Manulife

2024 New Business Value Report for Manulife's Insurance Businesses

(Excludes the value of new business for Global Wealth and Asset Management, Bank and Property and Casualty Reinsurance businesses)

Overview:

Manulife Financial Corporation (the "Company" or "Manulife") generated New Business Value ("NBV")[1] of $3,077 million in 2024, up $753 million or 32%[2] from 2023. In addition, NBV margin[1] was 39.7% in 2024 and 39.3% in 2023.

Effective 2024, Manulife has ceased reporting Embedded Value ("EV") associated with the inforce business.

Background:

NBV is a measure of the present value of shareholders' interests in the expected future distributable earnings associated with sales in the reporting period. NBV is a useful metric to evaluate the value created by the Company's new business franchise.

We use a traditional deterministic discounted cash flow methodology for determining our NBV. This methodology makes implicit allowance for all material sources of risk embedded in our products using a risk-adjusted discount rate. It should be noted that this allowance for risk is approximate and may not correspond with the allowance determined using market consistent techniques.

The calculation of NBV necessarily requires several assumptions with respect to future experience. Future experience may vary from that assumed in the calculation, which may materially impact NBV. See "Caution Regarding Forward-Looking Statements" below.

[1] For more information on NBV and NBV margin, see "Methodology and Definitions" below.
[2] Percentage growth in NBV is stated on a constant exchange rate basis.

Willis Towers Watson Review Opinion on New Business Value

Manulife and its subsidiaries have prepared NBV results for the calendar year 2024. The NBV results, together with a description of the methodology and assumptions that have been used, were shown in the "2024 New Business Value Report for Manulife's Insurance Businesses (excludes the value of new business for Global Wealth and Asset Management, Bank and Property and Casualty Reinsurance businesses)".

Our scope of work covered:

- a review of methodology and assumptions used to determine the NBV for 2024, on standards in place at December 31 2024, and
- a review of the results of Manulife's calculation of the NBV.

Willis Towers Watson has concluded that:

- the methodology used for the North American and Asian business is consistent with recent industry practice in each respective region as regards to traditional deterministic discounted cash flow methodology. This methodology makes an overall allowance for risk for the Company using risk discount rates which incorporate risk margins which vary by business, together with an explicit allowance for the cost of holding required capital. Willis Towers Watson has not considered how this compares to a capital markets valuation of such risk (so called "market consistent valuation"),
- the economic assumptions used have made allowance for the Company's current and expected future asset mix and investment strategy and are internally consistent, and
- the operating assumptions have been set with appropriate regard to past, current, and expected future experience, considering the nature of the business.

Willis Towers Watson has performed a number of high-level checks on the results of the calculations, without undertaking detailed checks on the models and processes involved, and has confirmed that no issues have been discovered that have a material impact on the disclosed NBV for the twelve-month period January 1, 2024 to December 31, 2024, or the sensitivity analysis.

New Business Value Results

(C$ millions)	New Business Value (1) 2024	New Business Value (1) 2023	APE Sales (2) 2024	APE Sales (2) 2023	New Business Value Margin (3) 2024	New Business Value Margin (3) 2023
Canada	**$ 627**	$ 490	**$ 1,689**	$ 1,409	**37.1%**	34.8%
U.S.	**241**	207	**623**	562	**38.6%**	36.8%
Hong Kong	**1,060**	726	**2,236**	1,220	**47.4%**	59.5%
Japan	**265**	158	**536**	354	**49.5%**	44.6%
Asia Other (4)	**884**	743	**3,301**	2,895	**33.2%**	31.3%
Asia	**2,209**	1,627	**6,073**	4,469	**40.7%**	41.2%
Total (5)	**$ 3,077**	$ 2,324	**$ 8,385**	$ 6,440	**39.7%**	39.3%

(1) New Business Value ("NBV") for Canada and International High Net Worth business reflect IFRS reserving requirements and LICAT required capital. Asia and the U.S. reflect local regulatory reserving and capital requirements, except business ceded to an affiliate reinsurer, where it reflects IFRS reserving and LICAT required capital.

(2) Annualized Premium Equivalent ("APE") sales are calculated as 100% of regular premiums/deposits sales and 10% of single premiums/deposits sales.

(3) NBV margin is calculated as NBV divided by APE sales excluding non-controlling interest.

(4) Asia's NBV includes International High Net Worth business.

(5) NBV does not include Global WAM, Bank and P&C Reinsurance businesses.

2024 Results

Manulife reported an NBV of $3,077 million in 2024, an increase of 32%[1] compared with 2023. In Asia, NBV increased 35% compared with 2023, driven by higher sales volumes in key markets including Hong Kong, Japan, Singapore and China. NBV margin remained resilient at 40.7%, with lower margins in Hong Kong with the growth in saving products outpacing protection products, offset by favourable business mix shift to higher margin savings products in China and Singapore. In Canada, NBV increased 28% in 2024 compared with 2023, driven by higher sales volumes in Group Insurance across all group benefits markets, along with higher participating life insurance and segregated fund products sales, partially offset by the non-recurrence of a large affinity markets sale in 2023. Higher margins in Individual Insurance also contributed to the growth in NBV. In the U.S., NBV increased 14% in 2024 compared with 2023, reflecting increased demand from affluent customers for accumulation insurance products, partially offset by lower sales of protection insurance products.

Update for Global Minimum Tax ("GMT")

In 2024, the Global Minimum Tax ("GMT") Act passed into law in Canada, reflecting a global minimum income tax rate of 15%, as agreed by certain members of the Organization for Economic Co-Operation and Development. For 2024 we recorded the resulting tax expenses in Corporate and Other, with no impact to NBV.

As additional local jurisdictions are expected to enact the GMT in 2025, we will recognize GMT in the reporting segment whose earnings are subject to it starting in 1Q25. Manulife has released a revised template for its statistical information package ("SIP"), together with updated 2024 quarterly results to reflect the impact of Global Minimum Taxes ("GMT"), to improve the year-over-year comparability of our financial metrics. The impact is a reduction to 2024 NBV of $131 million and a reduction in 2024 NBV margin of 1.7%, as shown below:

(C$ millions)	**Update to New Business Value**	**Update to New Business Value Margin**
Canada	**$ 0**	**0.0%**
U.S.	**0**	**0.0%**
Hong Kong	**(48)**	**(2.1%)**
Japan	**(40)**	**(7.5%)**
Asia Other (4)	**(43)**	**(1.6%)**
Asia	**(131)**	**(2.4%)**
Total (5)	**$ (131)**	**(1.7%)**

[1] Growth in NBV is stated on a constant exchange rate basis.

Potential Impact on New Business Value Arising from Changes in Assumptions

The "Potential Impact on New Business Value Arising from Changes in Assumptions" table below outlines the potential impact on NBV for the year ended December 31, 2024 of changes in the assumptions used for NBV.

This includes sensitivities due to specific changes in market prices and interest rate levels projected using internal models as at a specific date. The sensitivities measure the impact of changing one factor at a time and assume that all other factors remain unchanged. For example, the discount rate, public equity return, and alternative long-duration asset ("ALDA") return remain unchanged when we test a 50 basis points ("bps") increase or decrease in fixed income market yields. Actual results can differ significantly from these estimates for a variety of reasons including the interaction among these factors when more than one changes; changes in investment return and future investment activity assumptions; changes in business mix, effective tax rates and other market factors; and the general limitations of our internal models.

The potential impact on NBV of changes in assumptions includes impacts due to changes in the present value of expected future earnings on new business, and the present value of the cost of holding capital to support new business. We reflected a change in reserve assumptions only where the assumptions are set with reference to current market rates. This applies to the change in fixed income market yield in Canada, the U.S., and some Asia territories.

The sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the changes in assumptions outlined below. Given the nature of these calculations, we cannot provide assurance that the actual impact on NBV will be as indicated.

(C$ millions)	Canada	U.S.	Japan	Hong Kong	Asia Other	Total
New Business Value for the period January 1 to December 31, 2024	**$ 627**	**$ 241**	**$ 265**	**$ 1,060**	**$ 884**	**$ 3,077**
100 bps increase in discount rate	$ (62)	$ (11)	$ (41)	$ (70)	$ (84)	$ (268)
100 bps decrease in discount rate	75	13	50	86	95	319
50 bps increase in fixed income market yields for all future years[(1), (2)]	7	0	0	72	61	140
50 bps decrease in fixed income market yields for all future years[(1), (2)]	(7)	0	0	(91)	(71)	(169)
100 bps increase in public equity and ALDA return [(1), (2), (3)]	20	0	24	2	77	123
100 bps decrease in public equity and ALDA return [(1), (2), (3)]	(20)	0	(25)	(3)	(78)	(126)
10% immediate increase in public equity and ALDA market values [(1),(2),(3)]	6	0	26	0	8	40
10% immediate decrease in public equity and ALDA market values [(1), (2), (3)]	(6)	0	(27)	(2)	(8)	(43)
Required surplus – relative 25% increase [(4)]	(31)	(20)	(50)	(44)	(36)	(180)

(1) For general fund adjustable benefit products subject to minimum rate guarantee, the sensitivities assume that credited rates are floored at the minimum.

(2) For the purpose of NBV sensitivities, assumption changes have been assumed to occur after the point-of-sale. Therefore, the NBV sensitivity gives an indication of how the NBV written during the year would have been affected by an economic shock occurring after the point-of-sale. NBV sensitivities consider hedging strategies on new business which are intended to be implemented shortly after sale. Actual changes in NBV due to experience being different from assumed may vary from what is shown above due to changes in product mix.

(3) ALDA include commercial real estate, timber and farmland real estate, oil and gas, and private equities.

(4) This shows the impact of increasing required capital levels by a relative 25% above those shown in the "Assumptions" table below.

Methodology and Definitions

The accounting bases underlying Manulife's NBV is as follows:

- Canadian businesses, International High Net Worth business, as well as business ceded to an affiliate reinsurer, reflect IFRS earnings and LICAT required capital;
- U.S. businesses reflect local statutory earnings (NAIC) and capital requirements (RBC); and
- Asian businesses reflect local statutory bases, with Hong Kong reflecting HK RBC effective January 1 2024.

New business value ("NBV") is calculated as the present value of shareholders' interests in expected future distributable earnings, after the cost of capital calculated under the LICAT framework in Canada and International High Net Worth business, and the local capital requirements in Asia and the U.S., on actual new business sold in the period, using assumptions with respect to future experience as detailed in the Assumptions section of this report. NBV excludes businesses with immaterial insurance risks, such as the Company's Global WAM, Manulife Bank and the P&C Reinsurance businesses. NBV is a useful metric to evaluate the value created by the Company's new business franchise.

New business value margin ("NBV margin") is calculated as NBV divided by APE sales excluding non-controlling interests. APE sales are calculated as 100% of regular premiums/deposits sales and 10% of single premiums/deposits sales. NBV margin is a useful metric to help understand the profitability of our new business.

Assumptions

Investment assumptions are consistent with the Company's best estimate assumptions reflected in the valuation of policy liabilities, updated to reflect market assumptions consistent with the market environment in the quarter the business was sold. Best estimate fixed income yields are updated quarterly, and long-term expected yields for ALDA are typically reviewed during the annual review of actuarial methods and assumptions.

The principal economic assumptions used in the NBV calculation ending December 31, 2024 were as follows. All of these assumptions remained constant during 2024, aside from the immediate bond yield, which is updated quarterly. In 2024, a Global Minimum Tax expense was recorded in Corporate and Other, with no impact to NBV.

Principal Economic Assumptions for the calculation of 2024 NBV

Territory	Canada	U.S.	Japan	Hong Kong
Required capital	100% LICAT (1)	250% RBC (CAL) (2)	400% Solvency Margin	100% HK RBC
Discount rate	7.75%	8.50%	7.00%	9.75%
Public equity return	9.00%	10.00%	6.00%	9.50%
Jurisdictional income tax rate (3)	27.80%	21.00%	28.00%	16.50%
Reinvestment assumption for 10-year government bonds:				
Immediate	3.22%	4.58%	1.08%	3.66%
10 years & beyond in future	3.25%	3.25%	1.50%	2.85%

(1) 100% of LICAT Required Capital = 100% Base Solvency Buffer – Surplus Allowance – Eligible Deposits – Par Surplus – Contractual Service Margin. LICAT Required Surplus sensitivity is modeled by increasing the factor applied to Base Solvency Buffer from 100% to 125%, leaving the other components unchanged.

(2) Company Action Level (CAL) RBC = 2 x Authorized Control Level (ACL) RBC.

(3) For Hong Kong, individual insurance products are taxed on a premium tax basis due to a Company election under Hong Kong tax regulations.

Assumption	Additional information	
Required Capital:	The capital ratios in jurisdictions not included in the table above are as follows:	
	Mainland China	100% of required capital as specified under China Association of Actuaries EV assessment guidance
	Indonesia	120% of regulatory risk-based capital requirement
	Malaysia	160% of regulatory capital adequacy ratio
	The Philippines	125% of regulatory risk-based capital requirement

Assumption	Additional information
	Singapore: 120% of regulatory capital adequacy ratio Vietnam: 100% of required minimum solvency margin International High Net Worth: 100% LICAT
Discount rate:	A risk-adjusted discount rate is used which is based on the risk profile of the business and makes an allowance for all material sources of risk embedded in our products, the risk that actual experience in future years differs from that assumed, and for the economic cost of capital. For U.S. and Canada, the discount rates are set based on our target equity/debt structure, which assumes that 25% of the capital is in the form of debt. For Asia, the discount rates are set based on a risk margin over risk-free interest rate. For 2024 NBV, the discount rates in Asia incorporate the average in 2023 of the monthly risk-free interest rates.
Public equity returns:	The equity return assumptions are based on long-term historical observed experience. The return assumptions for public equity in Asia excluding Hong Kong and Japan vary between 8.5% and 11.25%.
Risk-free interest rates:	NBV reflects the risk-free interest rates in effect during the quarter the business was written, grading linearly to the long term risk-free interest rates over a 10-year period.
Expenses:	Expenses are allocated to acquisition of new business and maintenance of in-force business and are derived based on internal cost studies. Expenses are then projected into the future with an allowance for inflation. Where certain expenses were identified as being non-recurring and distinct in nature these expenses were excluded from the analysis. Unallocated Group office and Asia regional office expenses, as well as other non-directly attributable expenses, are not included in NBV.
Exchange rates:	The foreign exchange rates used for translation of the NBV results each quarter are the respective quarterly statements of income rates.
Other assumptions:	For the quarterly NBV calculation, other operating assumptions such as mortality, morbidity, lapse and expenses are consistent with the best estimate assumptions used in the valuation of insurance and investment contract liabilities for each quarter on an IFRS basis. NBV results do not reflect GMT. Local statutory earnings in Asia and U.S. are calculated using assumptions as required under the local reserving bases.

Principal Economic Assumptions for the calculation of 2023 NBV

Territory	Canada	U.S.	Japan	Hong Kong
Required Capital	100% LICAT (1)	100% LICAT (1)	400% Solvency Margin	150% Solvency Margin
Discount rate	8.00%	8.75%	6.50%	9.75%
Public equity return	9.00%	10.00%	6.00%	9.50%
Jurisdictional income tax rate (2)	27.80%	21.00%	28.00%	16.50%
Reinvestment assumption for 10-year government bonds				
Immediate	3.10%	3.88%	0.62%	3.19%
10 years & beyond in future	3.25%	3.25%	1.50%	2.85%

(1) 100% of LICAT Required Capital = 100% Base Solvency Buffer – Surplus Allowance – Eligible Deposits – Par Surplus.

(2) For Hong Kong, individual insurance products are taxed on a premium tax basis due to a Company election under Hong Kong tax regulations.

Caution Regarding Forward-Looking Statements

This report contains forward-looking statements within the "safe harbor" provisions of Canadian provincial securities laws and the U.S. Private Securities Litigation Reform Act of 1995, including statements relating to assumptions with respect to future experience and the potential impact to NBV from changes in such assumptions.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements.

Certain material factors or assumptions are applied in making forward-looking statements, including the assumptions described in this report, and actual results may differ materially from those expressed or implied in such statements.

Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to the performance, volatility and correlation of equity markets, interest rates, credit and swap spreads, inflation rates, currency rates, investment losses and defaults, market liquidity and creditworthiness of guarantors, reinsurers and counterparties); the ongoing prevalence of COVID-19, including any variants, as well as actions that have been, or may be taken by governmental authorities in response to COVID-19, including the impacts of any variants; changes in laws and regulations; changes in accounting standards applicable in any of the territories in which we operate; changes in regulatory capital requirements; our ability to obtain premium rate increases on in-force policies; our ability to execute strategic plans and changes to strategic plans; downgrades in our financial strength or credit ratings; our ability to maintain our reputation; impairments of goodwill or intangible assets or the establishment of provisions against future tax assets; the accuracy of estimates relating to morbidity, mortality and policyholder behaviour; the accuracy of other estimates used in applying accounting policies, actuarial methods and embedded value methods; our ability to implement effective hedging strategies and unforeseen consequences arising from such strategies; our ability to source appropriate assets to back our long-dated liabilities; level of competition and consolidation; our ability to market and distribute products through current and future distribution channels; unforeseen liabilities or asset impairments arising from acquisitions and dispositions of businesses; the realization of losses arising from the sale of investments classified as fair value through other comprehensive income; our liquidity, including the availability of financing to satisfy existing financial liabilities on expected maturity dates when required; obligations to pledge additional collateral; the availability of letters of credit to provide capital management flexibility; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; the availability, affordability and adequacy of reinsurance; legal and regulatory proceedings, including tax audits, tax litigation or similar proceedings; our ability to adapt products and services to the changing market; our ability to attract and retain key executives, employees and agents; the appropriate use and interpretation of complex models or deficiencies in models used; political, legal, operational and other risks associated with our non-North American operations; geopolitical uncertainty, including international conflicts; acquisitions and our ability to complete acquisitions including the availability of equity and debt financing for this purpose; the disruption of or changes to key elements of the Company's or public infrastructure systems; environmental concerns including climate change; our ability to protect our intellectual property and exposure to claims of infringement; and our inability to withdraw cash from subsidiaries.

Additional information about material risk factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found under "Risk Management and Risk Factors" and "Critical Actuarial and Accounting Policies" in the Management's Discussion and Analysis in our most recent annual report, under "Risk Management and Risk Factors Update" and "Critical Actuarial and Accounting Policies" in the Management's Discussion and Analysis in our most recent interim report, and in the "Risk Management" note to the Consolidated Financial Statements in our most recent annual and interim reports, as well as elsewhere in our filings with Canadian and U.S. securities regulators.

The forward-looking statements in this document are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations, our future operations, as well as our objectives and strategic priorities, and may not be appropriate for other purposes. We do not undertake to update any forward-looking statements, except as required by law.