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Impacts of IFRS 17 adoption on Manulife's financial reporting and targets

May 12, 2022

The information in this presentation, including estimates and illustrations, are for informational purposes only and may change depending on the final issuance of regulatory and industry guidance relating to IFRS 17. This presentation contains forward-looking information. Please see slide entitled "Caution regarding forward looking statements."

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Caution regarding *forward-looking* statements

From time to time, Manulife makes written and/or oral forward-looking statements, including in this presentation. In addition, our representatives may make forward-looking statements orally to analysts, investors, the media and others. All such statements are made pursuant to the "safe harbour" provisions of Canadian provincial securities laws and the U.S. Private Securities Litigation Reform Act of 1995.

The forward-looking statements in this presentation include, but are not limited to, statements with respect to the expected impacts of IFRS 17 adoption on Manulife's financial reporting and targets, including the expected impact on equity and earnings upon transition, new medium-term targets related to the contractual service margin, and our 2022 targets and 2025 supplemental goals, and also relate to, among other things, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should', "would", "likely", "suspect", "outlook", "expect", "intend", "estimate", "anticipate", "believe", "plan", "forecast", "objective", "seek", "aim", "continue", "goal", "restore", "embark" and "endeavour" (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results. 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 and they should not be interpreted as confirming market or analysts' expectations in any way.

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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 in the Management's Discussion and Analysis in our most recent interim report under "Risk Management and Risk Factors Update" and "Critical Actuarial and Accounting Policies", 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 and, in the "Risk Management" note to the consolidated financial statements in our most recent annual and interim reports and elsewhere in our filings with Canadian and U.S. securities regulators. The forward-looking statements in this presentation 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.

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IFRS 17 Update

- IFRS 17 is the new insurance contract accounting standard that will be effective January 1, 2023. Our Global Wealth and Asset Management business is minimally impacted.
- **IFRS 17 does not impact the fundamental economics of our business, financial strength, claims paying ability, or dividend capacity of the company. Thus, there is no change to our business strategy.**
- It impacts **where, when, and how specific items are recognized on the financial statements** for insurance contracts
- One key impact is the timing of expected future profit recognition:
  - Under IFRS 4, new business gains are recognized immediately in income and investment-related activities are capitalized and reflected in current period income
  - Under IFRS 17, new business gains will be recorded in the CSM[1] and recognized over the life of the contract and investment related activities will be recognized over the life of the asset
- Other reference material includes:
  - Overview of earnings presentation and reporting under the new IFRS 17 accounting standard
  - 2021 Investor Day IFRS 17 presentation

[1] Contractual Service Margin (CSM) represents a liability which is established at the outset of a contract to offset new business profits at issue. The CSM liability is gradually amortized as services are provided.

Key *implications* of IFRS 17 on Manulife's financial results and KPIs

1. A **CSM will be established on in-force business** at transition, which will **represent unearned profits. The CSM will be treated as available capital under LICAT[1]**. The transition impact of the standards is expected to lead to a decrease in equity of approximately 20%.

2. Our **growing and profitable insurance sales** will drive CSM growth, which will be an important contributor to **future core earnings growth.** Given the importance of the CSM, **we will establish "new business CSM" and "CSM balance growth" targets.**

3. Upon transition, **core earnings are expected to decline by approximately 10%**, driven mainly by the recognition of new business gains in the CSM and the timing of earnings from investment-related activities

4. We expect IFRS 17 to improve the stability of both core earnings and net income

5. Our capital position will remain strong under IFRS 17 and we expect our LICAT ratio to be more stable

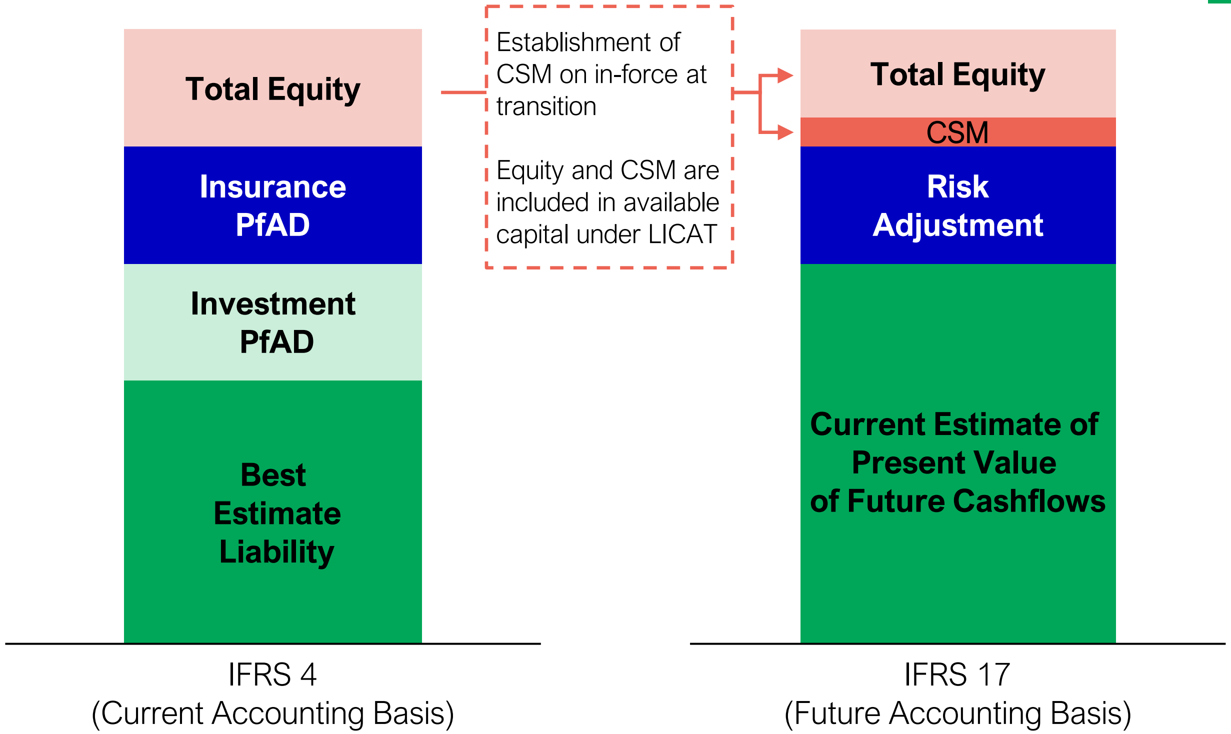
6. Some of our **medium-term financial and operating targets will be increased** upon transition, and we are **confirming the remaining targets**
   - Core ROE target will increase to 15%+
   - We do not anticipate material changes in remittances. As a result, there is no expected impact to the dividend or its trajectory upon transition, and the dividend payout ratio target range will increase to 35% – 45%

Note: See "Caution regarding forward-looking statements" above. [1] As indicated in OSFI's revised draft *Life Insurance Capital Adequacy Test (LICAT)* 2023 guideline issued on June 21, 2021.

At transition, insurance liabilities will increase primarily due to *establishing the CSM*

- Under IFRS 4, new business gains are recognized immediately in income. Under IFRS 17, **new business gains** are recorded as CSM and **recognized over the life of the contract.**
- Upon implementation, we will present our financial position as though IFRS 17 had always applied[1] and set up a CSM on our in-force insurance business
- While we continue to assess the potential impact of the adoption of the standards on the measurement of assets and liabilities, establishing the CSM is the main driver of the increase in the insurance contract liabilities at transition
- Overall, we expect an **increase in insurance contract liabilities** with a corresponding **reduction in equity of approximately 20%**
- Our **medium-term core ROE target** will be **increased upon transition due to IFRS 17** from 13%+ to **15%+**

Illustrative example of balance sheet impact[2]

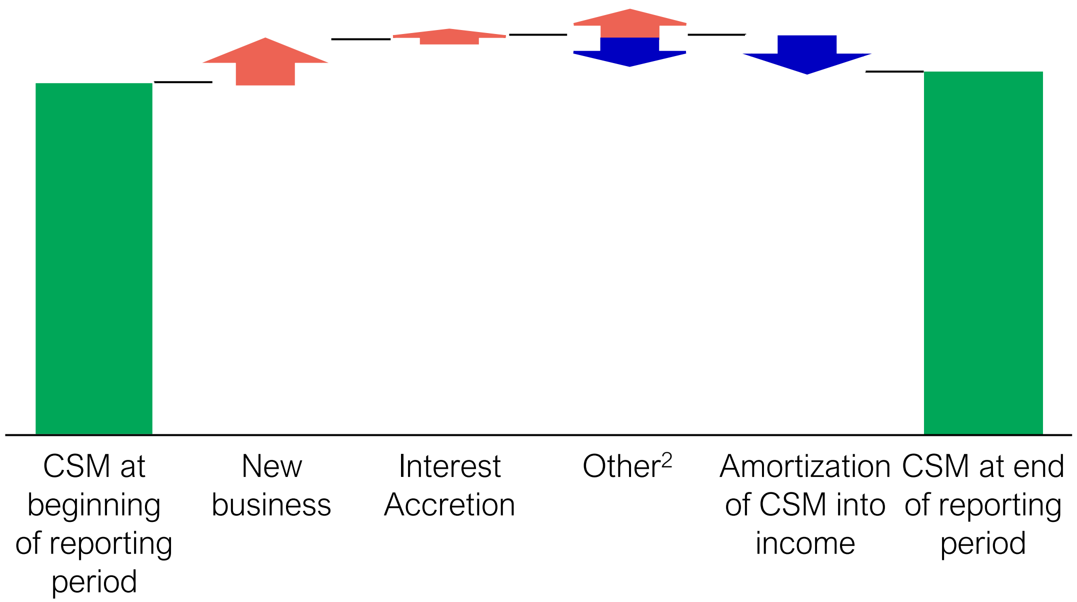


Note: See "Caution regarding forward-looking statements" above. [1] Where we cannot apply IFRS 17 as though it had always been in effect, the standard provides alternative approaches to determine CSM on in-force. We will use these approaches for most of our businesses. [2] This is an illustrative example, and the size of the bar does not represent our actual transition impacts and tax impacts.

Profitable new business will drive growth in the CSM, resulting in *future growth in earnings*

- The CSM represents **expected future profits** and **will be treated as available capital under LICAT.** It is expected to increase over time driven by **growing and profitable insurance sales.**
- The CSM is an **intrinsic part of the value of the business**
- The CSM is an objective metric that illustrates the **growth and future earnings generation capability** of insurance businesses
- At transition, we will be adding two **new medium-term targets**:
  - We expect "**New business CSM growth" of 15%** per year
  - We expect "**CSM balance growth" of 8-10%** per year
- The initial amount and quarterly movements of the CSM will be disclosed and **included in the notes to the interim and audited financial statements**

Illustrative example of CSM movement[1]

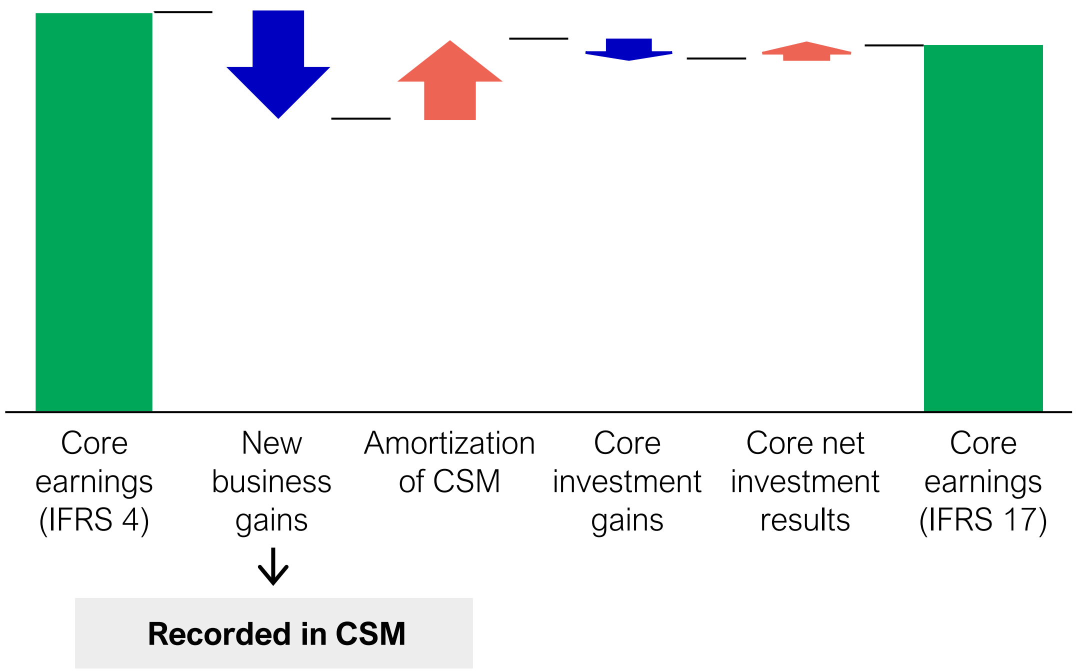


Note: See "Caution regarding forward-looking statements" above. [1] This is an illustrative example, and the size of the bar does not represent our transition impacts and tax impacts. [2] Other includes some experience adjustments, some market impacts and assumption changes.

Upon transition, *new business gains* will be recorded in the CSM and recognized *over the life of the contract*

- Under IFRS 17, new business gains will be recorded in the CSM and earnings for certain investment-related activities will be recognized over the life of the contract
- **Core earnings** are expected to be **lower by approximately 10%** driven by:
  - Recording **new business gains** within CSM, partially offset by the amortization **of in-force CSM** into core earnings
  - The timing of **investment results**
- The **new business gains** will be recorded in the **CSM** and separately disclosed
- Our medium-term **core EPS growth target of 10-12% remains unchanged** post-transition

Illustrative example of income statement impact[1]



Note: See "Caution regarding forward-looking statements" above. [1] This is an illustrative example, and the size of the bar does not represent our transition impacts and tax impacts. This is a simplified view of key components. Our definition of core earnings will be updated to reflect the application of IFRS 17.

IFRS 17 *improves the stability* of net income and LICAT

➕ Improved
➖ Decreased
≈ Similar

IFRS 4[1] Current period net income	Impact on stability[2]: Net income	Impact on stability[2]: LICAT	IFRS 17 Net income & LICAT Capital treatment
New business gains	+	≈	Recognized in CSM and capital initially and amortized into net income over contract life
Investing activities	+	+	Recognized in net income and capital over asset term to maturity
Change in assumptions	+	≈	Recognized in CSM and capital and amortized into net income over contract life, or immediately into earnings if there is no CSM[3]
Change in return assumptions – ALDA & Public Equities	+	+	No longer capitalized into net income and capital at the time of change, flows through over time
Interest rate impacts and hedge ineffectiveness	+ / –	+	Electing fair value through Other Comprehensive Income, therefore much of the impact is recorded in OCI and CSM[4]. Our capital sensitivity is expected to reduce.
Other market impacts: • ALDA and Public Equities • Credit • Realized gains and losses on AFS fixed income assets	+ / –	+ / –	Overall variability from quarter to quarter is expected to be similar in magnitude

Note: See "Caution regarding forward-looking statements" above. [1] This is a simplified view of key components. [2] The impact on stability is directional and there may be variation in the actual results. [3] Change in economic assumptions will be reported through OCI or CSM, depending on the type of contracts. For contracts where the change is recorded in CSM, if there is no CSM, it will be recognized immediately into earnings. [4] For some products the impact will flow through the CSM, and into earnings if there is no CSM.

Confirming medium-term financial and operating targets

		IFRS 4	IFRS 17
Financial Targets[1] (medium-term)	Core EPS growth	10-12%	
	Core ROE **(REVISED)**	13%+	**15%+**
	Leverage ratio *(adjusted for CSM)*	25%	
	Dividend payout ratio **(REVISED)**	30-40%	**35-45%**
	CSM balance growth **(NEW)**	n/a	**8-10%**
	New business CSM growth **(NEW)**	n/a	**15%**
Financial Targets[1] (2022+)	Expense efficiency ratio	<50%	
Supplemental Goals[1] (2025)	Core earnings from highest potential businesses	75%	
	Core earnings from Asia region (Insurance + WAM)	50%	
	Core earnings from LTC and VA	<15%	

- Core ROE target will increase to 15%+ driven by the expected changes to core earnings and equity
- No expected changes to dividend per share and growth trajectory, as a result dividend payout ratio target range will be increased to 35%-45%
- New CSM KPIs highlight the importance of CSM growth and are indicative of future earnings generation capability

See appendix for KPI definitions. As emerging industry practice evolves, KPI and KPI definitions may be updated.

Note: See "Caution regarding forward-looking statements" above. [1] For more information on our medium-term financial and operating targets, see the Management's Discussion and Analysis in our most recent interim and annual reports.

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Similar to today, core earnings definition will isolate market impacts to better represent *long-term earnings generation capacity*

Drivers of Earnings Analysis[1]

Risk adjustment release

CSM amortization

Insurance experience gains / losses

Other[2]

Core net insurance service result

ALDA & public equity long-term expected return

Fixed income effective yield

Net finance expenses from insurance contracts

Expected credit losses

Core net investment result[3]

Global Wealth and Asset Management

Other result[4]

Core earnings attributed to shareholders

ALDA and public equity return variance from long-term assumptions

Interest Rates: fixed income realized gains and losses, and hedge ineffectiveness

Other[5,6]

Net income attributed to shareholders

[1] This is a simplified view of key components. There are other elements which would be reflected in the Other category. As emerging industry practice evolves, definitions may be updated. There may be small variations by measurement models. [2] Includes earnings on other insurance businesses (e.g., short-term contracts under PAA), impact on new insurance business (onerous contracts), and investment experience gains and losses for VFA contracts where the CSM balance is nil. [3] Also includes earnings on surplus.
[4] Includes Other fee income, Non-directly attributable and other expenses, tax, net of income attributed to non-controlling interest and participating policyholders. [5] Includes assumption changes that flow directly through the income statement, where the CSM is nil. [6] Also includes items such as goodwill impairment, gains or losses on disposition of a business, impact of enacted or substantially enacted income tax rate changes, material one-time only adjustments that are exceptional in nature.

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Analysis of CSM movement will be a key component of *assessing value generation*

CSM beginning of period[2]	
Impact of new insurance business	
CSM amortization	
Interest accretion	
Insurance experience gains / losses	
Organic CSM growth	
Impact of change in assumptions (e.g. where CSM is positive) and management actions	
Impact of financial risk (for contracts that use VFA measurement)[1]	
Currency impacts	
Other	
Total CSM movement	
CSM end of Period	

- A growing CSM balance will lead to **growth of future earnings**
- **Organic CSM growth** will exclude market impacts and certain one-time items that are not representative of long-term growth expectations
  - Organic CSM growth will be an indicative measure of the **growth trend** for the CSM
- Total CSM movements will flow through **core earnings** over time via the **CSM amortization**

[1] Includes participating, unit-linked and variable annuity products. [2] This is a simplified view of key components. There are other elements which would be reflected in the Other category. As emerging industry practice evolves, definitions may be updated.

Our financial performance will be evident through *core earnings* and *CSM growth*

Core earnings
Derived largely from in-force business

CSM
Growth derived largely from new sales activities

Together, these metrics are representative of value generation

Appendix

- KPI definitions
- CSM Growth

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Appendix: KPI definitions[1]

		Definition
Profitability	Core EPS growth	Year over Year core EPS growth
	Core ROE	$\frac{\text{Core earnings} - \text{Preferred dividends} - \text{Other equity distributions}}{\text{Average common shareholders' equity}}$
	Expense efficiency ratio	$\frac{\text{Core general expenses}}{\text{Core general expenses} + \text{Pre-tax core earnings}}$
Financial Strength	Leverage ratio	$\frac{\text{LT debt} + \text{Capital instruments} + \text{Preferred shares}}{\text{LT debt} + \text{Capital instruments} + \text{Total equity} + \textbf{CSM balance}}$
Growth	New business CSM growth	**Year over Year new business CSM**
	CSM balance growth	**Year over Year CSM balance growth**
	Core earnings from highest potential businesses	$\frac{\text{Core earnings from highest potential businesses}}{\text{Total core earnings}}$
	Core earnings from Asia region (Insurance + WAM)	$\frac{\text{Core earnings from Asia region}}{\text{Total core earnings}}$
Other	Core earnings from LTC and VA	$\frac{\text{Core earnings from LTC + VA}}{\text{Total core earnings}}$
	Dividend payout ratio	$\frac{\text{Dividends per common share}}{\text{Core EPS}}$

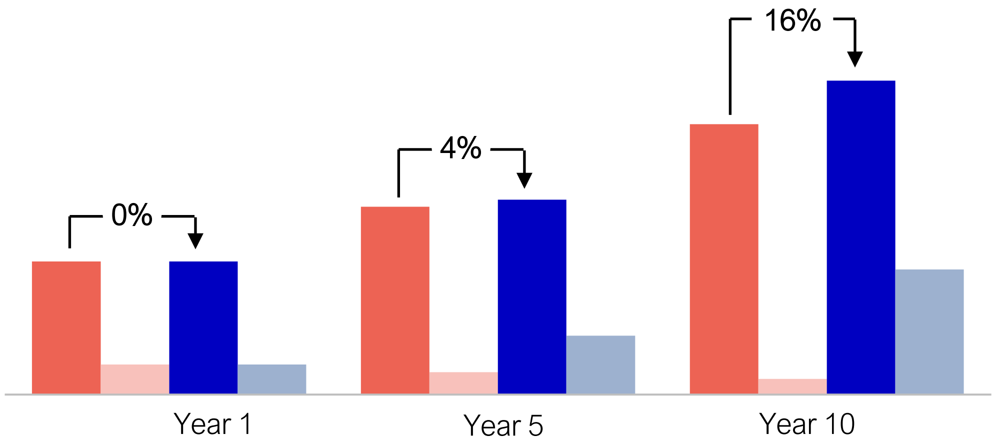
[1] As emerging industry practice evolves, KPI and KPI definitions may be updated.

CSM growth will be a *key component* of assessing value generation for a *high growth business* (illustrative example[1])

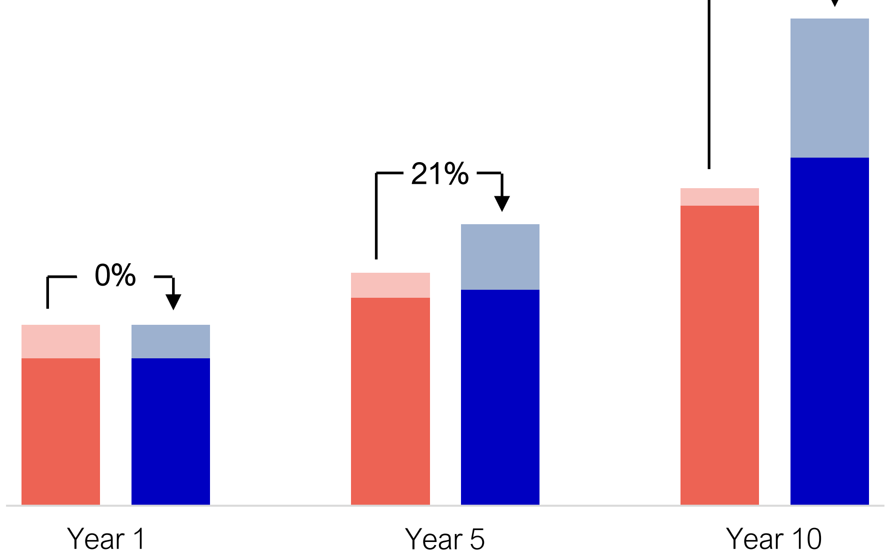
- No growth Co. - Net Income
- No growth Co. - CSM Growth
- High growth Co. - Net Income
- High growth Co. - CSM Growth

Assumptions:
- Both companies have large and identical in-force business and CSM balance at transition
- **High growth Co.:** New Business gains growing at 15% a year
- **No growth Co.:** New Business gains are not growing (i.e. CSM growth is positive but slowing down)

Earnings Growth



Earnings + CSM Growth



Despite High growth Co. having 15% growth rate, **it takes several years for net income to be meaningfully higher than No growth Co.**

Thus, CSM is an important metric for assessing value generation during a period, and **CSM growth is indicative of future earnings growth**

[1] This illustration is conceptual, includes a numbers of simplified assumptions, and it is not meant to project expected future results of Manulife or our peers.

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