, it's early to comment on the implications of some of the recent news. There was the point that you raised about tax treatment of offshore trusts. There's been press even more recently on enforcement of existing rules, which I think is really important. There haven't been updated tax laws, but there is focus on potential enforcement of existing rules, which -- that's pretty common to see as markets develop.

My expectation is that as guidance gets more clear, it could actually provide more clarity, remove ambiguity, and actually help support the development of this business over time. And I want to make a key point: we expect that the structural trend of mainland Chinese customers accessing Hong Kong for products and services to continue. There's a lot of reasons why that's being done: currency diversification, access to different underlying investments that they can't get onshore, the benefits and services that they can access in Hong Kong. And in my time in the role, I haven't heard tax benefits as the primary reason that's driving this business. Thanks, John.

John Aiken - *Jefferies LLC - Equity Analyst*

Yeah, thanks, Steve. Just to paraphrase to make sure that I've got this straight, basically, you're expecting some changes, but this is not destroying the outlook for the business.

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Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Yeah. It's absolutely not destroying the outlook. I have confidence, as we look to the future, this part of the business is going to continue to be a strength of Hong Kong. Could there be short-term implications? Really too early to say. We'll have to track it closely and see how this evolves over time.

John Aiken - *Jefferies LLC - Equity Analyst*

Now, thanks, Steve. I appreciate that. Over to you.

Operator

Tom Gallagher, Evercore ISI.

Thomas Gallagher - *Evercore Inc. - Analyst*

Thanks. So, Steve, just one quick follow-up on that, the -- you said 25% are MCV sales within Hong Kong, and I think Hong Kong's 40% of Asia. So if sales went to 0 on that part of the business, it would be a 10% hit to total Asia, but it sounds like you think -- obviously, that doesn't sound like you think it's going to go to 0. There might be a hit, but you'd probably be able to restructure, transition it somehow. Is that a fair way to frame it?

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Yes, and I'll expand a bit. I do not expect these sales to go to zero, not even -- not in the short term at all. And as we look out into the future, as I said, I continue to have confidence that this is going to be important part of the Hong Kong insurance business and for Manulife. Any short-term impacts will be manageable, won't impact core earnings over the immediate future. So continue to have confidence in this business going forward.

Thomas Gallagher - *Evercore Inc. - Analyst*

Okay, thanks for that. For my follow-up, just on the long-term care deal, I heard the 5% negative cede on IFRS. What was it on U.S. statutory, the negative cede? And can you also just give a little color for the -- retaining the asset risk? Like, what was behind that? Would it have been too punitive? Had you transferred the asset risk or were there other reasons you maintained the asset risk? Thanks.

Stephanie Fadous - *Manulife Financial Corporation - Chief Actuary*

Thanks, Tom. It's Stephanie here. So on an NAIC basis, the ceding commission would have been around 6% to 7%. Our IFRS reserve of this block are higher than the statutory reserve. In terms of color on the transaction, we're quite pleased to have transacted in this new innovative structure, where we basically cede the biometric risk or exchange variable cash flows for fixed cash flows but we retain the asset management. And what that does is that we retain the earnings potential and the assets supporting the portfolio, as well as the capital generation on the asset as the block matures over time.

Thomas Gallagher - *Evercore Inc. - Analyst*

Okay, thanks.

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Operator

Gabriel Dechaine, National Bank.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Hi, good morning. Just another question on the Asia sales outlook, the Hong Kong sales outlook more specifically, because the Chinese regulators don't look to be just going after or enforcing existing rules on MCV sales. Looks like they're -- the tax authorities are broadening their search for unpaid taxes, essentially, on gains on offshore investments. I'm wondering if there's any implications at all. Maybe there's not, because the structure of the products are entirely different and unaffected, but your offshore high net worth business, which is also managed out of Hong Kong, I believe. I appreciate it's not entirely sold to wealthy Chinese individuals, but there may be some implications there, if you care to comment.

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Gabe, it's Steve. Can I clarify, when you say the offshore high net worth, are you referring to our Bermuda international high net worth? I mean, the comments that I made in terms of Hong Kong encompass all the Hong Kong business, so whether it's high net worth, whatever channel it's coming through --

Gabriel Dechaine - *National Bank Financial Research - Analyst*

The sales are -- the sales and earnings, if you look in your Asia segment, I think it's only on an annual basis, there's an Other category that include the smaller other Asia businesses plus the offshore high net worth business.

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Yes. The international high net worth that we disclose is our Bermuda business. Bermuda business, high net worth, yes, there are -- we do have some China national sales that go through that business. Last year, our APE was a little bit over $150 million. The China portion of that is a little bit under 10%.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Okay, right, so nothing. Okay, great. I'm wondering -- okay, so this LTC deal, which I think is a positive news, just so I understand, there's no planned reduction to the assets, notably the ALDA portfolio that was partially backing these LTC blocks. And I'd like to pivot more to the future outlook. You talk about putting more emphasis on the organic management strategies for that block of business. And just wondering if that's a deliberate risk management strategy because you do benefit from higher mortality rates in that business, whereas your U.S. Life block is still generating some mortality losses here, so they offset each other.

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

Hi, Gabe. It's Trevor. Thanks for the question. I'll start and then turn it over to Phil. In terms of the asset strategy, so for the assets backing the reserves involved in this block, we do manage them within our broader ALM framework and we don't have any current plans to change the investment strategy. Phil.

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Gabriel Dechaine - *National Bank Financial Research - Analyst*

Okay.

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

Great. Thank you, Trevor, and thanks, Gabe, for the question. This is Phil. So when we look to the future on long-term care, we -- our primary basis for management of the portfolio going forward, it will be the organic management actions that we're taking. And there are various things that we're doing, and I talked earlier in my remarks about the LTC Customer Care Program. That has delivered a 6% reduction in claims through various initiatives, including reduction in fraud, waste, and abuse. And you'll have heard over the years the progress that we've made on premium re-rates that has proved to be a highly effective mechanism to mitigate variability in claims experience over time.

So when I reflect on what the best thing to do for Manulife shareholders is, I think it's important to -- now that we've demonstrated our ability to transact across various structures, an older block, a younger block, and over the past 24 hours, a biometric risk transfer, I think the logical thing to do is to make that pivot to organic management while retaining the strategic flexibility to transact, if that makes most sense in a particular point in time. One supplement, and that is -- and Stephanie touched on this earlier in response to an earlier question, that's relating to how we preserve the benefits for Manulife and Manulife shareholders. By pursuing the third transaction on a biometric risk-only basis, we do preserve the benefits of managing the asset portfolio for Manulife shareholders.

And that's actually important when you reflect on our strategy. One thing we said in our strategy that we released in November last year is that sustaining the scale of our U.S. business is important. And this structure, where we retain management of the asset portfolio, along with yield opportunity and ongoing capital generation as the block matures, it helps fulfill that objective of sustaining earnings and balance sheet scale of our U.S. segment.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

All right. Great, thanks.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets Corp - Analyst*

Thank you. Good morning. So continuing with the long-term care reinsurance deal. Phil, so I think you hit on an important point, the capital generation associated with that business. I think it's been maybe a little bit of time since you gave an update on the capital generation. Maybe some thoughts there to help us think through it as it pertains to this block, but I think more importantly, as it pertains to the retained block as well. When do IFRS reserves start coming down? When does stat reserves start coming down? When does the capital start flowing back to shareholders?

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

Thanks, Paul. I think Stephanie is best placed to answer that one.

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Stephanie Fadous - *Manulife Financial Corporation - Chief Actuary*

Thank you, Paul, for the question. So on the remaining block, which is slightly younger but still quite a number of years of experience and was issued a number of years ago, we expect the block to be relatively stable and start declining in the next 5 to 10 years. And I would expect the capital, both IFRS and statutory, to start generating capital at the same time.

Paul Holden - *CIBC World Markets Corp - Analyst*

Okay. And given the insured or the reinsured block you just stated is a few years younger than a few years earlier, is that an easy assumption to make?

Stephanie Fadous - *Manulife Financial Corporation - Chief Actuary*

The reinsured block for this transaction was a more mature block of business with richer benefits. And as the block matures, we'll have the capital generation on the asset that we've retained, and that will be a little quicker than the remaining block.

Paul Holden - *CIBC World Markets Corp - Analyst*

Next question, kind of change the topic, is on the Canadian insurance business. Very strong Individual Insurance sales for the second consecutive quarter or so; 20% this quarter, I think somewhere around the same ballpark last quarter, a little bit higher. Maybe talk about -- I know you have renewed and reinvigorated growth strategy there. Talk about the success you're having in those sales, what kind of products they're coming from, distribution channel, and sustainability, and that type of growth rate. Thank you.

Patrick Graham - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Canada*

Hey, Paul. It's Patrick here. Thanks for the question. First, let me say how excited I am to be here and working with the Canadian team to drive our shared ambition of being the undisputed leader in insurance in the market. And I think your question speaks nicely to that shared vision and ambition.

So as you referenced, we've done very well in Individual Insurance sales, achieving number-one market share in Q1, largely driven off the back of our successful par product, and being number one in the high net worth space. We view this as something that's sustainable. We've got a lot of competitive differentiators in the business, and going forward, we see opportunities in underserved segments in the market, so we can continue that track record of growth and success. Thank you.

Paul Holden - *CIBC World Markets Corp - Analyst*

Thank you.

Operator

Tom MacKinnon, BMO Capital.

Tom MacKinnon - *Bank of Montreal - Equity Analyst*

Yeah, thanks very much. Good morning, Steve, maybe you can talk a little bit about just the trend in terms of what you've been seeing in Hong Kong sales. Certainly did better than anticipated in the second quarter. There was news around MCV stuff in late May, early June, or

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at least in terms of offshore accounts. Maybe you can comment as to what you've been seeing with respect to trends in the MCV sales just in the last couple of months, if possible. And I have a follow-up, thanks.

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Thanks, Tom, for the question. In terms of the sales performance in Hong Kong, we were pleased with the results this quarter. As was commented on earlier, we saw a growth in APE of 37% and growth in NBV of 12%, so continued solid results. It was quite broad-based. We've got a diversified distribution platform in Hong Kong, so success in Agency, Bancassurance, that actually more than offset lower sales year over year in the MCV space.

And it kind of ties into your point about there have been some regulatory, I guess, announcements coming out of China. But those have been primarily focused on offshore investments or outbound investments. There's no direct impact on the MCV business. It's possible there could be some second-order impacts, which we're watching closely. But there were changes in regulations last year and early this year, and that's having some impact in terms of the MCV business.

But as you noted, it was a strong result. And as we look out into the future, we have confidence in that business. One interesting fact was that Hong Kong recently took over as the number-one source of offshore wealth flows overtaking Switzerland. So it is a global and regional finance hub that continues to be really important. Thanks.

Tom MacKinnon - *Bank of Montreal - Equity Analyst*

Yeah, and then the follow-up's with respect to Canadian LTD. I think you've mentioned you had poor experience in the first quarter, continued into the second quarter. You talked about the overall trend to be neutral by the end of the year. What gives you confidence? Predicting claims is always tough. What gives you confidence that this is going to be trending to neutral by the end of the year? Maybe you can elaborate on some of the actions you're taking and maybe some repricing initiatives you're doing with respect to some of these cases where the experience hasn't been as good. Thanks.

Patrick Graham - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Canada*

Thanks, Tom. Patrick here again. So yeah, as you referenced, like the industry, we are seeing unfavorable morbidity experience, largely driven by disability claims. And within that, you can think that roughly a third of new claims are coming from mental health, which they can materially extend claims duration and they're stickier.

And as a business, we're making targeted investments in a number of areas to improve health outcomes for our customers. That includes earlier intervention, enhanced treatment access, and specialized case management teams designed to improve health outcomes for customers, manage durations, and ultimately mitigate the growing impact of that on our experience over time.

We have seen improvements in Q2, modest improvements in claims from Q1. And whilst we see emerging industry trends with recoveries, we are confident that the overall insurance experience for the segment will trend towards neutral by year-end.

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

And, Tom, this is Phil. You also touched there on our ability to reprice. And just to confirm, this is annually repriceable business, and if we do see sustained adverse experience, we have the ability and intent to reprice.

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Tom MacKinnon - *Bank of Montreal - Equity Analyst*

Okay. Thank you.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *Cowen and Company LLC - Analyst*

Good morning. I have just a quick follow-up on those Hong Kong sales. Was there any level of, let's say, front-ending of sales this quarter in Hong Kong? Not necessarily because of the tax change, because I don't think there's any way to escape the taxes, but in terms of front-ending sales in anticipation of regulatory change. Did you see any of that in the quarter, Steve?

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Yeah, thanks, Mario. The driver of the sales in Hong Kong this quarter, and Colin referenced mix, the real driver was that we routinely have customer offerings, campaigns. And in the quarter, we had campaigns that really hit the mark with customers, and that was driving the sales results. It was very attractive for customers. That's why you see the APE growth higher than the NBV growth, so it was somewhat lower margin, but it really resonated. I didn't see any sort of impact of accelerated sales from regulatory changes.

Mario Mendonca - *Cowen and Company LLC - Analyst*

Okay. If we could go to the reinsurance transaction, so, Phil, I understand your comments about retaining the scale of the U.S. business to absorb the expense load. That's a concept that I've become familiar with any insurance business. But like everything else, there's a trade-off to this, and the trade-off is that you're not getting the release of capital that you did on the previous transactions.

So where I'm going with this is, when I look at the pace of share repurchases over the past few years, during that period when Manulife benefited from a material improvement in the ROE, it coincided with those large reinsurance transactions that allowed for the buybacks. So where I'm going with this is, if this is the new state of affairs where reinsurance transactions do not result in a release of capital, is it appropriate to suggest that the pace of buybacks can't return to where it was in the past, and as a consequence, achieving the 18% ROE becomes more and more difficult? Is that appropriate?

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

So, Mario, this is Phil. Let me take that and, Colin, feel free to supplement. The way we've structured this transaction, I mean, it really is partly a reflection of our intent to transact in different structures: the older structure, the younger block of business, and now biometric risk only with the ability to preserve and retain benefits for Manulife and Manulife shareholders. There is a cost to transacting, and you can see that with the 5% negative cede, similar economics to the first two transactions.

But through the biometric-only approach, it's not only that we retain the assets and therefore earnings -- a continued earnings and capital generation from that portfolio as it runs off. But beyond that, it's -- it of course allows us to sustain our scale, as you pointed out. But it's preserving profitability for Manulife, and it's coming with a limited impact, an immaterial impact to earnings.

So while there isn't a big capital release, there isn't the large earnings impact. And you recall from our first two transactions, there was notable forfeited earnings that on an EPS basis, we made up for through share purchases. But there was also substantial net income noise through the realization of gains from OCI to net income as changes were made to the asset portfolio.

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So when I think about the go-forward approach, it's actually preserving the earnings rather than having to make up the earnings by way of share buybacks. Now, in terms of share buybacks, they do have an important role to play in achieving our 18% plus ROE target. We have a 2.5% share buyback program in place, and our capital generation remains strong. We also have a 2027 remittances target. That -- we're well on track to achieve that target, and that supports the share buyback program.

If I look at the second-quarter, pace of share buybacks in the second quarter, it was consistent with full delivery of the 2.5% share buyback. I feel confident that we're doing the right thing on LTC. I feel confident that we're generating capital to support share buybacks, and the overall position of the company remains strong, both from a capital perspective and a leverage perspective.

Colin, is there anything you'd like to supplement?

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

No, I think you covered it all, Phil. I would just say, Mario, buybacks are an important lever to get us to 18%, but we're not anticipating an outsized buyback to get across the finish line. What you see this year, 2.5%, that's without any boosting from reinsurance transactions, and we wouldn't want to guide you to anything materially higher or lower than that to get to the 18% core ROE.

Mario Mendonca - *Cowen and Company LLC - Analyst*

So bottom line, Colin and Phil, this pace of buybacks is consistent with achieving that 18% ROE. You don't need to do anything special there to get to the 18%. Is that your outlook?

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

That's a fair summary, Mario. Confirmed.

Mario Mendonca - *Cowen and Company LLC - Analyst*

Okay, thank you.

Operator

Doug Young, Desjardins Capital Markets.

Doug Young - *Desjardins Securities Inc - Analyst*

Hi. Good morning. I apologize, just something more on the long-term care insurance deal. Just looking at the ceding commission, and I know it's the same as past deals, but what's driving the ceding commission this time? Because I think last time, it was the difference in return assumptions. I think that was part of the GA deal.

And just in terms of structure with the ceding, how it's going to flow through, I think it's $160 million, correct me if I'm wrong. Is that accounted for as a negative in the CSM that just unwinds over time? I'm just trying to get a little bit of understanding of the mechanics of that.

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Stephanie Fadous - *Manulife Financial Corporation - Chief Actuary*

Thank you, Doug. It's Stephanie here. I think you have a good question, and you have all of the answers. In terms of the ceding commission, it's really due to a difference in expectation of returns as opposed to a different view of reserve or assumption, so similar to what we mentioned on prior deal. And the cede commission, the 5% cede commission, you're right, this will flow through CSM over time, CSM amortization.

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

Yeah, this is Phil. I think that what Stephanie just ran through, it demonstrates that it's a really clean transaction in terms of the accounting and mechanics. There's a modest impact on CSM, which flows through to earnings over time. But there is no noise in either core earnings or net income from the biometric risk transfer, so it's something that reduces our risk without those unfortunate cosmetic accounting implications that we've seen on a couple of other transactions.

Doug Young - *Desjardins Securities Inc - Analyst*

Yeah, thank you for that. And then just Phil or Colin, I think what would be really helpful is if you can kind of maybe put in context how much of Manulife's core earnings are now from legacy businesses, and how much common equity backs these legacy businesses. Because we know the starting point, you gave it to us, and you've given us kind of iterations over the years. Because I think it does tell an interesting story. I don't know if you have the numbers with you; that'd be great if you did. Just thought I'd throw that out there to see if you could provide some context to that.

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

Yeah, Doug, this is drawing my memory from a few years ago. We had the 15% of earnings target. We wanted to reduce legacy earnings below 15% of earnings, and we had the stretch ambition for that to be less than 10%. I can now say, and we achieved this a couple of years back, it's comfortably less than 10% of our earnings coming from LTC and VA, and this transaction further reduces that. It's not something we track on a periodic basis, but it's well below what we had set out to achieve.

Doug Young - *Desjardins Securities Inc - Analyst*

And how about common equity backing? I know you say LTC VA, I know there's more than that in legacy, but -- and how about common equity backing the legacy businesses? I think it started at about 50%, but I don't know if you have that number.

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

That's not something I have to hand. It's not something that we track month in, month out. The priority metric we were managing to was the percentage of earnings, and that's been exceeded a couple of years back, so not something that I'm overly concerned about.

Doug Young - *Desjardins Securities Inc - Analyst*

Okay. Appreciate it, thank you.

Philip Witherington - *Manulife Financial Corporation - President and Chief Executive Officer*

Thanks, Doug.

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Operator

Darko Mihelic, RBC Capital.

Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Hi. Thank you. Good morning. Steve, maybe you can speak to the other area of Asia where sales don't look so great and neither do earnings. How should we think about that? What's going on and should we think about this trending the same way for the foreseeable future?

Steve Finch - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Asia*

Thanks, Darko. Yeah, in the Other category, the primary driver of what's going on the sales results, it's our International High Net Worth business. The Bermuda business is reported in that part. There have been headwinds this year from the Middle East conflicts. Middle East business was a significant component of that.

But I would point out that we have high net worth business that we book across the region, and Hong Kong and Singapore are the primary hubs. So we've seen high net worth business overall go up materially this year. So the business isn't flowing right now to Bermuda, it's flowing to Hong Kong and Singapore. So that's in the results.

Unclear exactly how long it'll take for that situation to unwind, but we are -- Phil mentioned some new products that we've launched there, as well as focus on where the flows have gone and make sure that Bermuda continues to be an attractive offering and source for business going forward.

Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Thank you for that. And then just a question on the Mandatory Provident Fund, heard from a few sources that they are reviewing fees by end of the year. I'm talking about fees for the funds that are managed. Is there any visibility on this and where it's sort of headed?

Paul Lorentz - *Manulife Financial Corporation - President and Chief Executive Officer, Global Wealth and Asset Management*

Yeah. Hey, thanks, Darko. It's Paul here. Yeah, in terms of fees, this isn't a one-time exercise. It's something that we submit regularly throughout the years and it's part of our regular fee compression budget that we build into all our businesses, frankly, as we do expect fees to come down over time, so part of that process is we build that into our planning. We make proposals to the regulator. We try and balance that with competitiveness and make sure we're competitive where we need to be. But I would look at this as BAU for us. That's how we look at it across all our business lines.

Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Okay, so it's not overly material in any respect. Is that the way I should think about that?

Paul Lorentz - *Manulife Financial Corporation - President and Chief Executive Officer, Global Wealth and Asset Management*

No, that's how you should think about it.

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Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Okay, thank you.

Operator

Mike Rizvanovic, Scotiabank.

Mike Rizvanovic - *Scotiabank GBM - Analyst*

Hey, good morning. Just a high-level question for Colin or maybe for Phil, just wanted to touch on the expense efficiency ratio. I know you've got your target of being below 45% medium-term. It's sort of oscillated there the last couple of years. I know you're spending a lot on new capabilities on the digital side.

I'm just wondering if you have any updated thoughts on how you'd like to see this number move. I'm wondering if it's reasonable to think that there are some levers that this number could improve, say, by 2 to 3 percentage points, to a sustainably lower level over the next two to three years.

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

Hey, Mike, it's Colin here. Thanks for pointing out the expense efficiency ratio. Actually, we're really pleased. 44.5% is below our medium-term target. But what's important is that we continue to invest in the business. And if I look at each of the business lines, you'll see some reasonable increases.

Take, for instance, GWAM. You've got Comvest, that's added $25 million to expenses. Asia, we're growing, so expenses went up 10%. Within Canada, we're modernizing our customer experience, so we saw a 10% increase there. And then at the center, we spent more on AI, and so, you'll see a little bit of a bump up. We've always said that the number-one use for our capital is organic investment and this is testament to it.

In terms of can we see expense efficiency going forward, maybe 1 or 2 percentage points? Absolutely. And I think AI and our AI initiatives are really key to achieving that. And that's both through growing earnings and being more efficient, so lots more to see on this and lots to work on. But as I've experienced in the four years I've been here, expense management is so core to Manulife's DNA. This should continue being a good story for years to come.

Mike Rizvanovic - *Scotiabank GBM - Analyst*

Okay. I'm just curious, across the segments, is it fair to say that the higher expense segments, like a GWAM, is maybe where you got a bit more torque there, potentially?

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

Yeah, you're absolutely right. GWAM has about a 60% efficiency ratio, and so as the business makes changes, that could impact the overall number. I would point you to Asia, actually. What's really interesting about Asia is that we're growing really fast and it has the lowest expense ratio.

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Mike Rizvanovic - *Scotiabank GBM - Analyst*

Okay. Thanks for the color.

Operator

Gabriel Dechaine, National Bank.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Yeah, thanks. Just a follow-up on the Group Insurance LTD issues in Canada, can you talk about some of the drivers there? I know last week we had one of your peers reporting and they mentioned that there's some economic factors that are influencing the volume of LTD claims and the duration of the claims as well. I wonder if that's something you're seeing as well.

Patrick Graham - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Canada*

Hi, Gabriel. Patrick here again. So yeah, I think you're spot on. I mean, it's a globally recognized phenomenon that in down cycles in the economy, particularly where there's increased unemployment, that there are rises in certain types of disability claims.

And like you -- what we're seeing and what we're hearing from the market is the unfavorable morbidity experience is driven by disability claims. A third of those new claims are coming, as I said earlier, from mental health claims, which again, there's a correlation. And those claims tend to be longer duration and stickier, so the programs I referenced earlier in terms of investments to get those customers back to work, get them healthy again, improve their health outcomes, is the important factor. And from a recoveries perspective, again, like the industry, we're seeing some pressure. But we think we're taking the right targeted actions to get to the right outcome.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

So your outlook for improved claims performance is leaning more on the claims management and recoveries process as opposed to some anticipation of a stronger economy or anything like that that reverses those trends. And then if I look forward to 2027, and I expect most of the companies are going to be repricing Group in Canada, like, what about the companies themselves that are maybe less able to accept price hikes? There's lots of inflation. Is there any concern there that you might not be able to get your pricing or maybe some customers dial back their coverage?

Patrick Graham - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Canada*

Yeah. Look, on the first part, 100%. We control our own destiny. We're making the right investments, and we will execute on those, and that will help the trend and help our customers. And as Phil mentioned on repricing earlier, our schemes are able to be repriced annually. We will take balanced adjustments and approach to that, looking to manage both margin, but also to protect growth.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Is this a large case, mid-case phenomenon that you're seeing?

Patrick Graham - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Canada*

It's not specific to any particular segment or a demographic cohort, so it's kind of across the board.

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Gabriel Dechaine - *National Bank Financial Research - Analyst*

Even regionally?

Patrick Graham - *Manulife Financial Corporation - President and Chief Executive Officer of Manulife Canada*

Yes.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Okay. Thank you.

Operator

Mario Mendonca.

Mario Mendonca - *Cowen and Company LLC - Analyst*

Good morning. I'll be quick. One thing I noticed post-IFRS 17 is that the Corporate segments for the insurers got cleaned up. There was a lot of expenses that were being allocated to the segments in those -- in that line called non-directly attributable expenses. And then, more recently -- and this is not unique to Manulife, I've seen these Corporate segments, the losses start to really increase again. Can you talk about what's changing here? Why are the losses in your Corporate segment starting to increase?

I mean, one of the obvious areas I can see is that the core investment result has really started to decline in the investment income, now being allocated out to segments like Asia, for example. So what are we seeing here? Why would Corporate become -- why would we start to see losses really start to increase again in Corporate?

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

Hey, Mario, it's Colin. So you're right. The Corporate result has gone backward from last year. It's $45 million lower or more adverse than last year. But it's clearly explainable, and one of the reasons in Manulife's case is the presence of our retro P&C business. And as you know, the cycle is softening.

So when you look at that $45 million year-on-year change, a third of that is coming from our P&C retro business. When you look at the other two-thirds, we're spending a lot more in central projects and mostly AI. So we're holding onto expenses at the center, that's pushing up the costs there. But there's also other factors. Like, we make an accrual for withholding tax, and so we're expecting higher dividends from some of our entities that incur higher withholding tax. So that's factoring into it.

We've said now that we expect the corporate result to be between $300 million and $400 million. We think we'll be towards the top end of that $400 million range, but definitely within the range. It is important to keep a lid on expenses in the corporate center, but the nature of how we're spending that money in a very central fashion means that there is a bit of upward pressure on that, and not to forget the P&C business.

Mario Mendonca - *Cowen and Company LLC - Analyst*

Yeah, so $300 million to $400 million loss annually is the outlook, with the high end being more appropriate.

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

Yeah, we were lower than that. We were towards the bottom end of that range last year. We'll be towards the top end of that range. We'll have to go through the full financial plan before we absolutely reconfirm 2027 in light of some of the expenses that we are making centrally. But that's a good place to start modeling from.

Mario Mendonca - *Cowen and Company LLC - Analyst*

Yeah, thank you.

Operator

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

Hung Ko - *Manulife Financial Corporation - 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.

Operator

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

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