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QUESTIONS AND ANSWERS

Mario Mendonca - *TD Securities - Analyst*

Good morning, everyone, and thank you for joining us in the room and on the line this morning. We're with Phil Witherington, Manulife's new CEO. Phil, thank you for doing this. Appreciate the opportunity.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Anytime, Mario, and thank you for inviting me and finding time to do this. Very exciting.

Mario Mendonca - *TD Securities - Analyst*

I invited you into your own home.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Well, you've come in and we can talk about the history of this building in a few moments. But yes. It's great.

Mario Mendonca - *TD Securities - Analyst*

So I've been around Manulife for a long time. There have been some good and some bad. I did not expect this much change so early in your tenure. I did not expect the strategic refresh, five priorities, six values, three enablers -- two enablers. I've lost track. Is it three enablers?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Three enablers.

Mario Mendonca - *TD Securities - Analyst*

Three enablers, wow. That's a lot. So help me understand why such a change? And this seems like a meaningful change to me so early on.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Right. And it's a great topic to cover upfront. This is a new chapter for Manulife without doubt. And it's not about the CEO. It's not a CEO's chapter. It's about a chapter for the organization. And our leadership team and our organization wanted to make something of this chapter. And I think the easy answer would have been to say, okay, we've got a strategy that's working. Performance is good. Let's stick with it. Continuity, let's coast.

And I and other members of the leadership team were a little bit concerned with our high ambitions that the organization may have a bit of fatigue. But interestingly, over the—you know the course of the early days of this next chapter and getting out to the organization, I very deliberately visited our colleagues across our offices. So Waterloo, I was the first CEO to visit Halifax in more than 20 years, Montreal, Boston, New York, went back to Hong Kong, passed through London and met with so many of our colleagues and business partners from around the world.

And what I found is that there was a huge amount of excitement about the future and what we can do with this next chapter. And that's one of the things that informed us that, yes, we should be really deliberate in being clear about what our strategy is, what stays the same, what will change and then positioning the company, the organization to be able to deliver on that next chapter.

And we made a decision as a leadership team that actually, there's no point in dragging this out. Let's provide clarity rather than live through a period of what some may interpret as strategic ambiguity. And we evaluated various options. Should we wait for 2027 and then have another Investor Day? Should we wait until the middle of 2026 and have another Investor Day?

And we decided that, well, actually, no, let's get this done from end to end in six months, provide that clarity on strategy and then quickly get into execution. And part of our rationale for that was, we know what our ambitions are. We know as an organization what it is that we want to do.

If we're slow, then we're effectively waiting for the competition to either catch up or get ahead of us. And we don't want that to happen. So we've been very deliberate in being clear about what stays the same, what will change and then moving quickly into execution.

And I think with the refreshed strategy, and I hope we get to talk about that a little more, but with this strategy, I think it sets us up well, not only to build confidence in 2027 to deliver on our targets there, but actually sets the company up for an entire chapter of success, and that's what's driven us.

Mario Mendonca - *TD Securities - Analyst*

So either time is moving very slowly or the clock hasn't been started. So just a reminder to get the clock going. It still says 60 minutes. It's okay. So the -- I want to go and review a little bit of Manulife's history. So I was in the business the day Manulife demutualized in 1999.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Yes.

Mario Mendonca - *TD Securities - Analyst*

Forget what month that was? Was that the fall? When did Manulife demutualize?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

I think, if I recall from the books, I think it was March.

Mario Mendonca - *TD Securities - Analyst*

March of 1999.

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

But I may be wrong. I may be wrong.

Mario Mendonca - TD Securities - Analyst

I think it was like \$15 or \$16, and there was a lot of debate around that.

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Yes. A couple of billion dollars market cap.

Mario Mendonca - TD Securities - Analyst

Yes. I remember that well. So D'Alessandro, CEO, very aggressive guy. I remember, he had that 15 by 15. It was 15% EPS growth by 15% ROE. That was a lofty target back then. I mean it would even be now. Made the company big. It was growing quickly, but it was messy. And then the global financial crisis sort of exposed some shortcomings in risk, I think, in the risk culture of the institution.

And then Don Guloien comes along. And the way I characterize his time as CEO was, he inherited a company that was on life support, and he had to essentially bring it back from the brink. That's the way I interpret it. Some folks remember that there was a time in 2008 when the banks lent Manulife \$5 billion. I mean it was like -- I remember getting a call over the weekend being told this was coming down. It was a big deal. That's how scary things were.

And I think he brought it back from the brink. And then, of course, you had Roy Gori that took this institution and made it into the thriving institution that it is today. So 10 years from now, 12 years from now, there will likely be a younger analyst than me writing your byline or maybe you should write your byline. So what I'm asking you now is when we look back 10 years from now, what will we be saying about Phil's time as CEO?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

So I love the fact that your question is reflecting on a bit of the history here because one of the things that I think about is that we're an organization with a tremendously long and rich history. It goes back to 1887. Where you are sitting now, I mean, those physically in the room, this became our headquarters in 1925. We built this building, the foundations that we're sitting on.

And I reflect on our history a lot. And I -- you know as I often walk into our treasury function and look at some of the photos on the wall, there is a photo of the gold bullion being carried through the front door, which is still the original front door into the building to be deposited in the -- not the safe, I forgot what word we would call it, but the vault, yes, in the vault. Then vault is still there. It doesn't have gold bars in it anymore, but it's still there.

And the relevance of that is that the long history that we have really demonstrates how much we have learned through various chapters in this history, including the IPO, the demutualization, the financial crisis. And that's very much in our culture, in our memory. And it's something that -- we learn from that. We're not going to make the same mistakes of the past. And I think that's strategically relevant.

But when I think about the future and this next chapter, what I see us achieving is really very clear. And I would want this next chapter to be something like Manulife becomes the leading global life insurer and asset management company in the world, as simple as that. So it's not just about being the leading in Canada, it's about being the leading in the world.

And then you think about sort of the strategic relevance of that statement. Having a presence in the mega economies of this next generation, the US, China, India, both insurance and asset management. It's that thought, that ambition to be the leading, which drives some of the strategic clarity

that we've provided. And I think that explains why it's important that we're successful and we thrive in the US, the largest economy in the world, the largest insurance market in the world, but do it in a way that is balanced across the portfolio and doesn't go against our disciplined appetite to take risk.

So I think when I reflect on this next chapter, we want to be hugely successful. We want to deliver on our targets and out-deliver on our targets and set Manulife up to be hugely successful in the long term. It's not a short-term strategy.

Mario Mendonca - *TD Securities - Analyst*

When I hear that outlook, the one where Manulife wants to be the leading insurer globally, the leading asset manager globally, it immediately makes me think about consolidation. It's very hard to be that big, that important without consolidation. So what do -- should investors interpret some of those phrases as Manulife will be more acquisitive in your 10 years or 12 years, depending how long you stay in this role than in the previous, say, Roy's 8 years. Should we expect a lot more M&A?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

I think we have already demonstrated very early in this next chapter that we have the appetite to move inorganically where it makes sense to do so. So that was the Comvest acquisition. Should you expect to see a whole series of acquisitions? No. What I see from the history, and I'm very disciplined about this, is that the best returns we get come from organic investments that we make.

And those organic investments sometimes take a number of years to come to fruition and to pay off, but can be transformational over a longer period of time. And an example I often reflect on of this is when I speak to former executives, and I was speaking to Vic Apps, who was our CEO in Asia many years ago, so before me, before Roy, before Bob Cook, it was Vic Apps.

And Vic was the pioneer of an organic investment to build a Retirement business in Hong Kong, the MPF business. And we had an ambition that, hey, this is a market that we should be a leader in. And I recall the story that Vic tells that nobody wanted him to deploy expenses. I mean, capital would be an exaggeration because it was a relatively small amount of money, but deploy expenses in order to invest for the future.

But now having a leadership position in that business, generating hundreds of millions of dollars of profitability per year with a huge scale Retirement platform, that clearly was the right decision. And that was 20 years ago. And so, 20 years is a long time, but that's been a hugely successful business for a long time.

So the priority deployment of capital is around building those organic growth engines, leveraging the strong brands that we have with Manulife around the world, with John Hancock in the US, to build a competitive advantage and creating a differentiated proposition. And then when you look at some of the strategic priorities that we're laying out, for example, empowering customer health, wealth and longevity, that's about how do we differentiate Manulife relative to the rest of the pack and in doing so, bring value to customers. So that's really how we're thinking about our strategy and the future, Mario.

Mario Mendonca - *TD Securities - Analyst*

I want to be clear, folks in the room, let me know if you want to ask a question, and on the line, use the system we have in place, and we'll get to your questions. I do want to talk about two countries that weren't neglected, but they certainly didn't feel like a priority for Manulife.

One, of course, was India. I don't recall Roy -- you certainly have the asset management relationship with Mahindra, but I don't recall Roy or the company as a whole ever talking seriously about getting into the Indian insurance market. So did something change? Or was it always sort of -- was it always a thought for Manulife and the environment just presented the opportunity? How does that?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

It has always been there. And in fact, and this is true. Something I keep in my top drawer, and it's actually in the shipment on its way over from Hong Kong is a piece of paper, and it's a piece of paper that I had taken a copy of from our archives, and it was the first insurance policy we had sold in India, and it was 100 years ago.

And a lot happened in the India insurance market over time. And we had exited India with nationalization, I think, something like the 1940s. And it's been a long-term ambition for us to get back into the market, to have a life insurance presence in India. The challenge has been that there was a 26% ownership cap for foreigners for a long time. That was increased to 51%, but it wasn't possible for a foreigner to control. And so we've been monitoring the market.

But then in recent years, things have really started to change. So the ownership limit was increased to 74%, an acknowledgment that a foreign party can control an India business. And there is what appears to be a regulatory path to 100%. And at the same time, the regulatory environment for insurance, the IRDA, the Indian regulator has set out an insurance for all strategy, which really underpins insurance being a financial services product and tool that should be widely held across the India market.

And combine that with the rapid growth in prosperity. For various reasons, the India economy has done incredibly well. The middle-income households are starting to emerge and grow rapidly. This is the right time. But we have been -- we've done quite a lot of research over the course of the past couple of years and been cautious.

We independently concluded that the best strategy for Manulife to enter India would be through a partnership with a local successful business and preferably a conglomerate. The question then was, do we have a suitable partner? We had a conversation with Mahindra, and Mahindra being our existing partner on the asset management side, we didn't think that Mahindra would say, hey, yes, we're up for an insurance JV.

But when we had that conversation, and that conversation was relatively recently, and it was this year, the response was, well, we're already looking at the possibility of entering the insurance market. Why don't we look at doing this together, 50-50, because we know the local market. Mahindra knows the local market. Manulife knows insurance, and we have a whole breadth of product experience, actuarial experience, risk management experience, compliance experience. Bring that together in a true 50-50 partnership. That, I think, is an incredible strategic feat.

And what it does is position Manulife in all three of the mega economies of the future, both insurance and asset management in a way that we can truly thrive. And so when I reflect back on the long-term potential and the potential for Manulife to be successful in the long term as the leading global life insurance company and asset manager, then having that presence in the mega economies is hugely important.

I don't think there are many that can say that they've got that. And to supplement that presence in the mega economy is a really strong business that's sustainable and growing here in Canada, our home market. And I think that's really important as a Canadian company to be successful in Canada. And then the presence across multiple other growth markets in Asia, I think it makes for a tremendous footprint.

Mario Mendonca - TD Securities - Analyst

Which makes me think of another really important country that Manulife entered -- I forget the year Daihyaku. Obviously, the Japanese first --

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Daihyaku Life in Japan, yes.

Mario Mendonca - *TD Securities - Analyst*

That was important when the deal was done. It got a lot of attention. I remember spending a lot of time thinking about it. And then kind of -- I wouldn't say it died in the vine. It's still a thriving business, but we don't hear much about it anymore.

Japan's economy is having a resurgence right now. How does Japan fit into this -- the global aspirations? You're already there, but could you expand further in Japan?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

I've been asked the question for many years, why haven't you exited Japan? And our response to that has been, we actually see opportunity in Japan. You look at the demographics, you look at the customer needs, the aging population and recently, more of an open mind when it comes to immigration.

So there's more immigration into Japan from various markets, including China, and that is creating a stimulus for economic growth. And Japan, I do see as an attractive market, both from an asset management perspective and an insurance perspective. And we feel actually confident about the role that Japan plays in the future of our portfolio. It is a scale business. It's a profitable business.

It generates capital. It brings some, I suppose, some diversity and balance to our overall Asia business, which is very much growth-focused. Japan is a little bit more mature, but it's still growing, still very profitable. And so I think it's part of the portfolio that will remain and contribute to our overall growth as an organization.

And my perspective as CEO is that if we are invested in a business and we're confident about the future of that market, we should stay in the business, stay in the market and do what we need to do in order to maximize the opportunity and deliver growth. And I think that comes back to the importance of organic investment.

If there's an opportunity for us, let's go after it rather than constraining our ability to succeed through what could be expense management in the wrong way. And I'm sure you'll touch on expense management, but that's essentially the philosophy: high returns from organic investment.

Mario Mendonca - *TD Securities - Analyst*

So the ROE in Japan, I don't think you disclosed it in that sort of granularity, but it's reasonable. It's a contributor to the overall ROE goals of the company?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

It hits our thresholds. But we don't play in every space in Japan. We've been more focused on our core capabilities of foreign currency-denominated solutions. But with the yield curve improvements in Japan, I was looking -- I think the 10-year yield curve hit a new high yesterday or a new high for 30 years in Japan is something like 1.7% at the 10-year point. And what that does is open the opportunity for yen-denominated solutions within risk appetite as well.

Mario Mendonca - *TD Securities - Analyst*

And that's what I was getting at. Japan looks legitimate again, like a real economy with potential. But it sounds from your answer that it will be more of an organic initiative in Japan. There's probably not room for acquisitions in Japan.

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Correct.

Mario Mendonca - TD Securities - Analyst

And just before we leave India, is the strategy now just to add thousands and thousands of agents and train them and get them into the Manulife way of thinking? Is that the goal over the next year or so?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Actually, we are still working through exactly how we will operationalize the business in India. Because we need to go through the process of forming the legal entity and getting the regulatory approvals over the line. But our view on distribution and business opportunity is one where we would have access to a whole spectrum of customer segments by leveraging what Mahindra brings and Mahindra brings distribution already.

So I did see one of the news reports that they described Mahindra as a car manufacturing conglomerate or a car manufacturing company. Actually, they are a conglomerate that has a whole range of businesses, including financial services. Mahindra Financial Services, they have an insurance brokerage. It's separately listed. So everything is arm's length.

But as part of our joint venture agreement, there is a strategic cooperation agreement with Mahindra Finance that brings distribution for various customer segments, semi-urban, rural. And our intent is that we bring our agency expertise to supplement that so that we can capture the full spectrum of customer segments. And I think there'll be a bit of experimentation, what works, what doesn't work and then what works, scale it.

Mario Mendonca - TD Securities - Analyst

So a new -- like the very first policy, this new first policy in India may be a year away at least from being written?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Yes, I would say 12- to 18 months is a reasonable timeline.

Mario Mendonca - TD Securities - Analyst

Let's go to -- there are I think it's five strategic priorities, as you said, six values, several enablers. It seemed for me when I was -- I listened to your presentation --

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Thank you. All 18 minutes or?

Mario Mendonca - TD Securities - Analyst

I did. It was healthy. And I felt like I was drinking through a water hose. There was a lot there. And this is coming from someone that's really comfortable with Manulife. I really -- I've understood Manulife over many years. It felt like almost too much for me to absorb in one go.

How does that -- how is it being received internally? Does it feel -- do you risk almost putting too much on folks' plates too early on? Is that a risk for the company?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Well, to that last point, how has it been received internally? The strategy refresh has created a real buzz across the organization and lots of excitement alongside that refresh with the announcement that we will enter India through a joint venture with Mahindra, the launch of the Longevity Institute, which is hugely strategically relevant to our priority of empowering customer health, wealth and longevity.

So this is a huge buzz, and it reflects the feedback that I have received and the leadership team have received that -- we want to make something about this next chapter. We want to hear what the strategy is. We don't just want to continue what's been done in the past. And in particular, many of our teams around the world, and we're a big organization, they want to do more. They have ideas. They want to be the AI leader in our industry. We've achieved an early lead.

Sustaining that is important to the organization, embracing some of these new technologies, things that we couldn't have anticipated seven years ago, eight years ago when we had set the last strategy. So there's lots of excitement about what we can do. And what we've done with the strategy is, some elements of it, we've essentially made it more relevant to our businesses.

And so for example, we previously had a priority of accelerating growth. Okay, great. Yes, we want to accelerate growth. How do we do that? And we do that through having superior distribution and creating differentiation through customer health, wealth and longevity. And so it's actually making our strategy more commercial and more real to our businesses and our customers.

Now are we doing too much? I don't think so. Expense efficiency will absolutely continue as a functional capability within the organization. In-force management will absolutely continue as a capability within the organization. Each of those items, we had identified as one of our five priorities in our last strategy, what that was about was building the discipline, building the capability. We've done that. We'll sustain that and will be compensated based on the success of some of those capabilities.

In-force management provides us with the opportunity to manage capital more efficiently. If we're able to release capital from our Inforce portfolios, that gives us the ability to deploy organically or return to shareholders or a combination of both. And so there's a huge incentive for us to continue to do that.

And with Inforce Management in particular, appointing Naveed, who has done this in the past to take on some additional responsibility with a dedicated Global Head of Inforce Management reporting into him with dedicated Inforce Management teams in each of our insurance segments, I think, sets the company up for not just success, but a whole next wave of success through our ability to deliver on potentially inorganic Inforce Management transactions.

But I think more importantly, the organic discipline, which has the benefits of improving policyholder experience, reducing fraud, informing how we design new products, the whole feedback loop that has been embedded in how we do things. So I don't think we're doing too much. I think what we're doing is satisfying the desire of the organization to be hugely successful and to capture the opportunities that present themselves to us.

When we look at the external environment and the circumstances that we face, there is a huge amount of challenge and opportunity. But our perspective is that the challenge provides us through our creativity, through our execution, to find solutions that then allow us to get there before the competition and service not just our customers, but new potential customers as well.

Mario Mendonca - *TD Securities - Analyst*

This brings me to the portfolio optimization. Let's just focus on that for a moment. There's no doubt that the move in Manulife stock over the last two to three years, Manulife's reasserted itself as a premium name in the financial services space. I think it has. I think a lot of investors would agree with me on that.

In getting there, a lot of things went well. But one in particular that investors absolutely paid for was the reinsurance transactions, the portfolio optimization but not just doing the reinsurance transaction, but actually using the capital to return it to shareholders. I think for a lot of investors, that was exactly what they wanted to see.

Now that portfolio optimization and efficiency are not in the priorities, how do you make sure that they remain a priority for your employees? Do those specifically get embedded in compensation? Or is it a broader picture, like ROE is what drives comp for your top 120 executives? How do you make sure that those two do not fall off the table?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. So in our strategy, in the one-page strategic house, if we call it that, you referenced three enablers. One of those enablers is around capital strength and disciplined risk management. And actually, when we look at portfolio optimization, a big part of that -- it's not everything, but part of that is around efficient management of capital.

And I think that's the right place for it in the strategy that we are incentivized as an organization to manage capital as efficiently as possible. That means taking certain organic actions, and it means as well potentially transacting on portfolios of Inforce business.

Raising that capital, releasing that capital then gives us the ability to improve returns by returning it to shareholders and/or investing organically in our business or potentially even doing something inorganically. We're incentivized to do that through our compensation structures, which include ROE targets, book value, adjusted book value per share targets and a whole range of other financial and strategic targets.

So I think the incentives are there. The organizational resources and desire are both there. When I think about the future, some of the things that you've referenced from the past, landmark reinsurance transactions, yes, we have the ambition to do more of that into the future. And of course, we're evaluating opportunities. Nothing to update at the moment, but we'll stay across that.

Mario Mendonca - *TD Securities - Analyst*

And one of the things I've learned over the years is if you shrink a business, let's say you do shrink a business through reinsurance, you shrink the install of Inforce, which makes it then increasingly difficult to cover the unit cost of that business, not to get too far into the weeds, but that matters. And that, of course, makes me think about the US business now.

And I have -- for every company I cover, I have a story in my mind. And I just -- I create a story, sits in a little bubble. And if someone asked me a question, I know exact, I just extract that from my line and I go through that. The thing that's changed is, Manulife now that bubble has changed for me. I have to rethink how I talk about Manulife and how I think about Manulife.

And one of the biggest changes is the notion that Manulife is going to focus on growing in the US again. I don't think the US became an afterthought, but it certainly wasn't top of mind for me. And it wasn't in my conversations with Roy and other executives.

Let's talk about why this makes sense now. And I think it's like -- I think we need to understand what you're talking about. What are you actually thinking about doing in the US now?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Yes. And I'm in no way saying or implying that the previous strategy was wrong. And I think a bit of history here is helpful that if we go back to 2017, and we look at what our US business was delivering, we'd been through a whole period of withdrawing products: long-term care, variable annuity, fixed annuity. We'd withdrawn those from new business distribution. They had created an element of financial and non-financial risk that really was outside what our appetite was at that time for those businesses.

And so we essentially went through a period of rebuilding a new business footprint. And so that back in 2017, and I remember it well, our new business value margin for the US. If you look at actually the new business value was negative. So this was a drag on new business. And we looked at that and said, we don't want to invest in a business to grow new business that's generating negative new business value.

So what we did was embark on a strategy that was more of a niche strategy that rebuilt our new business footprint through a relatively niche product footprint and a niche high-net-worth-focused customer segment. Over the course of the past eight years, we have rebuilt that new business footprint in such a way that our return on equity in the US is now 15%.

Our new business value margins are about the same as what we achieve on average in Asia, around 40%. And so we're now in a very different position. And also, if you put that alongside something that I think is also very important, and I remember it really well because my first quarter end as CFO of this organization was the fourth quarter of 2017, which happened to coincide with the transition from MCCSR to LICAT. And our LICAT ratio at transition was 131%. That was a strong ratio.

But I think it was reflective of the fact that we really did need to be thoughtful about where we deploy capital. And it didn't make a lot of sense to deploy capital to businesses that didn't generate attractive new business margins. So that was the right strategy at the time. But having been through this period of transformation, we've built a new business capability that is differentiated through our focus on health, wellness and longevity in the US.

Now we have an opportunity to scale that not just from the high-net-worth customer segment, but in adjacent customer segments, emerging high net worth families, the upper end of the affluent customer segment and even explore adjacent product opportunities. Now I don't want to talk too much or be too specific about what they are for reasons of competitive sensitivity.

But on a global leadership team call last night, and we had the top 120 leaders from across Manulife on a Teams call to talk about the strategy and next steps. Our US CEO summed it up really well when he said, so Brooks Tingle said, this is not a back to the future strategy. So it's different. So we're not going to go back to variable annuities, traditional fixed annuities, long-term care. This will be an adjacent strategy, adjacent to our core capabilities that focuses on customer health, wealth and longevity, creates differentiation and therefore, enables us to sustain attractive margins, but to scale those beyond the niche that we're in.

And the bigger strategic picture here is something that you touched upon. As inforce portfolios are either reinsured or mature, businesses shrink. And the US is actually a really important part of our global footprint. It generates profitability, it generates capital, contributes to organizational scale. And through these actions, what we'll actually be able to do, growing new business enables us to sustain our scale and therefore, to sustain capital generation for the long term.

And we're not on the cusp of capital generation in the US taking a nose dive, not at all. But I feel my role as CEO and our role as a leadership team is to set up the company for the future so that whoever are our successes, whether it be 5-, 10 years' time, whatever it might be, they don't look back and say, that management team should have taken action earlier. So this is about setting the company up for long-term sustainable success.

Mario Mendonca - TD Securities - Analyst

In the process of doing that, though, and this came across on the questions on your call, does it require a capital injection into US? Does it require a lot of new expenses in the US that could sort of hurt short-term profitability before delivering two- or three years from now? Is this going to be a little bit uncomfortable for us to watch in the near term?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

I don't believe it will be uncomfortable to watch. It certainly does not require capital injections. The US is highly capital accretive to the group. It generates capital and remittances to our parent company. When we consider investments to grow the US, this is not really a capital conversation. It's an expense conversation.

And do I feel comfortable about incurring some expenses in the US in order to grow strategic value? Yes. When we model this out, the benefits that arise from strategic expansion are very closely matched with the costs that we incur. So while there may be some costs, we'll also see growth in contractual service margin through CSM. And I think this is really important to rebuild the contractual service margin in our US business that then supports future and stable profitability.

And the ways in which we will grow, the expenses associated with that, a good chunk of them will go to the CSM as well and so will be matched with the revenues that we receive. But I think it's a really important lens. We should not be an expense-constrained organization given the overall strength of our capital position. Because we have so many opportunities to deliver quality growth. This is why we're keen to invest organically, but extract the benefits alongside those investments.

But I don't think you should be worried about a little bit of expense growth, particularly given the bigger picture, which is our ambition to be an AI-powered organization. And that's something that is already having a benefit to our expense efficiency line and our expense efficiency ratio. To your question on the call, we stand by the 45% or less expense efficiency target. And we're comfortably within that. We will remain comfortably within that.

Mario Mendonca - *TD Securities - Analyst*

And I know you don't want to get too specific on the products that might be sold, but would it be correct to suggest that there'll be products that are generally not long-term guaranteed products, products generally repricable relatively quickly?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Correct. We don't have an appetite for long-term guaranteed products.

Mario Mendonca - *TD Securities - Analyst*

Because you recall, that was Manulife's thing many years ago. That brings me to Canada. I was a little surprised to hear that Canada was also a focus because -- we could go back, I think, go back and check the last time Manulife got a call -- a question on a conference call on Canada. It's probably been a few years.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Naveed reminds me of that from time to time.

Mario Mendonca - *TD Securities - Analyst*

Like he should -- he could take that day off if he wanted to. Why Canada? We think of Canada as being sleepy and not a lot of growth potential. It's a saturated market. Manulife, Great-West Life and Sun Life dominate the group insurance market. You guys just sort of battle among each other. Why Canada again?

And could I -- if I could be a little specific on this one, do you think Manulife could start to reassert itself in the wealth management space in Canada, like things like a new product suite of segregated funds? We haven't really seen you compete there aggressively in a while. What's interesting about Canada for you?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

The opportunity in Canada is both insurance and wealth management. And we also have Manulife Bank as well, which through our strategy, we have clarified that it's an important part of our overall proposition in this market and creates differentiation. And there have been some questions from various stakeholders. Is Manulife Bank core? Is it not core? We've clarified that strategic ambiguity as part of our strategy refresh.

And just for clarity here for this group, and we talked about this as a leadership team last night. As we have gone through this process of strategic refresh, it's not just an enterprise strategic refresh. Every single one of our operating segments has refreshed their strategy over the course of the past six months. There's been a huge amount of work in the organization without some of the churn that sometimes happens when organizations go through these processes. It's been very focused, very effective.

But coming back to your question, why invest in Canada? Our belief is that as a global financial institution that is diversified, but with a Canadian headquarters, we actually have a really compelling reason to invest in Canada, and we should be the market leader. And that's something that -- we have a leadership position in many lines of business here. Let's invest to make sure that we not only sustain that, let's grow that and make it consistent over time because the statistics do vary between the large three lifecos here in Canada.

But another lens is important. As an international organization, when we look at what we're able to achieve in other markets, and then we look at the Canadian market, we see an opportunity to bring some of the capabilities and solutions from other markets and embed them here. And an example of that is digital experience.

I think there is an opportunity to improve the digital experience, especially for customers that have multiple touch points with the organization. They may be a customer of the bank. They may have a wealth management portfolio. They may have a seg fund insurance product. They may have another life insurance product that they may have a group benefits policy. How do we make that experience seamless, frictionless and use that as a point of differentiation in order to grow?

And I think given our footprint here in Canada, across insurance, and we have the Vitality partnership in insurance, Manulife just three weeks ago was the first insurer in Canada to provide access with discounts to costs for the GRAIL Galleri multi-cancer early signal detection test. So it's that early cancer signal detection test. We're the first -- just came to Canada about a month ago. We've had that partnership in the US for some time. We brought it to Canada.

I think that shows how we can really create differentiation in insurance as well as that connection with health and wellness group benefits and thrive in this home market.

Mario Mendonca - TD Securities - Analyst

Right. Let's talk about everybody's favorite topic these days, AI. When I -- I'll be honest, when I speak to the banks about AI, it's becoming convincing. The way they talk about it, the way they talk about the benefits of AI, I almost believe them now. I'm not that cynical anymore. When I hear the P&C companies talk about AI, I'm almost there, too. I can see the use cases. I'm not there yet on the life insurance companies.

But it's something that you focused on in your 18-minute presentation. It's something that you talk about. In fact, among the life insurance companies, Manulife probably talks about AI more than anybody. Help convince me the way the banks have that AI is the real deal for Manulife.

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

You set me that objective. Let me convince you and everyone watching and listening.

Mario Mendonca - *TD Securities - Analyst*

And the banks have. The banks have got me there.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Okay. So I actually think the opportunity in our sector is even bigger. And Manulife has -- we've built the infrastructure over a long period of time. 90% of our applications are in the cloud. We structured, spent a lot of time and investment structuring data in such a way that it can be used. And that's what's positioned us to really capture an early lead when it comes to the deployment of AI. And Manulife is ranked number one by the Evident AI Maturity Index for AI maturity.

So we have an early lead. It's really important that we sustain that early lead. There are more than 50 use cases currently in operation across Manulife. A smaller number of those are already being scaled at scale deployment. And the type of opportunities that are already in testing or full-scale deployment, the AI agents, the sales distribution assistant that we started in Singapore, we showcased at our Investor Day in 2024. We rolled that out to Hong Kong. We rolled that out to Japan. It's moving to other markets.

That really enables distribution productivity and has been a source, a factor that has contributed to our growth in those Asian markets over the course of the past 18 months. So that's already tangible. Underwriting. So in the US, if -- actually, if a distributor in the US wants an indicative quote for an insurance policy, we now do that close to instantly through an AI solution, which is called Quick Quotes.

Underwriting in multiple locations around the world, we are now able to assimilate huge volumes of data, medical reports, almost instantly with AI-generated underwriting recommendations, insights for humans to evaluate and then make informed underwriting decisions. So we're finding ways to augment human capability in such a way that speeds things up, provides competitive differentiation and actually gets to better outcomes.

There are so many examples that we could run through. I suppose in your space, investment research. Through our global wealth and asset management team, our investment professionals are using AI solutions to make -- gain real-time insights as to how the portfolios that they manage may be impacted by macro developments. And so an example of this was when we had -- I forgot what Liberation Day, Trump announced taxes -- on tariffs on various jurisdictions around the world. We already had this tool built.

We could run that model to determine which stocks in the portfolio would be most exposed to some of the changes from Liberation Day, and that enabled early action. And of course, in this industry, time is everything. So it's something that -- AI is something that has been widely embraced by the organization. Every single employee has access to what we call ChatMFC. And that is an AI tool. We also -- we've rolled out Copilot with our Microsoft applications.

And we're now rolling out an Agentic AI solution that will be available to our teams. And the Agentic AI solution enables us to build agents that can then actually do things, manage processes within the organization to create improved customer experience, improve productivity and efficiency and help to grow revenue.

So I think there is a huge amount that we're doing, a huge amount that we will continue to build on. And what I'm really excited about is the organization is pushing us to do this. Our people are not saying we don't want to be an AI-powered organization. They are saying, we want more tools. We want to embrace AI. We see the potential.

Mario Mendonca - *TD Securities - Analyst*

Now you concluded that with revenue. You said it will augment revenue. So two things. Let's try to put some numbers around this. You've given us some goalposts on the value creation from this.

So help me understand what you said about the value creation, but also the expense side, because there was a JPMorgan Investor Day, I think it was, where the person that head up their retail business said that they could reduce headcount by 10%. I mean that caught a lot of attention. AI presumably lessens, reduces the requirement for people at some point as well. Is that part of the equation?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Without doubt, AI enables cost efficiency and productivity improvements. And how we have already seen that play out is that through a period of quite rapid growth over the past couple of years, our headcount has remained fairly stable. And so I think as a growing organization, we are able to scale the organization without materially increased cost.

And so if you look at our cost growth over the past couple of years, it's really -- it's low. It's low single digits. AI has been really -- it's been an important driver of that, and I expect that to continue. But when I look at the overall breakdown of the benefits that we expect to get from AI, we said, look, we expect between '25 and 2027, about \$1 billion of benefits.

Mario Mendonca - TD Securities - Analyst

Sorry, what does benefits mean, reduction in expenses or higher revenue or?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Growth of the CSM, so sort of revenue generation of new business value. It can be benefits to policyholder experience, for example, through fraud detection and reduction, hugely powerful tools that we have on deploying AI capability to learn patterns of -- patterns that may indicate fraud that we can then investigate and eliminate or take away adverse policyholder experience as a result of fraud, waste and abuse. That's very relevant to health claims, for example, where patterns can emerge.

And then there's the sort of direct expense benefit. And I expect the direct expense benefit to be a relatively smaller component of the overall AI benefits. We've said about 20% of the \$1 billion of benefits we expect over a two-year period, about 20% to come from expense efficiency.

Mario Mendonca - TD Securities - Analyst

So is the right way to frame it then AI becomes an operating leverage story. It doesn't mean that you're firing 10% of your staff. You just -- you might be growing revenue a lot faster than you're growing the expense base. That's the right way to think about AI for Manulife?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

The operating leverage story, I would say, is this first wave. And so that's something that comes through augmentation of what we currently do, improvements in productivity, improvements in customer experience. I think there is another horizon. And that is through the deployment of AI, how do we do things that previously we couldn't do. It may not have been efficient for us to do. And that opportunity for disruptive new business models is something that we're actually quite excited about.

We don't necessarily know what AI will bring, but we want Manulife to be at the forefront of being a pioneer when it comes to that next frontier, what can we do now that we couldn't do before. It may not have been efficient to do before. And in doing so, provide more solutions to our customers.

Mario Mendonca - TD Securities - Analyst

So we've spent a good chunk of our time talking about all the big sort of important growth strategies. And I've left out share buybacks, I think as dull as share buybacks. But there's no doubt that, that's played a role in Manulife's ROE progression and in the way we view Manulife.

The way investors have described Manulife to me as being super responsive to what shareholders thought was important. And in Manulife's case, that was an important part of the story. Your share count this quarter relative to last year was 4% lower. Given everything we've talked about, do share buybacks have to just cool off now? Or could you keep up this pace, this 3%, 4% reduction in your share count annually?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

Well, the 4% that you're referencing includes the deployment of capital that has been released from some of the reinsurance transactions, as we released that capital, continue to execute the buyback. So I would say the 4% is a little bit elevated.

However, what you should see, as we have gone through the period of transition from Roy to Phil, you will have seen continuity in the pace of buybacks. That is deliberate. And it shows that there is no step change or CEO transition disruption to capital deployment. Yes, we prioritize stable and progressive dividends.

We prioritize organic investments, but we're in the fortunate position that given the footprint that we have and the maturity of our portfolio, including the consistent capital generation from the US, we expect 60% to 70% of our core earnings to translate to remittances, which is more than sufficient to cover the progressive dividend policy, interest on debt and organic investment.

And so there's some left over. And that may be deployed in some cases to highly strategic M&A, but the bar is high. There's nothing bubbling away behind the scenes. We've completed Comvest. A smaller acquisition in Indonesia with Schroders Asset Management.

But our focus now is on execution of those inorganic deployments of capital. And what's left where -- actually, it makes sense, at least for now to deploy to share buybacks. So you should expect to see continuity in the near term. But reflect on that 4% is elevated because of the capital redeployment from the reinsurance transaction.

Mario Mendonca - TD Securities - Analyst

There was -- extra capital was special then. I want to conclude with something that is always the top of mind when insurance companies, banks, whomever, when they report. The growth story is there. It's very believable. It's very plausible. The way you talk about the way Manulife has discussed Asia's opportunity, the wealth opportunity, now Canada and the US, super believable to me.

But you can't do that. You can't just talk about growth if every once in a while, investors are really disappointed by some kind of blow up. It feels to me Manulife doesn't have that inherent risk that it used to. There was always these sort of built-in land mines for Manulife over the years, and I just haven't seen them recently.

I appreciate that there's the occasional ALDA charge and some of them are meaty, but that's not what I'm talking about. I'm talking about the real blowups like when Manulife had to put aside \$2 billion, \$3 billion on long-term care. Help me understand -- and my theory and the way I've described it to investors is we just don't have those land mines anymore. How do you think about it? Are there land mines built-in here that could still blow us up? If the markets are down 15% next quarter, could that blow us up?

Phil Witherington - Manulife Financial Corp - President, Chief Executive Officer

So a couple of things, Mario. The first is that the progress we have made on reducing the sensitivity, the impact on earnings, the impact on capital, the impact on book value, reducing the sensitivity to changes in macro factors, interest rates, equity markets, that continues, and it's an important

priority for us to sustain those much lower levels of sensitivity. So we have no intention to sort of rewind some of the progress or any of the progress that we've made there. So that's the first thing.

The second thing is that in developing our strategy, we have very explicitly included one of the enablers being robust risk management and governance. That is deliberate. And when I speak to our employees and our colleagues across the organization, I talk a lot about risk management, governance and learning from the past. And I describe it as a competitive differentiator for Manulife that we should embrace. And this comes to the point that you've just made.

If we are able to anticipate challenges and address those challenges before they become problems or crises, then we've created a huge amount of value. And so having a mature active risk management function that challenges line one, that challenges management, helps us intervene when interventions are necessary, helps set the framework for risk appetite.

I think we set ourselves up for not only stable results for the long term, but also convergence of net income with core earnings, which is something that I'm very sensitive to as well. You've been actually very clear about calling the importance out of medium-term core earnings and net income. And that's something that I think is important, and we'll continue to focus on.

Mario Mendonca - *TD Securities - Analyst*

So we've gone through a lot of material here. With the last 1.5 minutes, what's the big message you want to leave for investors or your employees as well?

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

This is an exciting next chapter for Manulife. We're all in. We're not holding back. We're in a strong position. Capital to deploy, opportunities to maximize. And we've got the leadership team in place to do that with a refreshed strategy that I believe puts us ahead of the competition.

And one simple example of that is defining, making clear we'll be an AI-powered organization. That reflects the current technology environment that we're in. So I'm really excited about the future, Mario.

Mario Mendonca - *TD Securities - Analyst*

The big things to watch then. We're growing in the US again, growing in Canada, Asia and wealth still matter. AI will drive the story. We're not going to blow up. We've got risk in place. That's the big takeaway for me going forward.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Perfectly summed up. Watch this space. We are not a caretaker team, that's for sure.

Mario Mendonca - *TD Securities - Analyst*

Thank you, Phil. And thanks, everyone, for joining us. Appreciate it.

Phil Witherington - *Manulife Financial Corp - President, Chief Executive Officer*

Thank you, all.

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