

 **Manulife Financial**

2001 Annual Report

Our Global Community



Corporate Citizenship



Being a good corporate citizen is an integral part of Manulife Financial's vision of being a world-class Canadian-based global financial services company. Through partnerships with charitable and non-profit organizations that involve donations, sponsorships, and support of the volunteer activities of our employees and distribution partners, Manulife concentrates on the areas of healthy futures, supporting leaders of tomorrow and partnering in the community, with the aim of making a positive difference in the future.

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Forward-Looking Statements

This report includes forward-looking statements with respect to the Company, including its business operations and strategy as well as its financial performance and condition. These statements generally can be identified by the use of forward-looking words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," or "continue" or the negative thereof or similar variations. Although management believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties and actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially from the Company's expectations include, among other things, general economic and market factors, including interest rates, business competition and changes in government regulations or in tax laws.

Front Cover Photo

"Community," a spectacular bronze sculpture consisting of 21 life-size figures, stands proudly on the grounds of Manulife Financial's Head Office in Toronto. Completed in June 2001, "Community" is a contemporary representation that uniquely reflects Manulife's diversity and international operations. "Community" was commissioned by Manulife and designed by artist Kirk Newman. The sculpture is more than two metres high and measures more than eight metres in length.

Diversity

Manulife Financial is dedicated to bias-free employee practices and to the attraction and retention of employees with diverse backgrounds that reflect the many communities and markets we serve throughout the world.

Our Vision

Our vision is to be the most professional life insurance company in the world: providing the very best financial protection and investment management services tailored to customers in every market where we do business.

Our Financial Objectives

Our financial targets are to earn a return of 16 per cent on our equity and to grow our earnings per share by 15 per cent per annum.

Our Values

These values guide everything we do – from strategic planning to day-to-day decision-making, to the manner in which we treat our customers and other stakeholders.

Professionalism

We will be recognized as having professional standards. Our employees and agents will possess superior knowledge and skill for the benefit of our customers.

Real Value to Our Customers

We are here to satisfy our customers. By providing the highest quality products, services, advice and sustainable value, we will ensure our customers receive excellent solutions to meet their individual needs.

Integrity

All of our dealings are characterized by the highest levels of honesty and fairness. We develop trust by maintaining the highest ethical practices.

Demonstrated Financial Strength

Our customers depend on us to be here in the future to meet our financial promises. We earn this faith by maintaining uncompromised claims paying ability, a healthy earnings stream, and superior investment performance results, consistent with a prudent investment management philosophy.

Employer of Choice

Our employees will determine our future success. In order to attract and retain the best and brightest employees, we will invest in the development of our human resources and reward superior performance.

President's Message



Dominic D'Alessandro
President and
Chief Executive Officer

Arthur R. Sawchuk
Chairman

It is a time of unprecedented change for our industry. Demographics, globalization, convergence and consolidation are just a few of the many forces that are shaping the nature of the services we offer and how we organize ourselves to deliver them. Amidst such turbulence, clarity and constancy of purpose are virtues.

We remain firmly committed to our vision of becoming the most professional life insurer in the world. The realization of this vision depends on the values and capabilities that are described in this Report. I believe that your Company continues to make commendable progress towards the achievement of its objectives.

Manulife Financial delivered an eighth consecutive year of record financial performance in 2001.

Manulife Financial delivered an eighth consecutive year of record financial performance in 2001.

This is a testament to the strong risk management culture, conservative accounting and actuarial practices, and the geographic and product diversity that differentiates us from many of our peers.

I am proud to report that shareholders' net income grew eight per cent to \$1,159 million in 2001. Excluding the impact of non-recurring items, shareholders' net income was \$1,223 million, an increase of 18 per cent over comparable earnings in 2000. Return on shareholders' equity excluding non-recurring items was 15.9 per cent for the year compared with 15.5 per cent in 2000.

Premiums and deposits for the year were \$25.8 billion, five per cent higher than a year ago. The benefits of new product introductions, our acquisitions in Japan and Canada, and a large increase in the agency force in Asia were offset to a large extent by the effects of weakening

economies and falling equity markets around the world.

Notwithstanding that the increase in revenue levels was more modest than we had planned, we did manage to grow our customer base very significantly. More than 8.5 million individuals now do business with us around the world, an increase of 25 per cent during the year. This growth was driven by acquisitions, the expansion of our distribution networks and the introduction of innovative products and services. We are obviously very pleased that so many new customers have chosen Manulife Financial as their provider of protection and wealth management services.

United States

In the United States, net income for the year was \$373 million, a decline of 22 per cent from the very strong results of the prior year. Poor equity markets and a slowing U.S. economy undermined consumer and investor confidence affecting sales across all business

lines throughout most of the year. Conditions were particularly difficult in the period immediately following the tragic events of September 11th, when a traumatized world struggled to absorb the enormity of the terrorist attacks and paused to assess the implications. Like many other resilient organizations in the U.S. and elsewhere, our Company responded well to the changed environment and accelerated its plans to reduce costs and introduce new products. As a result, the fourth quarter saw a strong rebound in earnings and sales, which we are optimistic will continue in 2002.

Prolonged debate and uncertainty over estate tax reform slowed life insurance sales for much of the year. However, new products designed to address the newly enacted estate tax legislation, coupled with focused marketing initiatives, drove a significant increase in sales in the fourth quarter.

In 2001, Manulife was recognized as the number one seller of defined contribution plans in the U.S. The number of plan participants served by our 401(k) group pension operation increased by 22 per cent to more than 850,000 during the year.

Activity in the variable annuities market also picked up in the last few months of the year as investors and advisors were attracted to new products and as equity markets improved. During the year we were the first insurance company to enter the

very promising college savings market, a natural complement to our existing product line-up with its focus on tax-advantaged savings.

Canada

With growth in all businesses and earnings up 22 per cent overall to \$335 million, 2001 was a very successful year for our Canadian operations.

Penetration of alternate sales channels through new strategic alliances, selective entry into the managing general agent channel, and a continued focus on the stock brokerage channel have

been key to growing sales. In addition, the acquisition of the Canadian insurance operations of Commercial Union and the group life and health employee benefits business of Zurich Canada have given us ready access to new products, including critical illness and long-term care insurance, and strengthened our position in the small care group sector.

As in the U.S., sales in our wealth management operations were affected by declining equity markets. However, product enhancements, a new fund line-up and good fund performance, together with a more positive economic outlook, augur well for 2002.

Asia

Our Asian operations continued to perform strongly, with earnings increasing by 65 per cent to \$317 million in 2001 and premiums and deposits reaching \$4 billion. While our acquisition in Japan contributed significantly to this growth, we also saw excellent performance in our flagship Hong Kong operations.

During the year we successfully integrated the business of our former Japanese partner. This brought significant scale to our recently established Japanese operation. The introduction of universal life and in 2002, variable

annuity products, which are still relatively new to the local market, positions us for future growth in one of the world's largest life insurance markets.

Our client base in Hong Kong has also expanded significantly, largely as a result of the huge success of our Mandatory Provident Fund pension product that was launched a little over a year ago.

Our presence in Asia has been strengthened through a number of expansion initiatives including receipt of regulatory approval late in the year to establish a branch of our Chinese joint venture in Guangzhou. This new office will

More than 8.5 million individuals now do business with us around the world, an increase of 25 per cent during the year.

complement our existing Shanghai operation, which began five years ago and currently serves more than 100,000 customers.

In Vietnam, we increased the ownership of our local business to 100 per cent. This significantly strengthens our position in a rapidly growing market where, in two years, we have grown to more than 5,000 sales representatives and 100,000 customers. In Taiwan, early in 2002, we purchased the business of CIGNA Taiwan, which added customers and a small but high quality group of agents.

Our Company responded well to the changed environment and accelerated its plans to reduce costs and introduce new products.

Our exclusive sales force throughout Asia, including Japan, grew by 35 per cent during the year and now numbers more than 20,000 representatives.

Reinsurance

As a result of the September 11th terrorist attacks, net income of \$48 million in Reinsurance was down sharply from a year ago. We recorded an after-tax charge of \$145 million for reinsurance losses related to September 11th. At this time, we remain confident that this charge will be sufficient to cover the claims related to this event. We are now seeing significant rate hardening in sectors of the reinsurance market and expect that this will result in improved profitability in 2002.

Investments and Capital Strength

Total funds under management increased 15 per cent to \$142.2 billion, reflecting the addition of assets from acquisitions in Japan and Canada, offset in part by reductions of approximately \$8 billion due to equity market declines. Investment performance compared favourably against benchmarks over the year. The quality of our balance sheet remains extremely strong. Asset quality and capital levels have never been higher.

In addition to the growth in retained earnings, we completed two very attractively priced capital transactions during the year that added a further \$1.8 billion to our capital base. Total capital at the end of the year stood at \$11.5 billion, giving us the means to pursue any opportunities that may present themselves.

Going Forward

While 2001 has been a successful year, it has also shown that we are not immune to the economic conditions affecting the larger global community in which we operate. In view of a business environment that remains uncertain, we are continuing to implement an ambitious program to contain and, where appropriate,

reduce our operating costs.

In February 2002, the quarterly dividend was raised to \$0.14 per share underscoring our confidence that the many initiatives undertaken during the past year will allow us to sustain the strong financial performance that we are committed to deliver.

I would like to take this opportunity to thank John Richardson, who recently retired from his role of Senior Executive Vice President of Manulife Financial and from our Board of Directors, for his outstanding service and dedication to the Company over the past 10 years. I would also like to thank Joseph Pietroski, Senior Vice President and Corporate Secretary for his 25 years of service to the Company and wish him well on his retirement this year.

Our employees, agents and business partners are dedicated to working together to realize our vision to become the most professional life insurance company in the world. I believe that our Company is recognized as being one of the world's leading life insurers. And, I expect that our diversity and commitment to excellence will enable us to deliver ever-increasing value to all of our stakeholders.

Dominic D'Alessandro
President and
Chief Executive Officer

Our Achievements

Manulife Financial has identified five core competencies that have contributed to our success. In 2001, each of our operating divisions realized successes that reinforced the importance of our commitment to customer focus, distribution excellence, product innovation, technology, and risk and investment management.

Customer Focus

Our customer focus directs our strategies on product design and improvement, distribution and after-sales service.

- Ranked number one for annuities service relationship management in the U.S. by two independent surveys of broker-dealer firms.
- Awarded *Plan Sponsor* magazine's Top Rating in overall participant service for 401(k) products in the U.S.; according to the survey, 98 per cent of Manulife's clients would recommend the Company to a colleague.
- Ranked number one in customer service for Elliott & Page Mutual Funds, according to a survey conducted by Environics Research group in Canada.
- Awarded Next Magazine's annual Top Service Award in the Hong Kong insurance company category, and the Business Excellence Award from the Canadian Chamber of Commerce in Hong Kong.

Distribution Excellence

Manulife offers the widest possible range of distribution choices giving customers the products they want, when and how they want them.

- Established distribution agreement with one of Canada's leading financial planning companies giving its 3,500 financial consultants access to a range of Manulife's individual term and universal life insurance products.
- Expanded agency sales force in Asia by 35 per cent during the year, with more than 20,000 professional agents representing Manulife at year-end 2001.
- Extended our distribution reach through the U.S. College Savings business, with 60 per cent of sales coming from producers that have not previously done business with Manulife.

Product Innovation

Manulife continuously looks to introduce innovative financial solutions.

- Introduced Estate Tax Advantage 2010, a Survivorship Universal Life product offering U.S. clients increased flexibility for their estate plans in response to recent changes in estate tax law.

- Awarded Quebec Grand Prix Award for product innovations, including Manulife Insured Portfolio Funds, Manulife one and Manulife Healthstyles.
- Introduced one of the first Universal Life products in Japan and launched the first-ever Universal Variable Life Insurance product in the Taiwanese market.
- Launched innovative products in Hong Kong that allow parents to provide guaranteed financial support to their children at major life stages beyond graduation.

Technology

Manulife is committed to offering technological solutions for purchase, after-sale service and access to information.

- Launched i:contributions, a software application allowing U.S. 401(k) plan administrators to submit participant contribution files directly to Manulife via the Internet.
- Introduced new annuity technology in the U.S. that enables brokers to submit contracts electronically for Manulife's growing family of variable annuity products.
- Offered Canadian pension clients an investment and savings product with secure account access over the Internet, a first in Canada.
- Launched secure Web sites across the Asia region that allow agents to access the servicing information, marketing updates and administration forms required to serve their customers anytime, anywhere.

Risk and Investment Management

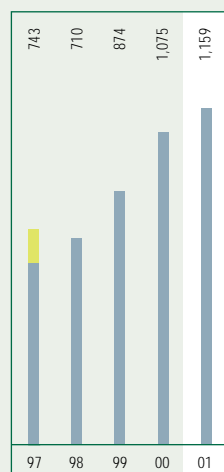
Manulife's balance sheet is strong, with a solid capital base and a high quality, well-diversified investment portfolio.

- Completed offering of \$800 million principal amount of redeemable subordinated debentures.
- Issued \$1 billion of Manulife Financial Capital Securities ("MaCS").
- Maintained very strong overall credit quality with the ratio of net impaired assets to total invested assets declining to 0.25 per cent in 2001 from 0.39 per cent in 2000.

Management's Discussion & Analysis

Adjusted Shareholders' Net Income⁽¹⁾

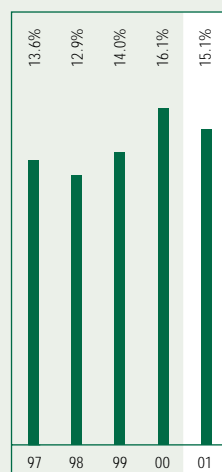
(Canadian \$ in millions)



■ Gain on divestiture
■ Adjusted shareholders' net operating income

- 8% growth in shareholders' net income to \$1,159 million (excluding non-recurring items, normalized shareholders' net income increased 18%)
- Eighth consecutive year of record financial performance

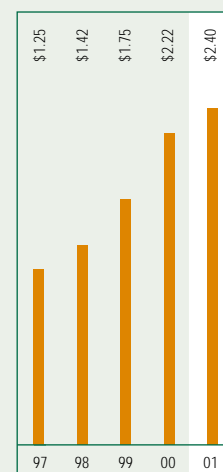
Operating Return on Shareholders' Equity⁽²⁾



■ Operating return on shareholders' equity

- Return on shareholders' equity of 15.1% (excluding non-recurring items, normalized return on shareholders' equity was 15.9%)

Adjusted Basic Operating Earnings Per Share⁽²⁾



■ Adjusted basic operating earnings per share

- Basic earnings per share of \$2.40 (excluding non-recurring items, normalized basic earnings per share was \$2.53)
- Five year compound annual growth rate of 19%

Ratings

The following rating agencies each assign The Manufacturers Life Insurance Company ratings within their highest range of categories, thereby recognizing the company as among the strongest in the life insurance industry.

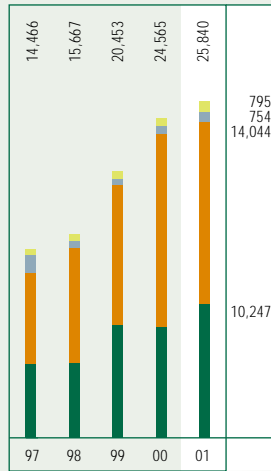
| Purpose | Rating agency | Rating | |
|----------------------------------|------------------------------|--------|------------------------|
| Claims paying/Financial strength | A.M. Best | A++ | (1st of 16 categories) |
| | Dominion Bond Rating Service | IC-1 | (1st of 5 categories) |
| | Fitch Ratings | AAA | (1st of 22 categories) |
| | Moody's | Aa2 | (3rd of 21 categories) |
| | Standard & Poor's | AA+ | (2nd of 21 categories) |

(1) Adjusted shareholders' net income refers to earnings from mutual operations (prior to demutualization) and net income attributable to shareholders (after demutualization).

(2) Operating return on shareholders' equity and adjusted basic operating earnings per share exclude the impact of the Company's gain on divestiture of Altamira Management Limited in 1997.

Premiums and Deposits

(Canadian \$ in millions)

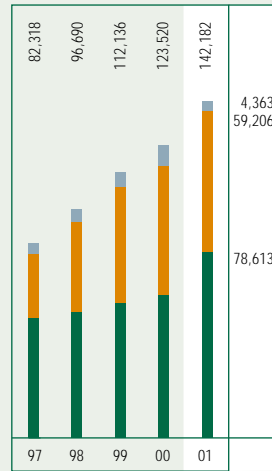


- ASO premium equivalents
- Mutual funds
- Segregated funds
- General fund

- \$1,275 million increase in premiums and deposits
- 20% growth in general fund premiums

Funds under Management

(Canadian \$ in millions)

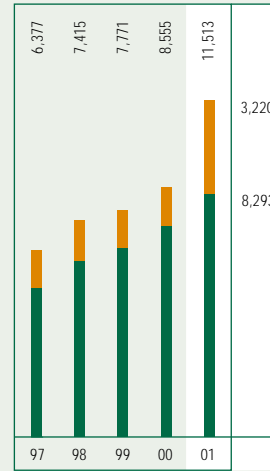


- Mutual and other managed funds
- Segregated funds
- General fund

- 15% growth in funds under management
- 31% increase in general fund assets
- 8% increase in segregated funds assets

Capital

(Canadian \$ in millions)



- Subordinated debt, non-controlling interest in Manulife Financial Capital Trust and Trust preferred securities issued by subsidiaries
- Total equity (previously reported as surplus)

- Issued \$1 billion of Manulife Financial Capital Securities and \$800 million of subordinated debt
- Total equity of \$8.3 billion
- Total capital of \$11.5 billion
- The Manufacturers Life Insurance Company's MCCR was 236%

MCCR

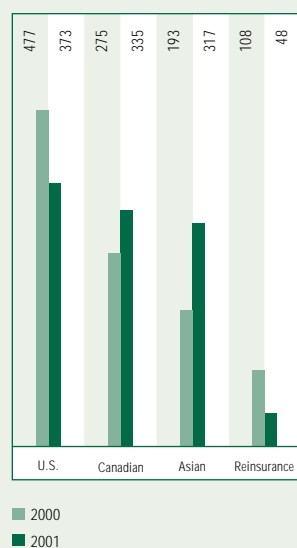
| Year | Ratio | Required Capital | Available Capital |
|------|-------|------------------|-------------------|
| 2001 | 236% | \$ 4.4 billion | \$ 10.3 billion |
| 2000 | 238% | \$ 3.4 billion | \$ 8.0 billion |
| 1999 | 239% | \$ 3.3 billion | \$ 7.9 billion |
| 1998 | 255% | \$ 3.0 billion | \$ 7.7 billion |
| 1997 | 251% | \$ 2.8 billion | \$ 7.0 billion |

The MCCR (Minimum Continuing Capital and Surplus Requirements) is a measure of a company's capital strength. The Manufacturers Life Insurance Company's MCCR was 236% at year-end 2001, well above the minimum prescribed by the Office of the Superintendent of Financial Institutions (Canada).

Financial Performance

Canadian generally accepted accounting principles ("GAAP") require the presentation of financial information in distinct segments. The Company views the contracts comprising the general fund, segregated funds and other funds under management as alternative offerings that are managed interdependently because, typically, there are transfer options between the general fund and the segregated funds as a result of a policyholder's ability to change investment options or products. Fee income for investment management and administrative services provided to segregated funds is recorded in the general fund. As a result of similarities between general fund, segregated fund and mutual fund products from a business perspective and the many interdependencies, the Company measures certain key business indicators in aggregate. These key business indicators are (1) growth of total premiums and deposits, and (2) growth in funds under management.

Net Income
(Canadian \$ in millions)



Net Income

Manulife Financial reported record earnings in 2001 as shareholders' net income reached \$1,159 million compared to \$1,075 million reported in 2000. Shareholders' net income in the year included non-recurring items reported in the third quarter, which in aggregate reduced net income by \$64 million compared to a non-recurring item in 2000, which increased net income by \$42 million.

This year's non-recurring items related to provisions for anticipated claims arising from the terrorist events in the United States on September 11, 2001, a gain from the disposition of a portion of the Company's investment in Seamark Asset Management Ltd. ("Seamark"), and two tax related items. These tax items consist of a one-time reduction in tax expense of \$30 million associated with the recognition of a future tax asset in respect of previously unaccrued tax losses in the Reinsurance Division and a \$29 million accrual for a refund of tax, inclusive of interest, related to a recent court decision in Manulife's favour pertaining to capital taxes. The prior year's non-recurring item of \$42 million related to a one-time reduction in tax expense in the United States as a result of the dividends received deduction on U.S. segregated funds.

Excluding these non-recurring items, shareholders' net income was \$1,223 million, an 18 per cent increase over the prior year. This increase was primarily attributable to the positive impact of acquisitions in Japan and Canada earlier in the year, improved margins and expense efficiencies in insurance and wealth management businesses in Canada and strong business growth in Hong Kong Individual Insurance. This increase was partially offset by the impact of lower equity markets on the earnings of the wealth management businesses in the United States.

Impact of September 11, 2001 Events

As a result of the terrorist events of September 11, 2001, exposure to loss is estimated at \$360 million before catastrophe coverage, reserves and taxes. Accident reinsurance exposures accounted for 80 per cent of this amount with Property & Casualty and Life risks accounting for the balance. These exposures were reduced by \$120 million of catastrophe coverage, \$60 million of expected tax deductions and \$80 million of existing net reserves. Actual Reinsurance Division claims will not be known for several years; therefore, the Company established additional net reserves of \$50 million during the third quarter of 2001. Credit risk in relation to these events is with strong counterparties, with approximately two-thirds rated "AA" or better and one-third with "A" rated parties.

NET IMPACT OF SEPTEMBER 11, 2001 EVENTS

(Canadian \$ in millions)

| | |
|--|---------------|
| Exposure, net of recoveries | \$ 360 |
| Catastrophe coverage | (120) |
| Income taxes | (60) |
| Income impact before existing and additional net reserves | \$ 180 |
| Existing reserves | (80) |
| Income impact before additional net reserves | \$ 100 |
| Additional reserves | 50 |
| Net income impact | \$ 150 |

The return on shareholders' equity for the year ended December 31, 2001 was 15.1 per cent compared to 16.1 per cent for 2000. Earnings per share for the year ended December 31, 2001 was \$2.40 compared to \$2.22 for 2000. Excluding the non-recurring items, return on shareholders' equity and earnings per share for the current year were 15.9 per cent and \$2.53, respectively. On the same basis for 2000, return on shareholders' equity and earnings per share were 15.5 per cent and \$2.13, respectively.

Consolidated Net Income for the Year

SUMMARY STATEMENT OF OPERATIONS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---|------------------|------------------|------------------|
| Premium income | \$ 10,247 | \$ 8,515 | \$ 8,672 |
| Investment income | 4,479 | 4,350 | 4,369 |
| Other revenue | 1,505 | 1,287 | 1,015 |
| Total revenue | \$ 16,231 | \$ 14,152 | \$ 14,056 |
| Policy benefits | \$ 10,826 | \$ 9,335 | \$ 9,974 |
| General expenses | 2,478 | 2,191 | 1,817 |
| Commissions | 1,133 | 1,086 | 886 |
| Interest expense | 257 | 191 | 179 |
| Premium taxes | 105 | 96 | 84 |
| Non-controlling interest in subsidiaries | 4 | (151) | (114) |
| Trust preferred securities issued by subsidiaries | 65 | 63 | 62 |
| Total policy benefits and expenses | \$ 14,868 | \$ 12,811 | \$ 12,888 |
| Income before income taxes | \$ 1,363 | \$ 1,341 | \$ 1,168 |
| Income taxes | (196) | (273) | (302) |
| Net income | \$ 1,167 | \$ 1,068 | \$ 866 |
| Net income (loss) attributable to: | | | |
| Participating policyholders (after demutualization) | \$ 8 | \$ (7) | \$ (8) |
| Net income attributable to: | | | |
| Shareholders (after demutualization) | \$ 1,159 | \$ 1,075 | \$ 267 |
| Mutual operations (prior to demutualization) | – | – | 607 |
| Adjusted shareholders' net income | \$ 1,159 | \$ 1,075 | \$ 874 |
| Net income | \$ 1,167 | \$ 1,068 | \$ 866 |

Premiums and Deposits

Premiums and deposits increased by \$1.3 billion to \$25.8 billion in 2001 compared to \$24.6 billion for the year ended December 31, 2000. This increase was primarily due to a 20 per cent increase in premiums to \$10.2 billion in 2001 from \$8.5 billion in 2000, partially offset by a five per cent decrease in segregated fund deposits to \$14.0 billion in 2001 from \$14.8 billion in 2000. The increase in general fund premiums was largely a result of renewal premiums from the policies transferred from Daihaku in Japan, growth in individual and group insurance premiums across the Company and sales from U.S. Annuities' dollar-cost-averaging program.

The decline in segregated fund deposits resulted from the impact of volatile equity markets, reflecting investors' cautious approach to investing in 2001; partially offset by strong 401(k) pension deposits in the United States and Mandatory Provident Fund deposits in Hong Kong.

PREMIUMS AND DEPOSITS

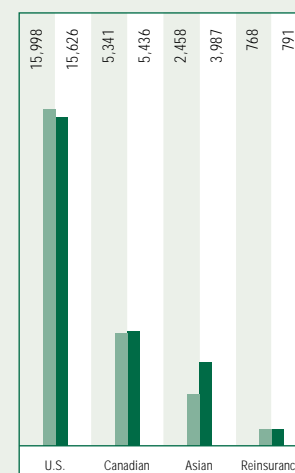
| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---------------------------|------------------|------------------|------------------|
| General fund premiums | \$ 10,247 | \$ 8,515 | \$ 8,672 |
| Segregated fund deposits | 14,044 | 14,777 | 10,709 |
| Mutual fund deposits | 754 | 630 | 522 |
| ASO premium equivalents | 795 | 643 | 550 |
| Total | \$ 25,840 | \$ 24,565 | \$ 20,453 |

Taxes, levies and assessments are a significant component of Manulife Financial's expenses.

In addition to income and capital-based taxes, the Company is subject to other taxes reported as part of the Company's operating expenses, including property and business taxes, premium taxes, employer payroll taxes, commodity and consumption taxes, and Canadian investment income taxes. Total taxes, levies and assessments, excluding income and certain capital-based taxes, which are recorded separately as income taxes in the Consolidated Statements of Operations, amounted to \$315 million in 2001 compared to \$257 million in 2000.

Premiums and Deposits

(Canadian \$ in millions)



■ 2000
■ 2001

Investment Income

Investment income increased slightly in 2001 to \$4.5 billion from \$4.4 billion in 2000. The impact of a higher average level of general fund invested assets of \$67.9 billion, largely due to the transfer of assets from Daihyaku in Japan on April 2, 2001, was partially offset by the effect of lower yields on fixed-income investments and the weak performance of equity markets. Approximately 33 per cent of stocks support the Company's participating policies and the impact of a decrease in investment income from these stocks is substantially offset by a change in actuarial liabilities. The remaining 67 per cent of stocks support other actuarial liabilities and the Company's capital. Investment income on these stocks impacts the Company's net income. Provisions against impaired assets decreased marginally to \$99 million in 2001 from \$100 million in 2000. The establishment of provisions against primarily U.S.-denominated bonds in 2001 was partially offset by recoveries in the real estate and mortgage portfolios. As a result of the aforementioned and lower yields, particularly relating to assets transferred from Daihyaku in Japan where interest rates are much lower than in North America, total investment yield for the Company decreased to 6.90 per cent from 8.58 per cent in 2000.

INVESTMENT INCOME

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---|----------|----------|----------|
| Gross investment income before: | \$ 3,962 | \$ 3,807 | \$ 3,640 |
| Provisions for impaired assets | (99) | (100) | (58) |
| Amortization of net realized and unrealized gains | 616 | 643 | 787 |
| Total | \$ 4,479 | \$ 4,350 | \$ 4,369 |
| Yield | 6.90% | 8.58% | 9.01% |

Other Revenue

Other revenue increased by 17 per cent to \$1.5 billion in 2001 from \$1.3 billion in 2000. This increase was primarily attributable to a nine per cent increase in fees to \$1.3 billion in 2001, the sale of a portion of the Company's investment in Seamark and interest income on the settlement of a tax case in Canada related to the capital tax treatment of deferred realized gains. The increase in fee income was primarily attributable to improved margins in the Individual Wealth Management business in Canada, fees derived from policies transferred from Daihyaku, the provision of administrative services by Group Benefits in Canada and an increase in fee income earned on life financial and property and casualty reinsurance.

Policy Benefits and Expenses

Policy benefits increased to \$10.8 billion in 2001 from \$9.3 billion in 2000.

The increase in death and disability claims was a result of larger inforce insurance blocks in U.S., Canadian, and Asian Divisions, together with the impact of the businesses acquired in Japan and Canada, and Reinsurance Division's provision for anticipated claims arising from the terrorist events of September 11. Subsequent to the transfer of policies from Daihyaku, there was a net reduction in actuarial liabilities related to these policies, largely due to death, disability, maturity, and surrender claims. Actuarial liabilities on the balance of the Company's operations increased, reflecting higher sales of guaranteed and fixed-income products and growth in the insurance businesses in Canada and the United States and lower surrenders in the Canadian wealth management businesses. As at December 31, 2001, actuarial liabilities increased to \$54.7 billion from \$41.4 billion in 2000, primarily due to the addition of \$10.9 billion of actuarial liabilities in respect of policies acquired in Japan on April 2, 2001.

Policyholder dividends and experience rating refunds increased by five per cent to \$900 million in 2001 from \$859 million in 2000. Policyholder dividends increased by nine per cent primarily due to continued growth in cash values of participating policies.

General expenses increased by 13 per cent to \$2.5 billion in 2001 from \$2.2 billion in 2000. This increase was primarily attributable to costs associated with the newly acquired blocks of business in Japan and Canada, increased new business acquisition costs and continued investments in technology, back-office and distribution infrastructure to support sales and asset growth.

Commissions increased by four per cent to \$1.1 billion in 2001, primarily due to the first full year of the restructured compensation program in Japan which changed from fixed to variable and higher insurance and pension sales in Hong Kong, partially offset by lower sales of variable annuities in the United States.

Interest expense increased by 35 per cent to \$257 million in 2001 from \$191 million in 2000, primarily due to interest paid on the Canadian-denominated subordinated debentures issued in February of 2001. Premium taxes increased by nine per cent to \$105 million from \$96 million in 2000, due to an increase in premiums.

Non-controlling interest in subsidiaries was \$4 million compared to a recovery of \$151 million in 2000. The change was attributable to the Company's acquisition of Daihyaku's minority interest in Manulife Japan. In 2000, the recovery primarily reflected the attribution of losses incurred by the operation in Japan to Daihyaku.

Income taxes decreased to \$246 million in 2001 from \$315 million in 2000, after excluding the non-recurring tax items for both years. The Company's 2001 provision for income taxes of \$196 million is comprised of \$71 million of current taxes payable and \$125 million of future taxes. The decrease in the income tax expense primarily reflects a greater proportion of earnings derived from jurisdictions with lower income tax rates.

Funds under Management

Funds under management increased by 15 per cent to \$142.2 billion in 2001 from \$123.5 billion in 2000. General fund assets grew by 31 per cent to \$78.6 billion as at December 31, 2001 from \$60.1 billion as at December 31, 2000, reflecting the acquisitions in Japan and Canada earlier in the year. Segregated fund assets increased by eight per cent to \$59.2 billion as at December 31, 2001 from \$54.9 billion as at December 31, 2000. This increase was primarily due to net new deposits of U.S. 401(k) pension, variable annuity, and variable insurance products, increased Mandatory Provident Fund deposits in Hong Kong and the impact of a strengthening U.S. dollar. This increase was offset by a reduction in the market value of assets, as a result of weak equity market performance.

FUNDS UNDER MANAGEMENT

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---|------------------|------------------|------------------|
| General fund | \$ 78,613 | \$ 60,067 | \$ 56,708 |
| Segregated funds | 59,206 | 54,908 | 49,055 |
| Mutual and other managed funds ⁽¹⁾ | 4,363 | 8,545 | 6,373 |
| Total | \$142,182 | \$123,520 | \$112,136 |

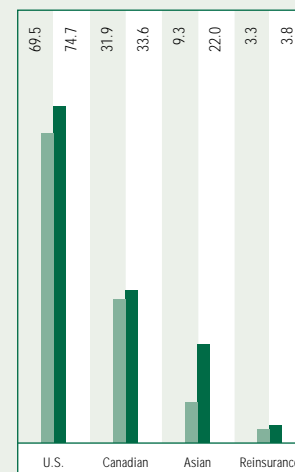
Other managed funds represent pension funds, pooled funds, endowment funds and other institutional funds managed by the Company on behalf of others.

Segregated fund assets, mutual fund assets and other managed funds are not available to satisfy the liabilities of the Company's general fund.

(1) Other managed funds included Seamark Asset Management Ltd. third party managed funds of \$4,288 and \$3,074 as at December 31, 2000 and 1999, respectively. Disposition of a portion of the Company's controlling interest in Seamark Asset Management Ltd. occurred in July 2001, at which time the Company ceased consolidation of the assets and liabilities and results of operations of Seamark and commenced accounting for this investment on an equity basis.

Funds under Management

(Canadian \$ in billions)



■ 2000
■ 2001

Differences between Canadian and U.S. GAAP

The consolidated financial statements of Manulife Financial are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP.

The differences between Canadian GAAP and U.S. GAAP include accounting for premiums and deposits, invested assets and investment income and segregated funds. There are also differences in the calculation and accounting for actuarial liabilities and differences in reporting policy cash flows. These differences are described in more detail in note 17 to the consolidated financial statements.

Differences between Canadian and Hong Kong GAAP

The consolidated financial statements of Manulife Financial are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain respects from Hong Kong GAAP.

In Hong Kong, there are no accounting standards specific to life insurance companies; consequently, companies have more discretion in selecting appropriate accounting principles to prepare financial statements. The Canadian GAAP requirements for life insurance enterprises used by the Company in relation to its invested assets and non-actuarial liabilities are considered acceptable within the Hong Kong accounting framework. The computation of actuarial liabilities in Hong Kong is governed by the requirements of the Hong Kong Insurance Authority. In certain interest rate environments, actuarial liabilities determined in accordance with Hong Kong GAAP may be higher than actuarial liabilities computed in accordance with Canadian GAAP.

The Hong Kong Insurance Authority requires that insurance companies meet minimum solvency requirements. Each year, the Company compares the amount of net assets prepared in accordance with Canadian GAAP, as reported in the Company's annual regulatory return, with the minimum solvency margin required in Hong Kong. As at December 31, 2001, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required in Hong Kong.

U.S. Division

The U.S. Division provides insurance and wealth management products and services to select markets. The Division's Insurance operation focuses on the sale of life insurance products to high net-worth individuals. Wealth Management services includes the Annuities operation, which focuses primarily on middle- and upper-income individuals and the Group Pensions operation concentrating on small and medium-sized businesses.

Financial Performance

U.S. Division's net income was \$373 million in 2001 compared to \$477 million in 2000. Included in 2000 earnings was a \$42 million one-time reduction in tax expense as a result of an IRS technical memorandum clarifying the treatment of the dividends received tax deduction for U.S. segregated funds. Excluding this one-time reduction in tax expense in 2000, current year net income was \$62 million lower than the prior year, due to the impact of lower equity markets on the earnings of the Division's wealth management businesses and a decline in sales from the record high sales reported in 2000. These declines were partially mitigated by favourable Insurance mortality experience, continued strong growth in the 401(k) pension business and the impact of a strengthening U.S. dollar. Prudent management of expenses also contributed to earnings as operational costs were closely linked to areas of business growth.

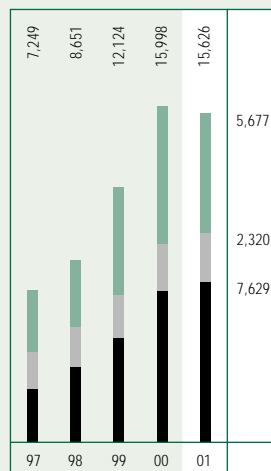
In 2001, U.S. Division contributed 32 per cent to the Company's net income, 61 per cent of total premiums and deposits and as at December 31, 2001, accounted for 53 per cent of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---|-----------------|-----------------|-----------------|
| Premium income | \$ 3,836 | \$ 3,348 | \$ 3,093 |
| Investment income | 1,942 | 1,925 | 1,888 |
| Other revenue | 939 | 885 | 678 |
| Total revenue | \$ 6,717 | \$ 6,158 | \$ 5,659 |
| Policyholder benefits | \$ 4,697 | \$ 4,055 | \$ 3,920 |
| General expenses | 830 | 759 | 625 |
| Commissions | 572 | 600 | 467 |
| Other | 94 | 99 | 86 |
| Total policyholder benefits and expenses | \$ 6,193 | \$ 5,513 | \$ 5,098 |
| Income before income taxes | \$ 524 | \$ 645 | \$ 561 |
| Income taxes | (151) | (168) | (196) |
| Net income | \$ 373 | \$ 477 | \$ 365 |

Premiums and Deposits

(Canadian \$ in millions)



■ Annuities
■ Insurance
■ Group Pensions

Premiums and Deposits

Premiums and deposits of \$15.6 billion in 2001 were marginally lower than the \$16.0 billion reported in 2000, a strong performance in light of volatile equity markets and a challenging economic environment during 2001. General fund premiums increased 15 per cent, due to sales of Annuities' dollar-cost-averaging program, which allows pre-authorized periodic transfers from the fixed-rate general fund portfolio to a segregated fund, and also from growth in Insurance premiums.

Segregated fund deposits declined in 2001 as a result of reduced variable annuity deposits. Reduced business levels, experienced throughout much of the variable annuity industry, reflected investors' cautious approach to investing in 2001. Annuities' focus on customer service and product enhancements helped minimize the impact of volatile equity markets. The decline in segregated fund deposits was partially offset by strong 401(k) pension deposits, achieved through continued penetration of the broker-dealer market and ongoing distribution strength in the Third Party Administrator channel.

PREMIUMS AND DEPOSITS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|-----------------------------|-----------|-----------|-----------|
| Premiums | \$ 3,836 | \$ 3,348 | \$ 3,093 |
| Segregated fund deposits | 11,790 | 12,650 | 9,031 |
| Total premiums and deposits | \$ 15,626 | \$ 15,998 | \$ 12,124 |

Funds under Management

Funds under management of \$74.7 billion ended the year eight per cent higher than 2000. Net new deposits of 401(k) pension, variable annuity, and variable insurance products along with the impact of a strengthening U.S. dollar were partially offset by declining equity values.

FUNDS UNDER MANAGEMENT

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|------------------------------|-----------|-----------|-----------|
| General fund | \$ 26,731 | \$ 25,105 | \$ 23,648 |
| Segregated funds | 47,975 | 44,370 | 39,389 |
| Total funds under management | \$ 74,706 | \$ 69,475 | \$ 63,037 |

Moving Forward

In 2002, U.S. Division will continue to build on its strengths of product innovation, service excellence and distribution efficiency.

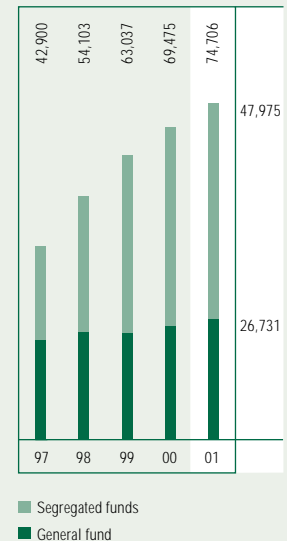
Product development plans for 2002 include Insurance's launch of a suite of new and refreshed products, focusing primarily on the variable insurance market. Wealth management product initiatives include Annuities' launch of the "Core Plus" investment concept, combining its Lifestyle Portfolios with Manulife's broad range of investment options. This concept will be merged seamlessly with newly developed marketing strategies aimed at the affluent investor. In addition, the successful expansion of wealth management offerings in the College Savings market (529 Plan) will continue in 2002 through additional product innovation. Group Pensions will continue developing its product features through enhanced e-commerce and investment offerings.

U.S. Division's commitment to providing high quality customer service will always be a priority, as will the continuing expansion of its distribution capabilities. Annuities, with a history of delivering excellent customer service and an existing strong product line-up, combined with its wholesaling distribution group, is well positioned to capture a growing share of a recovering variable annuity market in 2002. Group Pensions will expand participant-focused programs and strengthen its relations with the Third Party Administrator and broker-dealer distribution channels. Group Pensions is planning a number of e-commerce initiatives and further enhancements to its award-winning client communications. Insurance will be launching a new Internet interface for both policyholders and distributors that will provide easy access to account information and service. In addition, Insurance will build on its broad market penetration strategy by enhancing relationships with key distributors, with the goal of becoming the leading insurance provider among these targeted firms.

While the U.S. Division is in a strong position to benefit from economic recovery and improving equity markets, expense levels will continue to be tightly managed. Fixed expenses in most areas will decline slightly or will be maintained at 2001 levels, while additional investments will be restricted to areas of strong business growth.

Funds under Management

(Canadian \$ in millions)



Canadian Division

Canadian Division is one of the leading life insurance-based financial services organizations in Canada. Its wealth management product offerings include individual investment and banking products, annuities, group pension products and mutual funds. Insurance product offerings include a full range of group life, health, dental and disability insurance products and services for Canadian employers. Individual life insurance products are aimed at middle- and upper-income individuals and business owners. Insurance products are also directly marketed to members of professional, alumni, retiree and other associations and to the customers of financial and retail institutions.

Financial Performance

Canadian Division's net income increased 22 per cent to \$335 million in 2001 from \$275 million in 2000. This result reflects improved margins and expense efficiencies in insurance and wealth management businesses and positive contributions from acquisitions completed earlier in the year, partially offset by the negative effects of volatile equity markets and less favourable long-term disability claims results in Group Benefits.

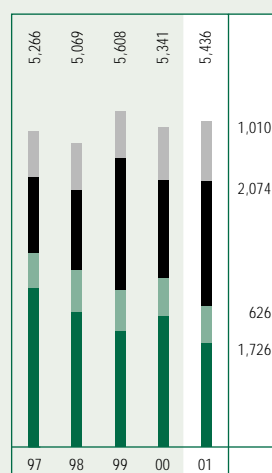
In 2001, the Canadian Division contributed 29 per cent to the Company's net income, 21 per cent of total premiums and deposits and as at December 31, 2001, accounted for 24 per cent of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---|-----------------|-----------------|-----------------|
| Premium income | \$ 2,924 | \$ 2,488 | \$ 3,228 |
| Investment income | 1,617 | 1,587 | 1,697 |
| Other revenue | 287 | 249 | 197 |
| Total revenue | \$ 4,828 | \$ 4,324 | \$ 5,122 |
| Policyholder benefits | \$ 3,418 | \$ 3,051 | \$ 3,979 |
| General expenses | 654 | 595 | 575 |
| Commissions | 238 | 238 | 205 |
| Other | 101 | 90 | 69 |
| Total policyholder benefits and expenses | \$ 4,411 | \$ 3,974 | \$ 4,828 |
| Income before income taxes | \$ 417 | \$ 350 | \$ 294 |
| Income taxes | (82) | (75) | (61) |
| Net income | \$ 335 | \$ 275 | \$ 233 |

Premiums and Deposits

(Canadian \$ in millions)



■ Individual Insurance
■ Group Benefits
■ Group Pensions
■ Individual Wealth Management

Premiums and Deposits

Premiums and deposits of \$5.4 billion were marginally higher than 2000. Strong persistency and the impact of recent acquisitions contributed to a 27 per cent increase in Group Life and Health premiums and premium equivalents and a 13 per cent increase in individual insurance premiums. Fixed-rate and money market deposits grew by 17 per cent while segregated and long-term mutual fund deposits declined by 40 per cent, reflecting equity market volatility and investors' cautious approach to investing in 2001.

PREMIUMS AND DEPOSITS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|------------------------------------|-----------------|-----------------|-----------------|
| Premiums | \$ 2,924 | \$ 2,488 | \$ 3,228 |
| Segregated fund deposits | 1,190 | 1,681 | 1,347 |
| Mutual fund deposits | 527 | 529 | 483 |
| ASO premium equivalents | 795 | 643 | 550 |
| Total premiums and deposits | \$ 5,436 | \$ 5,341 | \$ 5,608 |

Funds under Management

Funds under management increased by six per cent to \$33.6 billion as at December 31, 2001 from \$31.9 billion as at December 31, 2000, primarily due to recent acquisitions and organic growth of insurance and fixed-income savings product lines.

FUNDS UNDER MANAGEMENT

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|------------------------------|-----------|-----------|-----------|
| General fund | \$ 23,012 | \$ 21,097 | \$ 20,700 |
| Segregated funds | 9,279 | 9,394 | 8,341 |
| Mutual funds | 1,313 | 1,359 | 1,477 |
| Total funds under management | \$ 33,604 | \$ 31,850 | \$ 30,518 |

Moving Forward

The consolidation of the life insurance industry in Canada is well under way. Consolidation takes a variety of forms including acquisitions and strategic alliances. The Canadian Division has been and will continue to be active on both of these fronts in pursuing growth opportunities.

Canadian Division is committed to creating innovative products supported by professional and efficient service. In 2002, the Division will introduce changes to its individual insurance and wealth management products. Specifically, a family of mutual funds within a corporate structure allowing investors to switch between funds on a tax-deferred basis will be introduced early in the year. The acquisition of Commercial Union Life Insurance Company of Canada in 2001 provided a strong market position in the individual critical illness insurance line. The Division will expand its presence in this growing market by making its critical illness product available to all of its distribution channels. Canadian Division will continue to enhance its products in both the group benefits and group pensions large case marketplace by customizing solutions to meet the needs of each client. The acquisition of the Zurich Canada group life and health business in 2001 strengthened an already competitive position in the small case group life and health market, providing the Division with a solid platform on which to build. An automated process for proposal, issue, and other services is scheduled for delivery to this market segment in 2002.

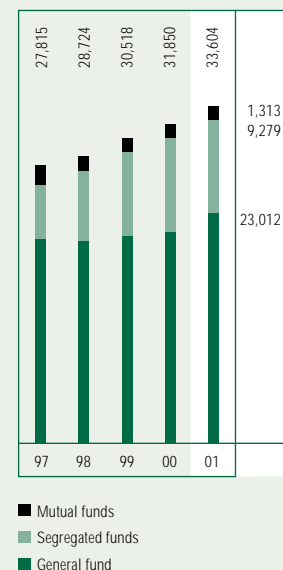
Leveraging technology is essential to providing superior customer service. The Division will continue its investment in technology in the front and back offices, with a commitment to Internet and e-commerce initiatives, which will offer new solutions and functionality. Plans in 2002 include Individual Wealth Management's introduction of an electronic "end-to-end" sales and service process, which is an Internet-based interface that allows advisors to complete the sales and policy service process electronically.

The Division will continue to identify and act upon opportunities to increase distribution points and tap the potential of traditional channels and the expanding Managing General Agent, strategic alliance and stockbroker channels.

Canadian Division will also continue to focus on managing expenses to ensure it remains competitive in its chosen markets. The Division will continue to exploit opportunities to reduce unit costs by maximizing internal efficiencies and entering into external service alliances where practical.

Funds under Management

(Canadian \$ in millions)



Asian Division

Manulife Financial has operated in Asia since 1897, beginning in Hong Kong and the Philippines, expanding into Singapore, Indonesia, Taiwan and, more recently, into Shanghai (China), Japan and Vietnam. Asian Division provides a wide range of wealth management and insurance products including pensions and mutual funds and individual and group life and health insurance.

Financial Performance

Asian Division net income increased by 65 per cent to \$317 million in 2001 from \$193 million in 2000. This increase was primarily due to the impact of the acquisition of policies and assets of Daihyaku in the second quarter of 2001, expense reductions in Japan and strong business growth in Hong Kong Individual Insurance. Expense management initiatives included the rationalization of branch and sales offices in Japan.

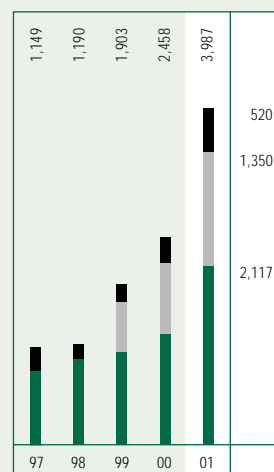
In 2001, Asian Division contributed 27 per cent to the Company's net income, 15 per cent of total premiums and deposits and as at December 31, 2001, accounted for 15 per cent of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|---|-----------------|-----------------|-----------------|
| Premium income | \$ 2,696 | \$ 1,911 | \$ 1,533 |
| Investment income | 447 | 353 | 310 |
| Other revenue | 119 | 80 | 69 |
| Total revenue | \$ 3,262 | \$ 2,344 | \$ 1,912 |
| Policy benefits | \$ 1,743 | \$ 1,379 | \$ 1,244 |
| General expenses | 818 | 667 | 484 |
| Commissions | 279 | 201 | 137 |
| Other | 59 | (109) | (80) |
| Total policy benefits and expenses | \$ 2,899 | \$ 2,138 | \$ 1,785 |
| Income before income taxes | \$ 363 | \$ 206 | \$ 127 |
| Income taxes | (46) | (13) | 12 |
| Net income | \$ 317 | \$ 193 | \$ 139 |

Premiums and Deposits

(Canadian \$ in millions)



■ Other
■ Japan
■ Hong Kong

Premiums and Deposits

Premiums and deposits increased by 62 per cent to \$4.0 billion in 2001 from \$2.5 billion in 2000. The increase was mainly due to premiums from the policies transferred from Daihyaku, Mandatory Provident Fund deposits in Hong Kong and growth in individual insurance premiums across the Division. In Japan, growth and efficiency were hindered in the early part of the year as agents focused on responding to customer enquiries relating to the transfer of business from Daihyaku. However, sales were stronger in the latter part of the year as the Company renewed its brand identity, aiming to simplify its presence in the Japanese market, and successfully introduced its first universal life product, Manuflex. In the rest of Asia, the agency force increased 59 per cent to 15,700 led by Vietnam, Shanghai, and Hong Kong.

PREMIUMS AND DEPOSITS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|------------------------------------|-----------------|-----------------|-----------------|
| Premiums | \$ 2,696 | \$ 1,911 | \$ 1,533 |
| Segregated fund deposits | 1,064 | 446 | 331 |
| Mutual fund deposits | 227 | 101 | 39 |
| Total premiums and deposits | \$ 3,987 | \$ 2,458 | \$ 1,903 |

Funds under Management

Funds under management increased by 136 per cent to \$22.0 billion in 2001 from \$9.3 billion in 2000, reflecting the April 2, 2001 transfer of assets from Daihyaku. Surrender and maturity activity, death and disability claims and other policy changes in the Daihyaku block of business reduced general fund assets in Japan during the year by approximately \$5.1 billion. Of this amount, approximately \$2.7 billion related to discontinued policy obligations existing prior to the date of acquisition, April 2, 2001, and as at that date, these obligations were reported in the general fund as Benefits payable and provision for unreported claims.

FUNDS UNDER MANAGEMENT

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|--------------------------------|-----------|----------|----------|
| General fund | \$ 19,087 | \$ 7,223 | \$ 5,763 |
| Segregated funds | 1,952 | 1,144 | 1,325 |
| Mutual and other managed funds | 977 | 952 | 164 |
| Total funds under management | \$ 22,016 | \$ 9,319 | \$ 7,252 |

Moving Forward

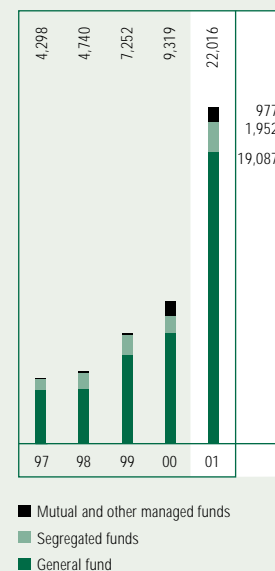
During 2001, Asian Division developed several platforms for future growth, including integrating more than one million active insurance policies transferred from Daihyaku, restructuring its Japanese operations and acquiring a license to operate in China's main southern city of Guangzhou. In 2002, further opportunities for strategic investment will be actively pursued.

In 2002, the Division's primary goal is to substantially expand its agency force, including its main distribution channel – its career agents. In Japan, alternative channels, such as stockbrokers, tax accountants and financial planners, will also be reviewed. Professionalism and productivity of the distribution channels will be enhanced, with an increased emphasis on recruitment and training. The Company's enhanced training programs and marketing materials will assist both customers and agents in satisfying clients' financial requirements.

Capitalizing on the Company's worldwide expertise in providing leading financial protection and wealth management products to meet customers' changing needs, new products will be introduced across Asia in 2002. In Japan, a newly approved variable annuity product, together with a recently introduced universal life insurance product, will broaden the choices available to agents and customers. Hong Kong will expand its savings product portfolio in 2002. Building on experience in Hong Kong, Singapore and Taiwan, unit-linked products will be introduced more widely across the region.

Operational and policy systems will be upgraded and rationalized to improve the efficiency of product development and customer service, while reducing unit costs. Additional expense management initiatives will be explored, including the sharing of best practices across the region, strategic procurement, outsourcing advantages and further development of Internet capabilities that service customers and agents.

Funds under Management
(Canadian \$ in millions)



Reinsurance Division

Established in 1984, the Reinsurance Division has grown to be one of North America's leading providers of risk management solutions, specializing in life retrocession. In the simplest terms, reinsurance refers to insurance purchased by an insurance company to cover all or part of certain risks on insurance policies issued by that company; retrocession is a form of reinsurance involving the assumption of risk from other reinsurers. Manulife's innovative products generate customer interest worldwide, with business written in North America, Europe, Asia and Australia. Through offices in Toronto, Germany and Barbados, the Reinsurance Division provides customer-focused solutions through the following lines of business: Life and Financial (including both retrocession of traditional risk and financial reinsurance); Property and Casualty (offering specialized non-traditional retrocession for P&C reinsurers); and Accident and Health (including personal and specialized coverages).

Financial Performance

Reinsurance Division's net income decreased to \$48 million in 2001 from \$108 million in 2000. This result included \$145 million in net provisions for anticipated claims arising from the terrorist events in the United States on September 11, 2001, partially offset by a \$30 million one-time reduction in tax expense associated with the recognition of a future tax asset in respect of previously unaccrued tax losses. Excluding the impact of these items, Reinsurance Division reported earnings of \$163 million, an increase of \$55 million over 2000, primarily reflecting improved claims experience in the Accident and Health reinsurance line.

In 2001, Reinsurance Division contributed four per cent to the Company's net income, three per cent of premiums and deposits and as at December 31, 2001, accounted for three per cent of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|------------------------------------|----------|--------|--------|
| Premium income | \$ 791 | \$ 768 | \$ 816 |
| Investment income | 231 | 194 | 169 |
| Other revenue | 38 | 22 | 11 |
| Total revenue | \$ 1,060 | \$ 984 | \$ 996 |
| Policy benefits | \$ 963 | \$ 762 | \$ 734 |
| General expenses | 40 | 35 | 33 |
| Commissions | 44 | 47 | 76 |
| Other | 11 | 8 | 8 |
| Total policy benefits and expenses | \$ 1,058 | \$ 852 | \$ 851 |
| Income before income taxes | \$ 2 | \$ 132 | \$ 145 |
| Income taxes | 46 | (24) | (40) |
| Net income | \$ 48 | \$ 108 | \$ 105 |

Premium Income

Premiums increased by three per cent to \$791 million in 2001 from \$768 million in 2000. Life and Financial reinsurance premiums increased by 11 per cent to \$438 million in 2001 from \$394 million in 2000, reflecting growth in premiums on inforce business. Property & Casualty reinsurance premiums were consistent with the strong sales reported in 2000. Accident and Health reinsurance premiums continued to decline in 2001 due to the Company's exit from the U.S. medical reinsurance market and from personal accident pools.

PREMIUMS

| (Canadian \$ in millions) | 2001 | 2000 | 1999 |
|-----------------------------------|--------|--------|--------|
| Life and Financial reinsurance | \$ 438 | \$ 394 | \$ 439 |
| Property and Casualty reinsurance | 249 | 256 | 140 |
| Accident and Health reinsurance | 104 | 118 | 237 |
| Total revenue | \$ 791 | \$ 768 | \$ 816 |

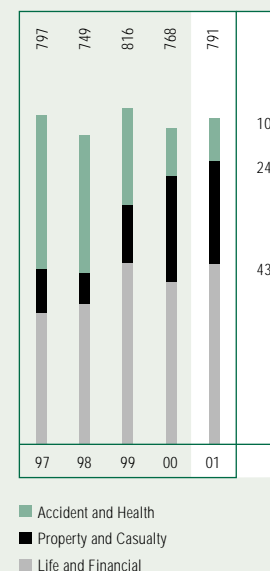
Moving Forward

Following the tragic events of September 11, 2001 and the sizeable losses that occurred in the insurance industry, the reinsurance market is experiencing a significant hardening of rates and terms of coverage, together with a reduction in available capacity. Manulife's Reinsurance Division, as a recognized market leader, is well positioned to capitalize on these market conditions and will look for opportunities to grow its business, while maintaining a strong focus on risk management.

In 2002, Reinsurance Division will concentrate on maintaining its leadership position in the Life retrocession market by more closely partnering with select clients whose business philosophy is aligned with its own. In the Life Financial reinsurance market, the Division expects to continue the strong business growth it has recently achieved as a result of being one of the most professional and responsive providers in this specialized field. The Property and Casualty line of business will continue to offer non-traditional product solutions to assist clients in meeting their financial and risk management needs. This business is well positioned to take advantage of improving market conditions. Reinsurance Division remains committed to providing accident reinsurance and expects to benefit from writing selective business in a market with significantly reduced capacity. Where appropriate from a risk management perspective, contracts in the Property and Casualty and Accident and Health lines of business will limit or exclude coverage for acts of terrorism.

Reinsurance Premiums

(Canadian \$ in millions)



Investments

Manulife Financial's Investment Operations manages assets for the Company's insurance and wealth management businesses and for external third party clients. Manulife is a significant player in all the asset classes that it manages, with securities management offices located around the globe.

The Operations

The Securities Management group manages securities in all major asset classes and major securities markets, utilizing a variety of investment styles. The group includes Elliott & Page Limited ("Elliott & Page") in Canada, Manulife International Investment Management Limited ("MIIML") in London, England as well as offices in Hong Kong and Japan. Today, Elliott & Page manages assets totaling almost \$50 billion for the Company as well as for institutional and individual investors. MIIML manages \$5.3 billion of general, segregated and mutual funds for the Company and third parties. The investment offices in Hong Kong and Japan manage assets of \$15.8 billion for the Company's growing Asian operations including the assets acquired during the Daihyaku transaction in April of this year. The Asset Origination group includes Mortgage and Real Estate operations located throughout North America, Manulife Capital and NAL Resources Management Limited with a portfolio size of \$13.1 billion.

General Fund Assets

Manulife Financial's general fund invested assets increased to \$74.8 billion in 2001 from \$56.6 billion in 2000. The goal in investing these assets is to maximize total returns while managing within the Company's risk management policies. Investment portfolios are widely diversified across asset classes and individual investment risks. The Company has established a target portfolio mix that takes into account the attributes of the liabilities, capital requirements and expectations for risk and return. The Company's asset mix, credit risks and market conditions are monitored continuously to ensure that they meet the Company's policies and liquidity requirements. Asset liability matching policies ensure that any changes in asset values attributable to interest rate movements and foreign exchange fluctuations are substantially offset by changes in the related liability.

Bonds

The Company's bond portfolio represents 62 per cent of invested assets as at December 31, 2001. This is a four percentage point increase from the prior year, reflecting the increased bond holdings as a result of the Daihyaku transaction. The portfolio is monitored closely to enhance yields while optimizing the matching of asset cash flows to the estimated liability cash flows. The bond portfolio is very high quality with 78 per cent rated "A" or higher and only three per cent rated below investment grade. Government-related securities comprised 41 per cent of the total bond portfolio at year-end, compared to 39 per cent for year-end 2000.

Mortgages and Real Estate

As at December 31, 2001, 10 per cent of invested assets consisted of mortgages, with 65 per cent of the portfolio in Canada and 35 per cent in the U.S. Commercial mortgages accounts for 94 per cent of total mortgages. The mortgage portfolio is diversified by location, property type and mortgagor, and consists almost entirely of first mortgages. The value of government-insured loans was three per cent of the total mortgage portfolio. All mortgages are secured by real properties.

As at December 31, 2001, five per cent of the Company's invested assets were held in real estate, a decrease of one percentage point from the prior year. The portfolio focuses on top quality office buildings located in superior downtown and large suburban markets across North America. It is diversified by location and property type, with 61 per cent located in the U.S., 38 per cent in Canada and one per cent in Asia. Commercial office properties represented 72 per cent of the portfolio, with the remainder split among residential, retail, industrial and other property classifications. The occupancy rates of our properties exceed that of other comparable properties, thereby contributing to the superior yield earned by this asset class.

Stocks

As at December 31, 2001, stocks represented nine per cent of invested assets, of which a portion is indexed. The strategy for actively managed stocks is to identify and acquire undervalued stocks of companies with strong balance sheets and good earnings potential and these assets have outperformed their respective indices. The portfolio is diversified by industry sector and issuer and consists almost entirely of publicly traded common stocks. As at December 31, 2001, the stock portfolio invested 39 per cent in U.S. issuers, 33 per cent in Canadian issuers, 21 per cent in Asian issuers and seven per cent in other issuers.

Impaired Assets

Allowance for losses on invested assets is established when an asset or portfolio of assets becomes impaired as a result of deterioration in credit quality to the extent that there is no longer assurance of timely realization of the carrying value of assets and related investment income. The carrying value of an impaired asset is reduced to net realizable value at the time of recognition of impairment. The corresponding provision is charged to income.

At December 31, 2001, the level of impaired assets, net of allowance for losses, was \$186 million, primarily composed of U.S. bonds and a modest amount of mortgages. Net impaired assets as a percentage of total invested assets decreased to 0.25 per cent in 2001 from 0.39 per cent in 2000. This decrease was a result of an \$18.1 billion increase in invested assets and a decrease in net impaired assets. Total allowance for losses increased to \$208 million from \$162 million.

Overall, the Company remains conservative in its provisioning for credit losses and the level of impaired assets continued to be minimal. However, no assurance can be given that the allowances taken will in fact be adequate to cover all future losses or that additional provisions or asset write-downs will not be required in the future.

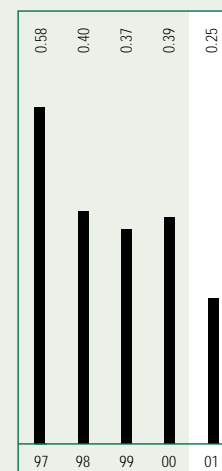
Manulife Financial's calculation of actuarial liabilities also includes a more general provision for future losses from asset defaults. The Company follows actuarial principles to establish reserves for future losses, taking into account normal historical levels and future expectations. As at December 31, 2001, the reserve for future credit losses included within actuarial liabilities increased to \$1,525 from \$1,221 as at December 31, 2000.

Moving Forward

The goal of Investment Operations is to consistently achieve superior asset returns with prudent risk management. The strategy combines traditional asset management techniques with capital markets and risk management expertise. Investment Operations will continue to include a portfolio of non-traditional assets in order to enhance yields and provide a competitive advantage. An important focus for Investment Operations is to grow assets under management, with emphasis on segregated and mutual funds, as well as managing assets for third parties.

Net Impaired Assets

(As a per cent of net invested assets)



Risk Management

Manulife Financial is exposed to a variety of risks across its many business operations. The objective of risk management at Manulife Financial is to ensure the Company's overall risk is maintained at an acceptable level and that appropriate returns are earned for the level of risk assumed. The Audit Committee of the Board of Directors has responsibility to oversee the risk management activities of the Company by (1) approving, and reviewing compliance with, risk management policies developed by senior management, and (2) ensuring that all major areas of risk arising from the Company's business activities are identified, assessed and monitored by senior management.

Risk management programs at Manulife Financial are overseen by the Corporate Risk Management Committee, comprised of senior management with accountabilities for administering the Company's global risk management programs, and headed by the Company's Chief Risk Officer. Risk management activities are executed within each business unit and operating area, under the umbrella of an enterprise-wide risk management framework established by the Corporate Risk Management Committee. This framework incorporates policies and procedures designed to facilitate the evaluation and management of risks across all of the Company's business operations and to achieve consistent risk management practices in all business units and operating areas. All risk management policies, procedures and strategies are reviewed periodically to ensure their continued appropriateness. All key risks are reviewed by the Corporate Risk Management Committee regularly and reported to the Audit Committee quarterly.

The Company has classified its risk management programs into eight categories: asset liability management, liquidity management, foreign currency management, credit risk management, product design and pricing risk management, underwriting and claims management, derivatives risk management, and operational risk management.

Asset Liability Management

The Company's asset liability management program is designed to maximize long-term economic value subject to risk tolerances and constraints. The Company segments product liabilities with similar characteristics and establishes investment guidelines for each segment reflecting asset mix, asset quality, and interest rate exposure targets and limits. For each product liability segment, the Company's policy is to invest in assets with characteristics that closely match the characteristics of the liabilities. As a result, products offering interest rate and term guarantees, such as annuities and pension products, are supported predominantly by bonds and mortgages. Products that allow adjustments to credited interest rates or premiums, such as participating whole life and universal life insurance, are supported by a broader range of assets, including real estate and equities. Actual positions related to asset mix, asset quality and interest rate exposure are monitored against targets and limits regularly and are reported to the Corporate Risk Management Committee monthly and the Audit Committee quarterly.

Interest Rate Risk

The Company may be exposed to economic loss if asset and liability cash flows are not closely matched with respect to timing and amount, and interest rates change. To manage this exposure, the Company has established interest rate risk management programs for each product liability segment designed to keep potential losses within acceptable limits. Policies and procedures, including authorities and accountabilities for managing and monitoring interest rate risk, are clearly defined, the duration of assets and liabilities are matched within prescribed guidelines, asset and liability positions are updated daily for material business lines, and interest rate exposure is reported to senior management. The Company employs a variety of sophisticated analytical techniques designed to quantify and manage interest rate risk, including cash flow gaps, durations, partial durations, convexity, value at risk and surplus sensitivity to predetermined scenarios.

The Company's annuity and pension products represent the business that is most sensitive to interest rate risk. For this business, an immediate and parallel decrease of one per cent in interest rates across all maturities in Canada, the United States and Hong Kong would have decreased net income and equity by \$6 million as at December 31, 2001 (increase of \$7 million as at December 31, 2000).

Market Risk

The Company may be exposed to losses resulting from fluctuations in stock market or real estate prices impacting the return on general fund assets, fee income earned on market-based funds and liabilities associated with investment related guarantees on segregated funds. The Company's investment-related guarantees include maturity and death benefit guarantees on its Canadian segregated fund contracts, minimum death and income benefit guarantees on its U.S. variable annuity contracts, and minimum death benefit guarantees through reinsurance assumed under several treaties with third parties.

The Company has developed policies and procedures intended to limit the risk from stock market fluctuations that are associated with investment related guarantees. These policies and procedures incorporate established limits for the economic value at risk associated with these guarantees, policies related to product design and pricing, and utilization of reinsurance programs. The Company monitors this equity risk exposure against approved limits, using both stochastic modeling techniques and sensitivity to predetermined stress tests, and reports the results to the Corporate Risk Management Committee and Audit Committee on a quarterly basis.

The direct stock and real estate holdings in the general fund represent a small fraction of the assets under management by the Company and are typically held in surplus or used to support long-term general fund policy liabilities. Where used to support policy liabilities, stocks and real estate represent only a small portion of the overall asset mix for the liability segment. Equity holdings are diversified by industry type and corporate connection, while real estate holdings are diversified by property type and location.

Liquidity Management

Liquidity risk is the risk that the Company will not have access to sufficient funds to meet both its expected liabilities as they become due, and its unexpected cash demands. The Company's overall liquidity management program is comprised of policies and procedures designed to ensure that adequate liquidity is available. These policies and procedures include maintaining a minimum level of liquidity, managing the liquidity centrally by forecasting and monitoring actual cash movements on a daily basis, maintaining investment portfolios with adequate levels of marketable investments, maintaining access to other sources of liquidity, such as commercial paper funding and committed standby bank credit facilities, and designing products to reduce the possibility of unexpected liquidity demands.

The Company's policy is to maintain a minimum level of both operating and strategic liquidity. The operating liquidity is maintained at or above the level of one month's operating cash outflows. Strategic liquidity is measured under both immediate (within one month) and ongoing (within one year) stress scenarios, based on an industry-accepted model. Under this model, the Company's policy is to maintain liquid assets at a level above actuarial liabilities and maturing debt obligations. The liquid assets are discounted to reflect their convertibility to cash, and the actuarial liabilities are adjusted to reflect their potential for withdrawal.

The following table shows the Company's discounted liquid assets and adjusted liabilities, as calculated under the Company's strategic liquidity model. Total maturing debt obligations due in the next 24 months were \$220 as at December 31, 2001 (2000 – nil).

| | 2001 | | 2000 | |
|---|--------------------|------------------|--------------------|------------------|
| | Immediate Scenario | Ongoing Scenario | Immediate Scenario | Ongoing Scenario |
| (Canadian \$ in millions) | | | | |
| Discounted market value of liquid assets: | | | | |
| Cash and short-term investments | \$ 4,761 | \$ 4,761 | \$ 3,480 | \$ 3,480 |
| Marketable securities | | | | |
| Bonds | 43,555 | 44,957 | 31,287 | 32,265 |
| Stocks | 4,417 | 5,352 | 3,319 | 4,024 |
| Less: other adjustments | (1,470) | (2,969) | (1,053) | (1,856) |
| Liquid assets, as adjusted | \$ 51,263 | \$ 52,101 | \$ 37,033 | \$ 37,913 |
| Less: actuarial liabilities, as adjusted | (9,016) | (12,451) | (7,222) | (9,710) |
| Available liquidity | \$ 42,247 | \$ 39,650 | \$ 29,811 | \$ 28,203 |
| Calculated liquidity ratio | 569% | 418% | 513% | 390% |

Foreign Currency Management

The Company may be exposed to losses resulting from adverse movements in foreign exchange rates because it reports financial results in Canadian dollars and manages operations in many currencies, principally Canadian, U.S. and Hong Kong dollars and Japanese yen. To manage the risk, the Company has a policy of matching the currency of its assets with the currency of the liabilities these assets support. The Company also has a policy of generally matching the currency of its equity with the currency of its liabilities, designed to limit the impact of changes in foreign exchange rates on the Company's equity to liability and MCCR ratios. The Company's foreign currency policy also establishes the currencies in which the Company is authorized to transact. Foreign currency exchange controls imposed by jurisdictions in which the Company conducts business currently have no material impact on the Company's business or operations.

The policy establishes limits to foreign currency exposure as measured by Value at Risk ("VaR"), a risk management methodology based on statistical analysis. The model employed by Manulife Financial is based on J.P. Morgan's RiskMetrics, which is an accepted methodology in the financial services industry. The VaR methodology measures the possible impact on the Company's MCCR and equity due to changes in foreign currency rates. The Company's foreign currency exposure is monitored both on the basis of VaR and on sensitivities to predetermined scenarios regularly, and is reported to the Corporate Risk Management Committee and the Audit Committee quarterly.

As at December 31, 2001, a one cent increase in the Canadian dollar relative to the U.S. dollar would have generated a \$37 million decrease in equity, while a one per cent increase in the Canadian dollar relative to the Japanese yen would have generated a \$6 million decrease in equity.

Credit Risk Management

The Company may be exposed to potential losses if debtors, counterparties or intermediaries are unable or unwilling to fulfill their obligations. The Company's exposure to this risk is controlled through a risk management program incorporating policies and procedures that emphasize the quality and diversification of the Company's investment portfolio and the selection of counterparties and intermediaries.

The Company's investment policies establish limits on concentration by issuer, intercorporate relationships, rating, industry sector and geographic region. All personnel are subject to limits on their ability to commit the Company to credit instruments. To manage the exposure to credit risk related to reinsurers, the Company generally only enters into arrangements with properly licensed, well-established and financially strong companies and has established counterparty exposure limits and minimum credit-rating criteria. Credit and commitment exposure is monitored monthly by the Credit Risk Committee, comprised of senior management from the investment and corporate operations and headed by the Chief Credit Officer.

Product Design and Pricing Risk Management

The process of pricing products requires estimates of many factors, including future investment yields, mortality and morbidity experience, expenses, rates of policy termination and taxes. Pricing risk is the risk that actual experience will not develop as estimated in pricing. While many products are designed to allow adjustments to premiums or benefits for experience variations, other products do not allow for such adjustments. The Company's product design and pricing risk management program incorporates standards and guidelines intended to ensure that the level of risk borne by the Company is within acceptable limits. The Company manages pricing risk by setting standards and guidelines that cover pricing methods and assumption setting, the use of pricing software, setting profit margin objectives, requiring scenario analysis, documentation and pricing approval processes. The pricing risk management program includes completion of an annual compliance self-assessment by all business units and the internal audit of business unit pricing on a rotating basis, with all units audited over a five-year cycle. The chief financial officer of each business unit is responsible for approving the design and pricing of each product to ensure the Company's standards and guidelines are met. The Appointed Actuary must approve any pricing or product design change that introduces significant new risks or design features.

Underwriting and Claims Management

The Company is exposed to potential financial losses resulting from changes in the health and life expectancy of policyholders. The Company's underwriting and claims risk management program incorporates standards for setting claims experience assumptions in pricing and valuation, ongoing experience monitoring programs, underwriting policies and procedures, claims adjudication policies and procedures, established policy retention limits and use of reinsurance programs. Concentration risk is mitigated by diversifying internationally, and across a wide range of products and cases.

Claims trends are monitored on an ongoing basis. Manulife Financial uses both its own and industry experience to develop estimates of future claims used in pricing and in setting actuarial liabilities. The Company establishes appropriate criteria to determine the insurability of applicants as well as managing exposure to large claims. Underwriting standards have been established to manage the initial insurability of applicants and claims adjudication standards are in place to assist in managing group life and health claims. Renewal underwriting standards are in place for business that renews on a periodic basis. Underwriting standards are reviewed periodically and approved by the Appointed Actuary. Periodic reviews are also performed to ensure compliance with these standards.

Exposure to large claims is managed by establishing policy retention limits that vary by market and geographic location. Policy retention limits are reviewed periodically and approved by the Chief Executive Officer. Coverage in excess of these limits is reinsured with other companies. Reinsurance ceded does not discharge the Company's liability as the primary insurer. As a result of ceded reinsurance, actuarial liabilities were reduced by \$2.0 billion as at December 31, 2001. In addition, the Company carries coverages to insure against catastrophic events that entail aggregate claims in excess of \$30 million to a maximum of \$150 million.

Derivatives Risk Management

The Company uses derivatives, including foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options, to manage exposure to interest rate, foreign currency and equity fluctuations. In limited circumstances and when opportunities exist within asset liability matching and/or risk management parameters, the Company may use derivatives to achieve higher yields than those available from more traditional assets. The Company has developed policies and procedures intended to limit the risk associated with the use of derivatives. These include specific limits on the size of derivative transactions and authorization limits for specific personnel. In order to manage the risk of counterparty default, the Company has established counterparty exposure limits in respect of both the notional amount outstanding under derivative transactions with a counterparty and the daily mark-to-market amount of the counterparty's exposure under derivative transactions with the Company. All derivative positions relative to these limits are monitored daily and reported to senior management monthly. In addition, all counterparties are required to meet minimum credit-rating criteria. All limits contained in the Company's derivative policies are subject to regular review by senior management for continued appropriateness. The Company's total derivative exposure is reported regularly to the Board of Directors. As at December 31, 2001, the Company had \$12.0 billion in notional amount of derivatives outstanding, constituting a credit risk equivalent of \$487 million. This compares to a notional amount of \$8.7 billion and a credit risk equivalent amount of \$257 million as at December 31, 2000. See notes 3(e) and 15 to the consolidated financial statements.

Operational Risk Management

The business operations of the Company involve a wide variety of activities that are subject to regulation in many jurisdictions. These include product design, sales and marketing practices, underwriting practices, asset management, financial reporting, employment practices and employee conduct. The Company's compliance management program is designed to facilitate and monitor compliance functions, providing assurance to senior management and the Audit Committee that the Company's regulatory obligations are being met. The program is intended to achieve awareness of all laws that affect the Company's businesses and the status of compliance with those laws. The program is supported by a reporting process, which establishes accountability for compliance throughout the Company. An independent audit of compliance controls throughout the Company is carried out by the internal audit function.

Other operating risks faced by the Company include legal, tax, political, regulatory, market conduct, competitive, environmental and business continuity risks. Some of these risks are more pronounced because the Company operates in a number of different jurisdictions. Senior management has established policies and procedures to ensure operational risks are identified and effective internal controls are in place to manage operational risks. Business units are responsible for identifying risks and managing them day-to-day in accordance with these policies, processes and controls. Senior management is apprised of these risks and the Audit Committee is updated at least quarterly. Internal auditors audit the effectiveness of internal controls and report to senior management and the Audit Committee semi-annually. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the annual financial statements and report to the Audit Committee annually on matters that come to their attention as a result of such review.

Responsibility for Financial Reporting

The accompanying consolidated financial statements of Manulife Financial Corporation are the responsibility of management and have been approved by the Board of Directors. It is also the responsibility of management to ensure that all information in the annual report to shareholders is consistent with these consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and the requirements of the Superintendent of Financial Institutions (Canada). Appropriate accounting policies and estimates are also used in the determination of information using United States generally accepted accounting principles. When alternative accounting methods exist, or when estimates and judgement are required, management has selected those amounts that present the Company's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained, consistent with reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of policy liabilities are appropriate to the circumstances and that such reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with Canadian generally accepted auditing standards. Ernst & Young LLP has full and free access to the Audit Committee.

Signed,

Dominic D'Alessandro
President and Chief Executive Officer

Signed,

Peter Rubenovitch
Executive Vice President and Chief Financial Officer

Toronto, Canada
February 5, 2002

Appointed Actuary's Report to the Shareholders and Directors

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 2001 and 2000 and their change in the Consolidated Statements of Operations for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Signed,

Geoff I. Guy, F.C.I.A.
Executive Vice President and Appointed Actuary

Toronto, Canada
February 5, 2002

Auditors' Report to the Shareholders and Directors

We have audited the Consolidated Balance Sheets of Manulife Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2001 and 2000 and the Consolidated Statements of Operations, Equity, Cash Flows and Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 2001 and 2000 and the results of the

Company's operations and cash flows and the changes in the net assets of its Segregated Funds for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions (Canada).

Signed,

Ernst & Young LLP
Chartered Accountants

Toronto, Canada
February 5, 2002

Consolidated Balance Sheets

| (Canadian \$ in millions) | As at December 31 | 2001 | 2000 |
|-------------------------------|---|------------------|------------------|
| ASSETS | Invested assets (note 3) | | |
| | Bonds | \$ 46,070 | \$ 33,270 |
| | Mortgages | 7,902 | 7,174 |
| | Stocks | 6,964 | 4,621 |
| | Real estate | 3,484 | 3,262 |
| | Policy loans | 4,644 | 3,616 |
| | Cash and short-term investments | 4,995 | 3,783 |
| | Other investments | 693 | 884 |
| | Total invested assets | \$ 74,752 | \$ 56,610 |
| | Other assets | | |
| | Accrued investment income | \$ 1,041 | \$ 834 |
| | Outstanding premiums | 482 | 487 |
| | Future income taxes (note 5) | 517 | 515 |
| | Miscellaneous | 1,821 | 1,621 |
| | Total other assets | \$ 3,861 | \$ 3,457 |
| | Total assets | \$ 78,613 | \$ 60,067 |
| | Segregated funds net assets | \$ 59,206 | \$ 54,908 |
| LIABILITIES AND EQUITY | Actuarial liabilities (note 4) | \$ 54,690 | \$ 41,384 |
| | Benefits payable and provision for unreported claims | 2,411 | 1,800 |
| | Policyholder amounts on deposit | 2,702 | 1,371 |
| | Deferred realized net gains (note 3) | 3,583 | 3,434 |
| | Banking deposits | 769 | 592 |
| | Other liabilities | 2,881 | 2,632 |
| | | \$ 67,036 | \$ 51,213 |
| | Subordinated debt (note 6) | 1,418 | 588 |
| | Non-controlling interest in subsidiaries (note 7) | 1,064 | 299 |
| | Trust preferred securities issued by subsidiaries (note 8) | 802 | 756 |
| | Equity | | |
| | Participating policyholders' equity | 62 | 54 |
| | Shareholders' equity | | |
| | Common shares (note 9) | 614 | 612 |
| | Shareholders' retained earnings | 7,617 | 6,545 |
| | Total equity | \$ 8,293 | \$ 7,211 |
| | Commitments and contingencies (note 13) | | |
| | Total liabilities and equity | \$ 78,613 | \$ 60,067 |
| | Segregated funds net liabilities | \$ 59,206 | \$ 54,908 |

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Signed,

Dominic D'Alessandro
President and
Chief Executive Officer

Signed,

Arthur R. Sawchuk
Chairman of the
Board of Directors

Consolidated Statements of Operations

| (Canadian \$ in millions, except per share amounts) | For the years ended December 31 | 2001 | 2000 |
|---|---------------------------------|------------------|------------------|
| Revenue | | | |
| Premium income | | \$ 10,247 | \$ 8,515 |
| Investment income (note 3(b)) | | 4,479 | 4,350 |
| Other revenue | | 1,505 | 1,287 |
| Total revenue | | \$ 16,231 | \$ 14,152 |
| Policy benefits and expenses | | | |
| To policyholders and beneficiaries | | | |
| Death and disability benefits | | \$ 3,186 | \$ 2,480 |
| Maturity and surrender benefits | | 4,171 | 2,500 |
| Annuity payments | | 1,307 | 1,235 |
| Policyholder dividends and experience rating refunds | | 900 | 859 |
| Net transfers to segregated funds | | 1,470 | 1,439 |
| Change in actuarial liabilities (note 4) | | (208) | 822 |
| General expenses | | 2,478 | 2,191 |
| Commissions | | 1,133 | 1,086 |
| Interest expense | | 257 | 191 |
| Premium taxes | | 105 | 96 |
| Non-controlling interest in subsidiaries | | 4 | (151) |
| Trust preferred securities issued by subsidiaries | | 65 | 63 |
| Total policy benefits and expenses | | \$ 14,868 | \$ 12,811 |
| Income before income taxes | | \$ 1,363 | \$ 1,341 |
| Income taxes (note 5) | | (196) | (273) |
| Net income | | \$ 1,167 | \$ 1,068 |
| Net income (loss) attributed to participating policyholders | | \$ 8 | \$ (7) |
| Net income attributed to shareholders | | \$ 1,159 | \$ 1,075 |
| Net income | | \$ 1,167 | \$ 1,068 |
| Weighted average number of common shares outstanding (in millions) | | 482 | 483 |
| Weighted average number of diluted common shares outstanding (in millions) | | 486 | 484 |
| Basic earnings per share | | \$ 2.40 | \$ 2.22 |
| Diluted earnings per share | | \$ 2.38 | \$ 2.22 |

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Consolidated Statements of Equity

| (Canadian \$ in millions) For the years ended December 31 | Participating | | 2001 | 2000 |
|--|---------------|-----------------|-----------------|-----------------|
| | Policyholders | Shareholders | | |
| Operating retained earnings | | | | |
| Balance, January 1 | \$ 54 | \$ 6,414 | \$ 6,468 | \$ 5,783 |
| Net income | 8 | 1,159 | 1,167 | 1,068 |
| Shareholder dividends | – | (231) | (231) | (193) |
| Issuance costs | – | (12) | (12) | – |
| Purchase and cancellation of common shares (note 9) | – | – | – | (190) |
| Balance, December 31 | \$ 62 | \$ 7,330 | \$ 7,392 | \$ 6,468 |
| Currency translation account | | | | |
| Balance, January 1 | \$ – | \$ 131 | \$ 131 | \$ 43 |
| Change during the year | – | 156 | 156 | 88 |
| Balance, December 31 | \$ – | \$ 287 | \$ 287 | \$ 131 |
| Retained earnings | \$ 62 | \$ 7,617 | \$ 7,679 | \$ 6,599 |
| Common shares | | | | |
| Balance, January 1 | \$ – | \$ 612 | \$ 612 | \$ 628 |
| Common shares issued on exercise of options (note 9) | – | 2 | 2 | – |
| Purchase and cancellation of common shares (note 9) | – | – | – | (16) |
| Balance, December 31 | \$ – | \$ 614 | \$ 614 | \$ 612 |
| Total equity | \$ 62 | \$ 8,231 | \$ 8,293 | \$ 7,211 |

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

| (Canadian \$ in millions) | For the years ended December 31 | 2001 | 2000 |
|--|---------------------------------|-------------------|------------------|
| Operating activities | | | |
| Operating cash inflows | | | |
| Premiums and annuity considerations | | \$ 10,255 | \$ 8,385 |
| Investment income received | | 3,839 | 3,670 |
| Other revenue | | 1,471 | 1,287 |
| Total operating cash inflows | | \$ 15,565 | \$ 13,342 |
| Operating cash outflows | | | |
| Benefit payments | | \$ 10,981 | \$ 5,969 |
| Insurance expenses and taxes (notes 5 and 6) | | 3,980 | 3,624 |
| Dividends paid to policyholders | | 900 | 859 |
| Net transfers to segregated funds | | 1,470 | 1,439 |
| Change in other assets and liabilities | | 966 | (460) |
| Total operating cash outflows | | \$ 18,297 | \$ 11,431 |
| Cash provided by (used in) operating activities | | \$ (2,732) | \$ 1,911 |
| Investing activities | | | |
| Purchases and mortgage advances | | \$ (48,468) | \$ (33,882) |
| Disposals and repayments | | 39,718 | 33,600 |
| Cash received from assumptions and acquisition of businesses, net of cash paid | | 10,874 | - |
| Net cash proceeds on disposition of Seamark Asset Management Ltd. | | 29 | - |
| Cash provided by (used in) investing activities | | \$ 2,153 | \$ (282) |
| Financing activities | | | |
| Increase (decrease) in repurchase agreements and securities sold but not yet purchased | | \$ 273 | \$ (559) |
| Shareholder dividends | | (231) | (193) |
| Borrowed (repaid) funds, net | | 32 | (1) |
| Issue of subordinated debt, net (note 6) | | 796 | - |
| Issue of Manulife Financial Capital Securities, net (note 7) | | 988 | - |
| Common shares issued on exercise of options (note 9) | | 2 | - |
| Purchase and cancellation of common shares (note 9) | | - | (206) |
| Cash provided by (used in) financing activities | | \$ 1,860 | \$ (959) |
| Cash and short-term investments | | | |
| Increase during the year | | \$ 1,281 | \$ 670 |
| Balance, January 1 | | 3,480 | 2,810 |
| Balance, December 31 | | \$ 4,761 | \$ 3,480 |
| Composition of cash and short-term investments | | | |
| Beginning of year | | | |
| Gross cash and short-term investments | | \$ 3,783 | \$ 3,047 |
| Net payments in transit, included in other liabilities | | (303) | (237) |
| Net cash and short-term investments, January 1 | | \$ 3,480 | \$ 2,810 |
| End of year | | | |
| Gross cash and short-term investments | | \$ 4,995 | \$ 3,783 |
| Net payments in transit, included in other liabilities | | (234) | (303) |
| Net cash and short-term investments, December 31 | | \$ 4,761 | \$ 3,480 |

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Segregated Funds

Consolidated Statements of Net Assets

| (Canadian \$ in millions) | As at December 31 | 2001 | 2000 |
|---------------------------|---|------------------|------------------|
| | Investments, at market values | | |
| | Bonds | \$ 2,405 | \$ 2,567 |
| | Stocks | 53,511 | 49,880 |
| | Real estate | 2 | 2 |
| | Cash and short-term investments | 3,390 | 2,428 |
| | Accrued investment income | 9 | 16 |
| | Other assets (liabilities), net | (111) | 15 |
| | Total segregated funds net assets, December 31 | \$ 59,206 | \$ 54,908 |
| | Composition of segregated funds net assets: | | |
| | Held by Policyholders | \$ 59,052 | \$ 54,705 |
| | Held by the Company | 154 | 203 |
| | Total segregated funds net assets, December 31 | \$ 59,206 | \$ 54,908 |

Segregated Funds

Consolidated Statements of Changes in Net Assets

| (Canadian \$ in millions) | For the years ended December 31 | 2001 | 2000 |
|---------------------------|---|------------------|------------------|
| | Additions | | |
| | Deposits from policyholders | \$ 14,044 | \$ 14,777 |
| | Net realized and unrealized investment losses | (7,868) | (5,977) |
| | Interest and dividends | 1,505 | 2,613 |
| | Net transfers from general fund | 1,470 | 1,439 |
| | Funds assumed and acquired (note 11) | 287 | – |
| | Currency revaluation | 2,697 | 1,793 |
| | Total additions | \$ 12,135 | \$ 14,645 |
| | Deductions | | |
| | Payments to policyholders | \$ 6,993 | \$ 7,990 |
| | Management and administrative fees | 844 | 802 |
| | Total deductions | \$ 7,837 | \$ 8,792 |
| | Net increase to segregated funds for the year | \$ 4,298 | \$ 5,853 |
| | Segregated funds net assets, January 1 | 54,908 | 49,055 |
| | Segregated funds net assets, December 31 | \$ 59,206 | \$ 54,908 |

The accompanying notes to these consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

(Canadian \$ in millions unless otherwise stated)

Note 1 Nature of Operations and Significant Accounting Policies

Manulife Financial Corporation is a publicly traded stock life insurance company and the holding company of The Manufacturers Life Insurance Company ("Manufacturers Life"), a Canadian life insurance company. Manulife Financial Corporation and its subsidiaries ("Manulife Financial" or the "Company") provide a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada and Asia, to institutional customers.

Manulife Financial Corporation is registered under the Insurance Companies Act (Canada) ("ICA"), which requires that financial statements be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including the accounting requirements of the Office of the Superintendent of Financial Institutions (Canada) ("OSFI"). None of the accounting requirements of OSFI is an exception to Canadian GAAP. The preparation of financial statements, in conformity with GAAP, requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the consolidated financial

statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation

Manulife Financial Corporation consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

b) Invested assets

Under GAAP for life insurance companies, the invested assets held by the Company are accounted for through a variety of methods. These methods are summarized as follows:

| | Carrying value | Recognition of realized gains and losses on normal business activities | Recognition of impairment |
|----------------------------|--|--|--|
| Bonds | At amortized cost less an allowance for specific losses. | Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold. | Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. In such cases, the bond is written down to its net realizable value and the charge is recorded in income in the period the impairment is recognized. |
| Mortgages and Loans | At amortized cost less repayments and an allowance for specific losses. | Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage or loan sold. | Impairment is recognized on a specific mortgage or loan when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages and loans are carried at their estimated realizable value, determined for each asset by discounting the expected future cash flows at the original interest rate inherent in the asset. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at either the fair value of any security underlying the mortgage or loan, net of expected costs of realization and any amounts legally required to be paid to borrowers, or at observable market prices for the mortgages or loans. Mortgages and loans are classified as impaired whenever payments are three months or more in arrears or if there is a provision against the mortgage or loan. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately. |
| Stocks | On a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum. | Deferred and brought into income at the rate of 15% of unamortized deferred realized gains and losses each year. | Specific stocks are written down to market value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. |
| Real Estate | On a moving average market basis whereby carrying values are adjusted towards market value at 10% per annum. | Deferred and brought into income at the rate of 10% of unamortized deferred realized gains and losses each year. | Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary. |
| Policy Loans | At their unpaid balance. | Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made. | Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made. |

On disposition of an impaired asset, the allowance is written off against the related asset. Once established, an allowance against temporary impairment of bonds or mortgages is reversed only if the conditions that caused the impairment no longer exist.

In addition to allowances against the carrying value of impaired assets, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities.

c) Actuarial liabilities

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future policy benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies in force. Manulife Financial Corporation's Appointed Actuary is responsible for determining the amount of actuarial liabilities that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with Canadian generally accepted actuarial practices, liabilities have been determined using the Canadian Asset Liability Method (CALM).

d) Other investments

Included in other investments are investments in oil and gas properties, equipment leases, limited partnerships, commercial loans, investments in segregated and mutual funds and derivative assets.

e) Miscellaneous assets

Included in miscellaneous assets are amounts due from reinsurers and capital assets. The latter are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to ten years.

f) Segregated funds

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders, with the Company assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum maturity value guarantees and minimum income benefit guarantees. The liability associated with these minimum guarantees is recorded in actuarial liabilities in the general fund of the Company.

g) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the Consolidated Balance Sheet dates. Revenue and expenses are translated at the average exchange rates prevailing during the year. Unrealized foreign currency translation gains and losses on investments in self-sustaining operations are recorded in equity. Translation gains and losses on disposition of investments in self-sustaining operations are included in income.

h) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates substantially enacted as at the Consolidated Balance Sheet dates. The income tax provision is comprised of two components: current income taxes and future income

taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting carrying value of assets and liabilities and their respective tax bases. A future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for the excess.

i) Pensions and other post-employment benefits

The Company maintains a number of pension plans for its eligible employees and agents. Assets for each plan are held by independent trustees and are carried at market values.

The defined contribution plans were established in 1998 and provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution benefits is the required contribution provided by the Company in exchange for the services of employees rendered during the period.

The defined benefit plans provide pension benefits based on length of service and final average earnings. The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services. Actuarial gains and losses are amortized to income over the estimated average remaining service lives of plan members.

The Company also provides supplementary pension, health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to earnings over the employees' years of service to their date of full entitlement.

j) Derivatives

The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments. These derivatives are designated and effective as hedges, as there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on these derivatives are accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions established as hedges but no longer considered hedges are included in income from the date at which they are no longer considered to be hedges. Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense, respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in other investments and other liabilities, respectively, and deferred realized net gains are presented as such in the Consolidated Balance Sheets.

k) Goodwill

Goodwill represents the excess of the cost of businesses acquired over fair values assigned to the related identifiable net assets and is amortized on a straight-line basis over the expected benefit periods of up to 20 years. Unamortized goodwill is reviewed periodically for impairment by considering factors such as returns of the related business, taking into account the risk associated with the investment. When goodwill is determined to be impaired, a charge is then recorded in income.

l) Premium income and related expenses

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due.

When premiums are recognized, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with such revenue.

m) Stock-based compensation

The Company provides compensation to certain employees in the form of stock options and deferred share units. The intrinsic value method of

accounting is used and as such, no expense is recognized for stock options as the exercise price thereon is set at the closing market price of Manulife Financial Corporation common shares on The Toronto Stock Exchange on the business day immediately preceding the award grant date. When options are exercised, the proceeds received by the Company are credited to share capital.

Note 2 Changes in Accounting Policies and Newly Issued Accounting Policies

a) Earnings per share

In December 2000, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3500, "Earnings Per Share," effective for fiscal years commencing January 1, 2001, which requires the use of the treasury stock method of computing diluted earnings per share. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 2001 with retroactive application. The impact of this change was not material to the calculation of Manulife Financial Corporation's earnings per share.

b) Business combinations and goodwill and other intangible assets

In September 2001, the CICA issued Handbook Section 1581, "Business Combinations" and Handbook Section 3062, "Goodwill and Other Intangible Assets." These new Handbook sections will be adopted by the Company effective for its fiscal year commencing January 1, 2002. Section 1581 requires that all business combinations be accounted for using the purchase method and provides specific criteria for recognizing intangible assets separately from goodwill. Under Section 3062, goodwill and intangible assets with indefinite useful lives are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. The Company is currently reviewing these new standards to determine whether there are any intangible assets with an indefinite useful life and will perform the required transitional impairment test on existing goodwill effective January 1, 2002 by June 30, 2002.

c) Stock-based compensation

In November 2001, the CICA issued Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments," effective for fiscal periods commencing January 1, 2002. The new standard requires that stock-based compensation awarded to non-employees or stock appreciation rights awarded to employees be recognized at fair value as an expense. Other stock options awarded to employees must either be recognized at fair value as an expense, or requires the disclosure of the pro forma net income and pro forma earnings per share amounts as if fair value based accounting had been used. The Company will adopt the recommendations of this standard effective for its fiscal year commencing January 1, 2002. This standard is not expected to materially affect these consolidated financial statements and the calculation of Manulife Financial Corporation's earnings per share.

d) Hedging relationships

In November 2001, the CICA issued Accounting Guideline 13, "Hedging Relationships," effective for fiscal years beginning on or after July 1, 2002, which requires the identification, documentation, designation and determination of effectiveness of a hedging relationship to apply hedge accounting. However, it does not specify hedge accounting methods. The new guideline also outlines conditions whereby hedge accounting for hedging relationships established in prior periods can be continued. The Company is in the process of reviewing its hedging relationships in context with the new guideline and the impact of this guideline is not expected to materially impact these consolidated financial statements.

Note 3 Invested Assets and Income

a) Invested assets

| As at December 31 2001 | Carrying value | Fair value | Unrealized gains | Unrealized losses | Deferred realized net gains | Total realized and unrealized net gains |
|---------------------------------|------------------|------------------|------------------|-------------------|-----------------------------|---|
| Bonds (fixed maturity) | | | | | | |
| Canadian government | \$ 8,077 | \$ 8,975 | \$ 918 | \$ (20) | \$ 195 | \$ 1,093 |
| Foreign governments | 10,664 | 10,885 | 270 | (49) | 256 | 477 |
| Corporate | 26,097 | 26,907 | 1,097 | (287) | 630 | 1,440 |
| Mortgage-backed securities | 1,232 | 1,273 | 44 | (3) | 30 | 71 |
| Mortgages | 7,902 | 8,286 | 405 | (21) | 37 | 421 |
| Stocks | 6,964 | 6,657 | 420 | (727) | 2,298 | 1,991 |
| Real estate | 3,484 | 3,799 | 384 | (69) | 106 | 421 |
| Policy loans | 4,644 | 4,644 | - | - | - | - |
| Cash and short-term investments | 4,995 | 4,997 | 2 | - | - | 2 |
| Other investments | 693 | 768 | 95 | (20) | 31 | 106 |
| Total invested assets | \$ 74,752 | \$ 77,191 | \$ 3,635 | \$ (1,196) | \$ 3,583 | \$ 6,022 |

| As at December 31 2000 | Carrying value | Fair value | Unrealized gains | Unrealized losses | Deferred realized net gains (losses) | Total realized and unrealized net gains |
|---------------------------------|------------------|------------------|------------------|-------------------|--------------------------------------|---|
| Bonds (fixed maturity) | | | | | | |
| Canadian government | \$ 7,494 | \$ 8,321 | \$ 845 | \$ (18) | \$ 181 | \$ 1,008 |
| Foreign governments | 5,381 | 5,689 | 315 | (7) | 129 | 437 |
| Corporate | 18,662 | 18,789 | 589 | (462) | 450 | 577 |
| Mortgage-backed securities | 1,733 | 1,762 | 39 | (10) | 41 | 70 |
| Mortgages | 7,174 | 7,437 | 291 | (28) | 42 | 305 |
| Stocks | 4,621 | 4,997 | 659 | (283) | 2,544 | 2,920 |
| Real estate | 3,262 | 3,617 | 377 | (22) | 50 | 405 |
| Policy loans | 3,616 | 3,616 | – | – | – | – |
| Cash and short-term investments | 3,783 | 3,783 | – | – | – | – |
| Other investments | 884 | 980 | 111 | (15) | (3) | 93 |
| Total invested assets | \$ 56,610 | \$ 58,991 | \$ 3,226 | \$ (845) | \$ 3,434 | \$ 5,815 |

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages reflect changes in interest rates, which have occurred since the mortgages were originated, and changes in the credit-worthiness of individual borrowers. For fixed-rate mortgages, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages with similar credit risks. Fair values of real estate are determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Included in other investments are oil and gas properties, the fair value of which is determined by external appraisals. Fair values of policy loans, cash and short-term investments and the remaining other investments approximate their carrying values due to their short-term nature.

Foreclosed properties of \$40 are included in real estate as at December 31, 2001 (2000 – \$54).

The following table presents the carrying value and fair value of bonds, based on period to maturity:

| As at December 31 | 2001 | | 2000 | |
|----------------------------|------------------|------------------|------------------|------------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Maturity | | | | |
| Due in one year or less | \$ 3,711 | \$ 3,733 | \$ 1,438 | \$ 1,457 |
| Due after one year | | | | |
| through five years | 14,732 | 14,995 | 7,621 | 7,780 |
| Due after five years | | | | |
| through ten years | 10,904 | 11,318 | 8,221 | 8,365 |
| Due after ten years | 15,491 | 16,721 | 14,257 | 15,197 |
| Mortgage-backed securities | 1,232 | 1,273 | 1,733 | 1,762 |
| Total | \$ 46,070 | \$ 48,040 | \$ 33,270 | \$ 34,561 |

b) Investment income

| For the year ended December 31 2001 | Gross investment income | Provision for impairment, net (note 3(e)) | Amortization of realized and unrealized gains | Total | Yield (%) |
|--|-------------------------|---|---|-----------------|-------------|
| Bonds | \$ 2,490 | \$ (113) | \$ 147 | \$ 2,524 | 6.40 |
| Mortgages | 597 | 6 | 16 | 619 | 8.63 |
| Stocks | 66 | – | 348 | 414 | 13.00 |
| Real estate | 279 | 9 | 46 | 334 | 10.65 |
| Policy loans | 373 | – | – | 373 | 8.75 |
| Cash and short-term investments | 152 | – | – | 152 | 2.61 |
| Other investments | 5 | (1) | 43 | 47 | N/A |
| Currency | – | – | 16 | 16 | N/A |
| Total | \$ 3,962 | \$ (99) | \$ 616 | \$ 4,479 | 6.90 |

The following table presents the carrying value and fair value of mortgages, by type of property:

| As at December 31 | 2001 | | 2000 | |
|-------------------|-----------------|-----------------|-----------------|-----------------|
| | Carrying value | Fair value | Carrying value | Fair value |
| Residential | \$ 1,761 | \$ 1,817 | \$ 1,536 | \$ 1,580 |
| Office | 2,015 | 2,126 | 1,708 | 1,781 |
| Retail | 1,891 | 1,995 | 1,958 | 2,036 |
| Industrial | 1,942 | 2,038 | 1,713 | 1,768 |
| Other | 293 | 310 | 259 | 272 |
| Total | \$ 7,902 | \$ 8,286 | \$ 7,174 | \$ 7,437 |

The carrying value of government-insured loans was 3% of the total carrying value of the mortgage portfolio as at December 31, 2001 (2000 – 4.1%) and the value of privately-insured mortgages was 1.3% of the total mortgage portfolio as at December 31, 2001 (2000 – 0.03%).

| For the year ended December 31 2000 | Gross investment income | Provision for impairment, net (note 3(e)) | Amortization of realized and unrealized gains (losses) | Total | Yield (%) |
|--|-------------------------------|---|---|-----------------|--------------|
| Bonds | \$ 2,305 | \$ (121) | \$ 110 | \$ 2,294 | 7.46 |
| Mortgages | 558 | 17 | 15 | 590 | 8.97 |
| Stocks | 62 | – | 510 | 572 | 22.41 |
| Real estate | 260 | 34 | 44 | 338 | 11.34 |
| Policy loans | 308 | – | – | 308 | 8.99 |
| Cash and short-term investments | 128 | – | – | 128 | 3.63 |
| Other investments | 186 | (30) | (52) | 104 | N/A |
| Currency | – | – | 16 | 16 | N/A |
| Total | \$ 3,807 | \$ (100) | \$ 643 | \$ 4,350 | 8.58 |

Yields are based on total investment income divided by the aggregate of the average carrying value of assets plus accrued income less deferred realized net gains.

c) Securities lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, which exceeds the market value of the loaned securities, is lodged by the borrower with the Company and retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 2001, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately \$2,692 and \$2,712, respectively (2000 – \$1,635 and \$1,760, respectively).

d) Mortgage securitization

The Company has sold commercial mortgages for cash, with limited recourse. The maximum recourse on these mortgages is less than 10% of the proceeds. When the mortgages are sold, they are removed from the Company's Consolidated Balance Sheets with any resultant gain or loss deferred and amortized into net investment income. As at December 31, 2001, outstanding balances of sold mortgages with limited recourse was \$389 (2000 – \$505).

e) Credit risk

Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honour its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties (see reinsurance risk in note 4(d)).

The Company has provided for credit risks by establishing allowances against the carrying value of the impaired assets in the Consolidated Balance Sheets. In addition to these allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities (note 4(c)). As at December 31, 2001, the provision for future credit losses included in actuarial liabilities was \$1,525 (2000 – \$1,221).

The carrying value of impaired assets was as follows:

| As at December 31 | Gross amount | Allowance | Carrying value |
|-----------------------|-----------------|---------------|-------------------|
| 2001 | | | |
| Mortgages | \$ 64 | \$ 25 | \$ 39 |
| Other impaired assets | 330 | 183 | 147 |
| Total | \$ 394 | \$ 208 | \$ 186 |
| 2000 | | | |
| Mortgages | \$ 90 | \$ 33 | \$ 57 |
| Other impaired assets | 294 | 129 | 165 |
| Total | \$ 384 | \$ 162 | \$ 222 |

The changes during the year in respect of the allowance for impairment were as follows:

| Allowance for impairment | 2001 | 2000 |
|-------------------------------|---------------|---------------|
| Balance, January 1 | \$ 162 | \$ 132 |
| Provisions during the year | 99 | 100 |
| Write-offs, net of recoveries | (53) | (70) |
| Balance, December 31 | \$ 208 | \$ 162 |

Concentrations of credit risk

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio together with maintenance of issuer, industry and geographic diversification standards.

As at December 31, 2001, 97% of bonds (2000 – 96%) were rated at investment grade "BBB" or higher, and 78% (2000 – 85%) were rated "A" or higher. Government bonds represented 41% (2000 – 39%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was \$585 (2000 – \$451). Mortgages and real estate are diversified geographically and by property type. The Company's largest concentration of mortgages and real estate was in Ontario, Canada, with \$3,660 (2000 – \$3,424) of the total portfolio. Income-producing commercial office properties were the largest concentration in the real estate portfolio with \$2,508 (2000 – \$2,267). As at December 31, 2001, 89% (2000 – 95%) of the stock portfolio was comprised of publicly listed corporations. The largest single issuer represented 4% (2000 – 6%) of the portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or higher, with 85% as at December 31, 2001 (2000 – 85%) of the exposed amount being with counterparties rated "AA" or higher. The largest single counterparty exposure as at December 31, 2001 was \$23 (2000 – \$9).

Note 4 Actuarial Liabilities

a) Composition

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay esti-

mated future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies in force. The composition of actuarial liabilities by line of business and geographic territory was as follows:

| As at December 31 | Individual life insurance | | | | Total |
|-------------------|---------------------------|-------------------|------------------------|-----------------------------|------------------|
| | Participating | Non-participating | Annuities and pensions | Other insurance liabilities | |
| 2001 | | | | | |
| United States | \$ 11,634 | \$ 3,424 | \$ 6,471 | \$ 1,238 | \$ 22,767 |
| Canada | 2,603 | 2,595 | 10,693 | 1,834 | 17,725 |
| International | 11,426 | 1,245 | 1,424 | 103 | 14,198 |
| Total | \$ 25,663 | \$ 7,264 | \$ 18,588 | \$ 3,175 | \$ 54,690 |
| 2000 | | | | | |
| United States | \$ 10,896 | \$ 2,753 | \$ 5,996 | \$ 1,056 | \$ 20,701 |
| Canada | 2,476 | 1,615 | 10,554 | 1,642 | 16,287 |
| International | 2,434 | 988 | 934 | 40 | 4,396 |
| Total | \$ 15,806 | \$ 5,356 | \$ 17,484 | \$ 2,738 | \$ 41,384 |

For participating policies in force as at demutualization, separate sub-accounts were established within the participating account. These sub-accounts permit this participating business to be operated as separate "closed blocks" of business. As at December 31, 2001, \$15,123 (2000 - \$13,163) of both assets and actuarial liabilities related to the participating policyholders' account are included in the closed blocks. As at December 31, 2001, total assets and actuarial liabilities pertaining to the participating policyholders' account include amounts related to the policies transferred from Daihaku Mutual Life Insurance Company on April 2, 2001 (see note 11).

b) Assets backing liabilities and equity

The Company has established a target invested asset portfolio mix, which takes into account the risk attributes of the liabilities supported by the assets, expectations of market performance, and a generally conservative investment philosophy. Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. Liabilities with rate and term guarantees, such as annu-

ities and pensions, are predominantly backed by fixed-rate instruments such as bonds and commercial and mortgage loans. Insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company's equity is primarily invested in North American and international securities and North American real estate.

Changes in the fair value of assets backing actuarial liabilities would have a limited impact on the Company's equity, as it would be substantially offset by a corresponding change in the fair value of the liabilities. The fair value of assets backing actuarial liabilities as at December 31, 2001 was estimated at \$56,405 (2000 - \$42,754).

A change in the fair value of assets supporting capital and other liabilities results in a corresponding change in equity when recognized, offset by changes in related liabilities when recognized. The fair value of assets backing capital and other liabilities as at December 31, 2001 was estimated at \$24,647 (2000 - \$19,694).

The carrying value of total assets backing actuarial liabilities, other liabilities and capital was as follows:

| As at December 31 | Individual life insurance | | | | | Total |
|-------------------|---------------------------|-------------------|------------------------|----------------------|------------------------|------------------|
| | Participating | Non-participating | Annuities and pensions | Other ⁽¹⁾ | Capital ⁽²⁾ | |
| 2001 | | | | | | |
| Assets | | | | | | |
| Bonds | \$ 14,532 | \$ 4,087 | \$ 12,741 | \$ 9,843 | \$ 4,867 | \$ 46,070 |
| Mortgages | 1,471 | 711 | 3,416 | 1,807 | 497 | 7,902 |
| Stocks | 2,321 | 277 | 240 | 1,151 | 2,975 | 6,964 |
| Real estate | 1,691 | 370 | 58 | 818 | 547 | 3,484 |
| Other | 5,648 | 1,819 | 2,133 | 1,966 | 2,627 | 14,193 |
| Total | \$ 25,663 | \$ 7,264 | \$ 18,588 | \$ 15,585 | \$ 11,513 | \$ 78,613 |
| 2000 | | | | | | |
| Assets | | | | | | |
| Bonds | \$ 8,108 | \$ 2,938 | \$ 11,815 | \$ 7,919 | \$ 2,490 | \$ 33,270 |
| Mortgages | 1,094 | 629 | 3,668 | 1,564 | 219 | 7,174 |
| Stocks | 1,206 | 236 | 61 | 737 | 2,381 | 4,621 |
| Real estate | 1,291 | 241 | 44 | 486 | 1,200 | 3,262 |
| Other | 4,107 | 1,312 | 1,896 | 2,160 | 2,265 | 11,740 |
| Total | \$ 15,806 | \$ 5,356 | \$ 17,484 | \$ 12,866 | \$ 8,555 | \$ 60,067 |

(1) Other includes insurance and non-insurance liabilities and non-controlling interest in subsidiaries.

(2) Capital represents total equity, subordinated debt, non-controlling interest in Manulife Financial Capital Trust and trust preferred securities issued by subsidiaries.

The deferred realized net gains taken into account in the computation of actuarial liabilities as at December 31, 2001 were \$2,025 (2000 – \$2,082).

c) Significant reserve assumptions

The preparation of financial statements involves the use of estimates and assumptions; however, actual results may differ from those estimates. The most significant estimation processes for insurance companies relate to the determination of actuarial liabilities.

Actuarial liabilities have two major components: a best estimate reserve and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the

selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate reserve assumptions

In the computation of actuarial liabilities, best estimate reserve assumptions are made. Assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actuarial assumptions may be subject to change in the future. Actual experience is monitored regularly to ensure that the assumptions remain appropriate. Assumptions are discussed in more detail in the following table.

| Nature of factor and assumption methodology | Risk management and sensitivity to change |
|--|---|
| <p>Mortality and Morbidity</p> | <p>Mortality relates to the occurrence of death. Mortality assumptions are based on past and emerging Company and industry experience. Assumptions are differentiated by sex, underwriting class and policy type.</p> <p>Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on Company and industry experience.</p> <p>The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis.</p> <p>Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. The maximum retained exposure on any one life policy as at December 31, 2001 was \$24 (2000 – \$23). In addition, the Company carries coverage that insures against a catastrophic event that could entail aggregate claims in excess of \$30 but less than \$150 as at December 31, 2001 and 2000.</p> <p>Mortality is monitored monthly and recent experience has been favourable when compared to the Company's assumptions. Morbidity is monitored monthly and recent experience has been consistent with the Company's assumptions.</p> |
| <p>Investment Return</p> | <p>The Company matches assets and liabilities by business segment, using investment objectives that are appropriate for each line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Company's investment policy in order to determine expected rates of return on these assets for all future years.</p> <p>Investment return assumptions include expected future asset defaults. Asset defaults are projected based on both past Company and industry experience and specific reviews of the current investment portfolio.</p> <p>The Company's policy of closely matching cash flows of the assets with those of the corresponding liabilities reduces the Company's exposure to future changes in interest rates. Derivative instruments are used where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. Under the Canadian Asset Liability Method (CALM), the reinvestment rate is quantified by using interest rate scenario testing.</p> <p>For the Company's annuity and pension business, an immediate and parallel decrease in interest rates of 1% across all maturities in Canada, the United States and Hong Kong would decrease net income and equity by \$6 as at December 31, 2001 (2000 – increase of \$7).</p> <p>The exposure to asset default is managed by policies and procedures, which limit concentrations by issuer, connections, rating, sector and geographic region.</p> <p>Recent mortgage default experience has continued to be favourable when compared to the Company's assumptions. Recent bond default experience has been consistent with the Company's assumptions, with the exception of certain asset classes in the U.S. which have been unfavourable when compared to the Company's assumptions.</p> |
| <p>Policy Terminations</p> | <p>Lapse relates to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are based on the Company's experience adjusted for expected future conditions. Assumptions reflect differences in geographic markets and lapse patterns for different types of contracts.</p> <p>The Company designs its products in order to minimize financial exposure to lapse and surrender risk. In addition, the Company monitors lapse and surrender experience monthly.</p> <p>Generally, recent lapse rates have been as expected when compared to assumptions used in the computation of actuarial liabilities, with the exception of Canadian Universal Life where lapses were lower than originally expected.</p> |
| <p>Minimum Guarantees on Segregated Funds</p> | <p>The Company holds reserves calculated using stochastic models as defined by the Canadian Institute of Actuaries. The models are based on the nature of the segregated fund guarantees. Investment performance, mortality and lapse assumptions are the key variables which are modeled.</p> <p>The Company manages the risk in segregated funds by carefully monitoring policyholder behaviour in relation to movements in equity markets. The Company has Board approved limits on a number of different risk factors. Management action is used to modify product design or pricing, to ensure risk is within acceptable levels.</p> |

In addition to the above, assumptions are made for expenses and taxes (other than income taxes). Policy maintenance expenses are derived from the Company's internal cost studies, projected into the future with an allowance for inflation. Explicit assumptions are made for future premium taxes and other non-income related taxes.

Provision for adverse deviation

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate reserve assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest risk. For other risks which are not specifically addressed by the standard, a range is defined as 5% to 20% of the expected experience assumption. The Company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

d) Risk management

In addition to risks related to reserve assumptions, the Company is also exposed to the following risks:

Foreign currency risk

The Company's strategy of matching the currency of its assets with the currency of the liabilities these assets support results in minimal financial exposure related to foreign currency fluctuations on assets backing actuarial liabilities.

The Company also generally matches the currency of its equity with the currency of its liabilities except for approximately \$524 as at December 31, 2001 (2000 – \$500) which was invested in a diversified basket of international currencies. Aligning the currency mix reduces the sensitivity of the Company's capital ratios to exchange rate fluctuations.

As at December 31, 2001, assets exceeded liabilities denominated in foreign currencies by approximately \$3,278 (2000 – \$3,300), of which \$2,340 as at December 31, 2001 (2000 – \$2,900) related to the United States dollar. The impact of a 100 basis point increase in the Canadian dollar relative to the United States dollar would be a \$4 decrease in net income for the year ended December 31, 2001 (2000 – \$13) and a \$37 decrease in equity as at December 31, 2001 (2000 – \$43).

Liquidity risk

Liquidity risk is the risk that the Company will not have access to sufficient funds to meet its liabilities as they become due. Certain of the Company's policies have features that allow them to be terminated at short notice, creating a potential liquidity exposure. In the normal course of business, the Company matches the maturity of invested assets to the maturity of actuarial liabilities.

As at December 31, 2001, the Company had immediate strategic liquidity of \$42,247 (2000 – \$29,811).

Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As a result of ceded reinsurance, actuarial liabilities have been reduced by \$2,020 as at December 31, 2001 (2000 – \$1,677).

The effect of reinsurance on premium income was as follows:

| For the years ended December 31 | 2001 | 2000 |
|---------------------------------|------------------|-----------------|
| Direct premium income | \$ 9,896 | \$ 8,120 |
| Reinsurance assumed | 821 | 867 |
| Reinsurance ceded | (470) | (472) |
| Total premium income | \$ 10,247 | \$ 8,515 |

e) Change in actuarial liabilities

Change in actuarial liabilities during the year was caused by the following business activities and changes in actuarial estimates:

| For the years ended December 31 | 2001 | 2000 |
|--|------------------|------------------|
| Balance, January 1 | \$ 41,384 | \$ 39,748 |
| Normal change | | |
| New policies | 1,932 | 652 |
| Inforce | (2,271) | 77 |
| Changes in methods and assumptions | 131 | 93 |
| Changes due to acquisition and assumption transactions | 12,150 | – |
| Currency impact | 1,364 | 814 |
| Balance, December 31 | \$ 54,690 | \$ 41,384 |

The Company examines the assumptions used in determining actuarial liabilities on an ongoing basis. Actuarial liabilities are increased when expected benefit costs and related risks increase, and vice versa. As a result of recent volatility in world equity markets, and the expectation of continued volatility, the Company has increased actuarial liabilities on products that are exposed to equity markets, such as variable annuities and segregated funds. There has been a corresponding reduction in actuarial liabilities associated with certain insurance policies. Actuarial liabilities on these insurance policies continue to be adequate, appropriate and consistent with the Company's conservative actuarial reserving policies. In aggregate, these changes decreased earnings by \$131.

Policy benefits in the course of settlement are included in Benefits payable and provision for unreported claims on the Consolidated Balance Sheets.

Note 5 Income Taxes

The effective income tax rate for the provision for income taxes varies from the income taxes computed at the Canadian statutory tax rate of 41% as at December 31, 2001 (2000 – 42%) for the following reasons:

Reconciliation of income tax expense

| For the years ended December 31 | 2001 | 2000 |
|---|---------------|---------------|
| Income tax at Canadian statutory rates | \$ 559 | \$ 563 |
| Increase (decrease) in tax due to: | | |
| Tax-exempt investment income | (49) | (74) |
| Differences in tax rates on income not subject to tax in Canada | (251) | (222) |
| Recognition of tax benefit from prior years | (65) | (89) |
| Changes in future tax asset from statutory rate changes | 18 | 61 |
| Other | (16) | 34 |
| Income taxes | \$ 196 | \$ 273 |

Components of income tax expense included in the Consolidated Statements of Operations are as follows:

| For the years ended December 31 | 2001 | 2000 |
|---------------------------------|---------------|---------------|
| Canadian income tax expense: | | |
| Current taxes | \$ 71 | \$ 86 |
| Future taxes | 2 | 21 |
| | \$ 73 | \$ 107 |
| Foreign income tax expense: | | |
| Current taxes | \$ – | \$ 156 |
| Future taxes | 123 | 10 |
| | \$ 123 | \$ 166 |
| Income tax expense | \$ 196 | \$ 273 |

Note 6 Subordinated Debt

| As at December 31 | 2001 | 2000 |
|-----------------------|-----------------|---------------|
| 7.875% U.S. dollar | \$ 398 | \$ 375 |
| 8.25% U.K. pound | 220 | 213 |
| 5.70% Canadian dollar | 250 | – |
| 6.24% Canadian dollar | 550 | – |
| Total | \$ 1,418 | \$ 588 |
| Fair value | \$ 1,470 | \$ 613 |

The fair value of subordinated debt is determined by reference to current market prices. These issues form part of the Company's regulatory capital. To reduce exposure to foreign currency fluctuations, derivatives are used to convert the U.K. pound debt into Canadian and U.S. dollar liabilities.

The cash amount of interest paid during the year ended December 31, 2001 was \$91 (2000 – \$47).

a) 7.875% U.S. dollar subordinated notes

During 1995, the Company issued U.S. \$250 (\$341) in 7.875% subordinated notes due April 15, 2005. This debt was issued as a private placement under Rule 144A of the Securities Act (United States).

The amount of income taxes paid in cash during the year ended December 31, 2001 was \$188 (2000 – \$103).

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognized a future tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future.

The following table presents future income taxes in total, and the principal components:

| As at December 31 | 2001 | 2000 |
|------------------------------------|---------------|---------------|
| Future income tax asset: | | |
| Actuarial liabilities | \$ – | \$ 263 |
| Gains on sale of invested assets | 502 | 471 |
| Other | 645 | 369 |
| | \$ 1,147 | \$ 1,103 |
| Valuation allowance | (92) | (156) |
| Future income tax asset | \$ 1,055 | \$ 947 |
| Future income tax liability: | | |
| Actuarial liabilities | \$ (3) | \$ – |
| Real estate | (314) | (260) |
| Securities | (127) | (100) |
| Other | (94) | (72) |
| Future income tax liability | \$ (538) | \$ (432) |
| Net future income tax asset | \$ 517 | \$ 515 |

As at December 31, 2001, the Company has approximately \$1,790 (2000 – \$912) of tax loss carryforwards available, which expire between the years 2003 and 2020. A benefit has been recognized in the amount of \$607 (2000 – \$288) in future income taxes. A benefit in the amount of \$22 (2000 – \$32) has not been recognized.

b) 8.25% U.K. pound subordinated notes

On January 1, 1996, on amalgamation with North American Life Assurance Company, the Company assumed £100 (\$202) in 8.25% subordinated notes redeemable on November 17, 2003. Concurrently, £5 (\$10) of debt, which was held by the Company, was extinguished.

c) Canadian dollar subordinated debt

On February 16, 2001, the Company issued, in two tranches, \$800 in unsecured subordinated debentures, redeemable in whole or in part by the Company at any time. Debentures with principal of \$250, maturing on February 16, 2011, bear interest at a fixed rate of 5.70% for five years and thereafter at a rate of 1% plus the 90-day Bankers Acceptance Rate (adjusted quarterly). In addition, debentures with principal of \$550, maturing on February 16, 2016, bear interest at a fixed rate of 6.24% for ten years and thereafter at a rate of 1% plus the 90-day Bankers Acceptance Rate (adjusted quarterly). Proceeds to Manufacturers Life, net of issuance costs, were approximately \$796. The debt constitutes Tier 2B regulatory capital.

Note 7 Non-Controlling Interest in Subsidiaries

| As at December 31 | 2001 | 2000 |
|--|-----------------|---------------|
| Non-controlling interest in common equity of subsidiaries ⁽¹⁾ | \$ 64 | \$ 299 |
| Manulife Financial Capital Securities – Series A | 60 | – |
| Manulife Financial Capital Securities – Series B | 940 | – |
| Total | \$ 1,064 | \$ 299 |

(1) See note 11

On December 10, 2001, Manulife Financial Capital Trust (the “Trust”), a wholly-owned open-end trust, issued 60,000 Manulife Financial Capital Securities (“MaCS”) – Series A and 940,000 Manulife Financial Capital Securities – Series B. These securities are exchangeable into newly issued Manufacturers Life Class A Shares Series 2, in the case of MaCS – Series A, or newly issued Manufacturers Life Class A Shares Series 4, in the case of MaCS – Series B, in certain circumstances.

Each MaCS – Series A entitles the holder to receive fixed cash distributions payable semi-annually in the amount of \$35.00. Each MaCS – Series B entitles the holder to receive fixed cash distributions payable semi-annually in the amount of \$33.50.

The MaCS, with regulatory approval, may be redeemed in whole, upon the occurrence of certain tax or regulatory capital changes, or on or after December 31, 2006, at the option of the Trust.

Under certain circumstances, each MaCS will be automatically exchanged, without the consent of the holders, for Manufacturers Life Class A Shares Series 3, in the case of MaCS – Series A, and Manufacturers Life Class A Shares Series 5, in the case of MaCS – Series B.

The MaCS – Series A and MaCS – Series B constitute Tier 1 regulatory capital.

Note 8 Trust Preferred Securities Issued by Subsidiaries

| As at December 31 | 2001 | 2000 |
|-----------------------------------|---------------|---------------|
| Trust Preferred Securities | \$ 802 | \$ 756 |

Capital Trust Pass-through Securities Units of U.S. \$500 (\$672) were issued by subsidiaries of Manulife Financial Corporation in January 1997, maturing February 1, 2027.

Each unit consists of one 8.25% Trust Preferred Security, issued by the trust subsidiary, and one 0.125% preferred purchase contract, issued by Manufacturers Investment Corporation (“MIC”). The trust subsidiary’s only asset is an investment in notes issued by MIC. Holders of each pur-

chase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A of MIC, at U.S. \$50 per share. Holders may satisfy this purchase by delivering the Trust Preferred Securities to MIC in exchange for the perpetual preferred shares.

The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States).

From the Company’s perspective, the issue is equivalent to a combination of 8.25% subordinated debt maturing February 1, 2027, and an option exercisable by the Company, requiring contract holders to purchase an equivalent amount of perpetual preferred stock in MIC. The securities form part of the Company’s regulatory capital.

Note 9 Share Capital

The authorized capital of Manulife Financial Corporation consists of:

- an unlimited number of common shares without nominal or par value; and
- an unlimited number of Class A and Class B preferred shares without nominal or par value, issuable in series.

On October 30, 2001, the Company announced its intention to make a normal course issuer bid through the facilities of The Toronto Stock Exchange (the “Exchange”). Pursuant to the bid, the Company is authorized to purchase up to 20 million common shares, representing approximately 4.15% of common shares issued and outstanding at the time, commencing December 3, 2001 until December 2, 2002. Transactions will be executed on the Exchange at the prevailing market price in amounts and at times determined by the Company. Any shares purchased as part of the bid will be cancelled.

A previous normal course issuer bid program expired on October 11, 2000.

During 2000, Manulife Financial Corporation purchased and subsequently cancelled 12 million of its common shares pursuant to the previous normal course issuer bid at a total cost of \$206. Common shares outstanding were reduced by \$16 and retained earnings were reduced by \$190. There were no such transactions in 2001.

| | 2001 | | 2000 | |
|--|--------------------------------|---------------|--------------------------------|---------------|
| | Number of shares (in millions) | Amount | Number of shares (in millions) | Amount |
| For the years ended December 31 | | | | |
| Common shares | | | | |
| Balance, January 1 | 482 | \$ 612 | 494 | \$ 628 |
| Issued on exercise of stock options and deferred share units (note 10) | – | 2 | – | – |
| Normal course issuer bid – purchased for cancellation | – | – | (12) | (16) |
| Balance, December 31 | 482 | \$ 614 | 482 | \$ 612 |

Note 10 Stock-Based Compensation

Under the Company's Executive Stock Option Plan ("ESOP"), stock options are periodically granted to selected individuals. Options provide the holder with the right to purchase common shares at an exercise price equal to the closing market price of Manulife Financial Corporation's common shares on The Toronto Stock Exchange on the business day immediately preceding the date the options were granted. The options vest over a period not exceeding four years and expire not more than 10 years from the grant date. A total of 36,800,000 common shares have been reserved for future issuance under the ESOP.

| | 2001 | | 2000 | |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Number of options (in millions) | Weighted average exercise price | Number of options (in millions) | Weighted average exercise price |
| For the years ended December 31 | | | | |
| Outstanding, January 1 | 5 | \$ 31.60 | – | \$ – |
| Granted | 3 | \$ 41.80 | 5 | \$ 31.60 |
| Outstanding, December 31 | 8 | \$ 36.22 | 5 | \$ 31.60 |
| Exercisable, December 31 | 2 | \$ 31.60 | 1 | \$ 31.60 |

The exercise price of stock options outstanding ranged from \$31.60 to \$46.95 and had a weighted average contractual remaining life of 9.4 years.

The Company also granted deferred share units ("DSUs") to certain

employees under the ESOP. The DSUs vest over a four year period and each unit entitles the holder to receive one common share on retirement or termination of employment. The DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. No DSUs were granted during 2001. The number of DSUs outstanding was 3 million as at December 31, 2001 (2000 – 3 million).

Effective January 1, 2001, the Company established the Global Share Ownership Plan ("GSOP") for its eligible employees and the Stock Plan for Non-Employee Directors.

Under the Company's GSOP, qualifying employees can choose to have up to 5% of their annual base earnings applied toward the purchase of common shares of Manulife Financial Corporation. Subject to certain conditions, the Company will match 50% of the employee's eligible contributions. The Company's contributions vest immediately. All contributions will be used by the plan's trustee to purchase common shares in the open market.

Under the Company's Stock Plan for Non-Employee Directors, each eligible director may elect to receive DSUs or common shares in lieu of cash equal to his or her annual director's retainer and fees. Upon termination of Board service, the eligible director may elect to receive cash or common shares equal to the value of the DSUs accumulated in his or her account. A total of 500,000 common shares have been reserved for issuance under the Stock Plan for Non-Employee Directors.

Note 11 Acquisition and Assumption Transactions

Manulife Life Insurance Company

In April 1999, the Company entered the Japanese life insurance market by establishing a new life insurance company, Manulife Life Insurance Company ("Manulife Japan," formerly Manulife Century Life Insurance Company), with a local company, Daihyaku Mutual Life Insurance Company ("Daihyaku"). While the Company and Daihyaku each initially owned 50% of the equity of Manulife Japan, the Company owned 74.6% of the voting shares and controlled the Board of Directors. This transaction was accounted for as a purchase and accordingly, the assets acquired by Manulife Japan were recorded at their estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of the assets acquired was recorded as goodwill (included in Other, Miscellaneous assets) and is being amortized on a straight-line basis over 20 years.

Effective May 31, 2000, a business suspension order was issued against Daihyaku by regulatory authorities in Japan and on June 1, 2000, administrators were appointed to manage Daihyaku's business. At that time, potential additional payments of Yen 15 billion recorded as goodwill and as non-controlling interest in subsidiaries as at March 31, 1999 were revised to reflect Manulife Japan's expectation that such additional payments were no longer required.

On January 25, 2001, the Company announced the signing of a definitive agreement between Manulife Japan and the administrators of Daihyaku to assume Daihyaku's existing insurance policies. In addition, on this date, Manulife Financial acquired Daihyaku's minority interest in Manulife Japan making Manulife Japan a wholly owned subsidiary of the Company.

On April 2, 2001, the transfer of approximately 1.3 million active insurance policies from Daihyaku to Manulife Japan was completed. The Company received assets with a fair value of \$16,017 (Yen 1.3 trillion) of which \$15,860 (Yen 1.3 trillion) was included in its general fund and \$157 (Yen 12.7 billion) was included in its segregated funds. Policy liabilities and other liabilities increased by an amount commensurate

with the general fund assets. This transaction was accounted for as a purchase of a block of business and accordingly, the assets transferred to Manulife Japan were recorded at their estimated fair values at the closing date. Goodwill was not created as a result of this transaction.

The results of operations for the acquired block of business since April 2, 2001 have been included in the Company's Consolidated Statements of Operations.

Condensed balance sheet as at April 2, 2001

| | |
|------------------------------------|------------------|
| Invested assets | |
| Bonds | \$ 4,090 |
| Stocks | 4 |
| Real estate | 40 |
| Policy loans | 575 |
| Cash and short-term investments | 10,986 |
| Total invested assets | \$ 15,695 |
| Other assets | 165 |
| Total assets | \$ 15,860 |
| Segregated fund assets | |
| | \$ 157 |
| | |
| Actuarial liabilities | \$ 10,874 |
| Other liabilities | 4,986 |
| Total liabilities | \$ 15,860 |
| Segregated fund liabilities | \$ 157 |

Other

The Company received general fund assets with a fair value of \$1,120 from its acquisition of Commercial Union's Canadian life insurance operations on April 1, 2001, and \$97 from its assumption of Zurich's group life and health employee benefits business on April 1, 2001. Segregated fund assets with a fair value of \$77 were also acquired in the Commercial Union transaction.

Note 12 Pensions and Other Post-Employment Benefits

The Company maintains a number of pension and benefit plans for its eligible employees and agents. Information about the Company's benefit plans, in aggregate, is as follows:

| For the years ended December 31 | Pension benefits | | Other employee benefits | |
|--------------------------------------|------------------|---------------|-------------------------|---------------|
| | 2001 | 2000 | 2001 | 2000 |
| Change in benefit obligation: | | | | |
| Balance, January 1 | \$ 675 | \$ 594 | \$ 118 | \$ 114 |
| Service cost | 22 | 21 | 7 | 6 |
| Interest cost | 42 | 41 | 8 | 8 |
| Plan participants' contributions | 1 | 1 | - | - |
| Amendments | 8 | 2 | - | - |
| Actuarial loss (gain) | 14 | 49 | (2) | (9) |
| Benefits paid | (42) | (38) | (3) | (2) |
| Currency | 7 | 5 | 2 | 1 |
| Balance, December 31 | \$ 727 | \$ 675 | \$ 130 | \$ 118 |

| For the years ended December 31 | Pension benefits | | Other employee benefits | |
|---|------------------|---------------|-------------------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| Change in plan assets: | | | | |
| Fair value of plan assets, January 1 | \$ 682 | \$ 666 | \$ - | \$ - |
| Actual return on plan assets | (16) | 48 | - | - |
| Employer contribution | - | - | 3 | 2 |
| Plan participants' contributions | 1 | 1 | - | - |
| Benefits paid | (42) | (38) | (3) | (2) |
| Currency | 7 | 5 | - | - |
| Fair value of plan assets, December 31 | \$ 632 | \$ 682 | \$ - | \$ - |

| As at December 31 | Pension benefits | | Other employee benefits | |
|---|------------------|----------------|-------------------------|-----------------|
| | 2001 | 2000 | 2001 | 2000 |
| Funded status, end of year | \$ (95) | \$ 7 | \$ (130) | \$ (118) |
| Unrecognized net actuarial gain (loss) | 46 | (28) | (62) | (64) |
| Unrecognized initial transition gain | (10) | (13) | - | - |
| Unrecognized prior service cost | 19 | 15 | - | - |
| Accrued pension liability | \$ (40) | \$ (19) | \$ (192) | \$ (182) |
| Amounts recognized in the Consolidated Balance Sheets consist of: | | | | |
| Prepaid benefit-cost | \$ 129 | \$ 127 | \$ - | \$ - |
| Accrued benefit liability | (169) | (146) | (192) | (182) |
| Accrued pension liability | \$ (40) | \$ (19) | \$ (192) | \$ (182) |

Components of the net benefit expense are as follows:

| For the years ended December 31 | Pension benefits | | Other employee benefits | |
|-----------------------------------|------------------|--------------|-------------------------|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| Defined benefit service cost | \$ 22 | \$ 21 | \$ 7 | \$ 6 |
| Defined contribution service cost | 13 | 13 | - | - |
| Interest cost | 42 | 41 | 8 | 8 |
| Expected return on plan assets | (49) | (48) | - | - |
| Net amortizations and deferrals | 1 | 2 | (5) | (5) |
| Net benefit expense | \$ 29 | \$ 29 | \$ 10 | \$ 9 |

| For the years ended December 31 | Pension benefits | |
|---------------------------------|------------------|------|
| | 2001 | 2000 |
| Weighted-average assumptions: | | |
| Discount rate | 6.7% | 6.8% |
| Expected return on plan assets | 8.2% | 8.1% |
| Rate of compensation increase | 3.4% | 3.4% |

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 100 basis-point change in assumed health care cost trend rates would be as follows:

| | 100 basis-point increase | 100 basis-point decrease |
|--|--------------------------|--------------------------|
| Effect on total service and interest costs | 3 | (2) |
| Effect on post-employment benefit obligation | 22 | (19) |

Note 13 Commitments and Contingencies

a) Legal proceedings

The Company is subject to legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

b) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were \$519 of outstanding investment commitments as at December 31, 2001, of which \$161 mature in 30 days, \$324 mature in 31 to 365 days and \$34 mature in 2003 or later. There were \$267 of outstanding investment commitments as at December 31, 2000, of which \$54 matured in 30 days, \$194 matured in 31 to 365 days and \$19 mature in 2002 or later.

c) Letters of credit

In the normal course of business, Manulife Financial's banking group, consisting of third party relationship banks, issues letters of credit on the Company's behalf. As at December 31, 2001, letters of credit in the amount of \$2,261 (2000 – \$1,434), including \$14 (2000 – \$13) against which assets have been pledged, are outstanding.

d) Pledged assets

In the normal course of business, certain of Manulife Financial Corporation's subsidiaries pledge their assets as security for liabilities incurred. The amounts pledged were as follows:

| As at December 31 | 2001 | | 2000 | |
|-------------------------|-----------------|--------------|-----------------|--------------|
| | Bonds | Other | Bonds | Other |
| In respect of: | | | | |
| Securities lent | \$ 1,569 | \$ – | \$ 1,279 | \$ – |
| Letters of credit | 14 | – | 13 | – |
| Derivatives | – | 14 | – | 20 |
| Regulatory requirements | 54 | – | 38 | – |
| Total | \$ 1,637 | \$ 14 | \$ 1,330 | \$ 20 |

e) Capital requirements

Dividends and capital distributions are restricted under the Insurance Companies Act (Canada) ("ICA"). The ICA requires Canadian insurance companies to maintain, at all times, minimum levels of capital (which principally includes common shareholders' equity [including retained earnings], non-cumulative perpetual preferred shares, subordinated debt, other financial instruments that qualify as regulatory capital and the participating account) calculated in accordance with Minimum Continuing Capital and Surplus Requirements. In addition to the requirements under Canadian law, Manulife Financial Corporation must also maintain minimum levels of capital for its foreign subsidiaries. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The most significant of these are the Risk Based Capital requirements for Manulife Financial Corporation's United States insurance subsidiaries. The Company maintains capital well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the United States, regulatory approval is required if a shareholder dividend distribution from a United States subsidiary company to the parent company would exceed that subsidiary company's earned surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous year) exceeds the greater of the subsidiary's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. In 2001, the maximum amount of shareholder dividends transferable from a United States subsidiary to the parent company without permission was U.S. \$60 (2000 – U.S. \$92).

f) Participating business

In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating business operating as separate "closed blocks," transfers are governed by the terms of Manufacturers Life's Plan of Demutualization.

Note 14 Fair Value of Financial Instruments

Financial instruments refer to both on-and off-balance sheet instruments and may be assets or liabilities. They are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values are management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment. These calculations are subjective in nature, involve uncertainties and matters of significant judgement and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, actuarial liabilities, borrowed funds, subordinated debt and derivative financial instruments are disclosed in notes 3, 4, 6 and 15, respectively.

The fair values of accrued investment income, outstanding premiums, other miscellaneous assets, policy benefits in the course of settlement, provision for unreported claims, policyholder amounts on deposit and other liabilities approximate their carrying values, due to their short-term nature.

The fair value of banking deposits is estimated at \$775 as at December 31, 2001 (2000 – \$586) compared to a carrying value of \$769 as at December 31, 2001 (2000 – \$592). The fair value of these financial instruments is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions.

Note 15 *Derivative Financial Instruments*

Derivative financial instruments are financial contracts, the values of which are derived from underlying assets or interest or foreign exchange rates. In the ordinary course of business, the Company enters into primarily over-the-counter contracts for asset liability management purposes. Derivatives such as foreign exchange contracts, interest rate and cross-currency swaps, forward rate agreements and equity options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

Interest rate and foreign exchange swaps are contractual agreements between the Company and a third party to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. For foreign exchange swaps, fixed interest payments and notional amounts are exchanged in different currencies. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The notional principal amounts are not included in the Consolidated Balance Sheets.

Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

Risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

Fair value is summarized by derivative type and represents the net unrealized gain or loss, accrued interest receivable or payable, and premiums paid or received.

The Company has the following amounts outstanding:

| As at December 31 | Remaining term to maturity (notional amounts) | | | | Fair value | | | Credit risk equivalent | Risk-weighted amount |
|--------------------------|---|-----------------|-----------------|------------------|---------------|-----------------|-----------------|------------------------|----------------------|
| | Under 1 year | 1 to 5 years | Over 5 years | Total | Positive | Negative | Net | | |
| 2001 | | | | | | | | | |
| Interest rate contracts: | | | | | | | | | |
| Swap contracts | \$ 726 | \$ 1,654 | \$ 1,476 | \$ 3,856 | \$ 104 | \$ (73) | \$ 31 | \$ 122 | \$ 33 |
| Futures contracts | 322 | – | – | 322 | – | – | – | – | – |
| Options written | – | – | 34 | 34 | – | (2) | (2) | – | – |
| Sub-total | \$ 1,048 | \$ 1,654 | \$ 1,510 | \$ 4,212 | \$ 104 | \$ (75) | \$ 29 | \$ 122 | \$ 33 |
| Foreign exchange: | | | | | | | | | |
| Swap contracts | 222 | 3,036 | 708 | 3,966 | 48 | (454) | (406) | 255 | 76 |
| Forward contracts | 3,356 | – | – | 3,356 | 10 | (53) | (43) | 44 | 9 |
| Commodity contracts | 4 | – | – | 4 | 3 | – | 3 | 3 | 2 |
| Equity contracts | 381 | 122 | – | 503 | 30 | – | 30 | 63 | 16 |
| Total | \$ 5,011 | \$ 4,812 | \$ 2,218 | \$ 12,041 | \$ 195 | \$ (582) | \$ (387) | \$ 487 | \$ 136 |
| 2000 | | | | | | | | | |
| Interest rate contracts: | | | | | | | | | |
| Swap contracts | \$ 403 | \$ 1,405 | \$ 1,564 | \$ 3,372 | \$ 34 | \$ (34) | \$ – | \$ 49 | \$ 17 |
| Futures contracts | 65 | – | – | 65 | – | – | – | – | – |
| Options written | – | – | 32 | 32 | – | – | – | – | – |
| Sub-total | \$ 468 | \$ 1,405 | \$ 1,596 | \$ 3,469 | \$ 34 | \$ (34) | \$ – | \$ 49 | \$ 17 |
| Foreign exchange: | | | | | | | | | |
| Swap contracts | 502 | 703 | 666 | 1,871 | 18 | (97) | (79) | 108 | 31 |
| Forward contracts | 2,930 | – | – | 2,930 | 45 | (11) | 34 | 74 | 20 |
| Equity contracts | 435 | 33 | – | 468 | 7 | (25) | (18) | 26 | 3 |
| Total | \$ 4,335 | \$ 2,141 | \$ 2,262 | \$ 8,738 | \$ 104 | \$ (167) | \$ (63) | \$ 257 | \$ 71 |

The main reason for the increase in foreign exchange swap contracts was the purchase of U.S. dollar-denominated assets swapped into Japanese yen to back liabilities transferred from Daihyaku. Substantially all deriva-

tive financial instruments wholly or partially offset the change in fair values of related on-balance sheet assets and liabilities.

Note 16 Segmented Information

The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in the United States, Canada and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada and Asia, to institutional customers.

The Company's business segments include the U.S., Canadian, Asian and Reinsurance divisions. Each division has profit and loss

responsibility and develops products, services and distribution strategies based on the profile of its business and the needs of its market.

The accounting policies of the segments are the same as those described in note 1, Nature of Operations and Significant Accounting Policies.

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Reinsurance Division into the different geographic segments to which its business pertains.

| By segment | U.S. Division | Canadian Division | Asian Division | Reinsurance Division | Other | Total |
|--|------------------|----------------------|-------------------|-------------------------|----------|-----------|
| For the year ended December 31, 2001 | | | | | | |
| Revenue | | | | | | |
| Premium income | | | | | | |
| Life and health insurance | \$ 1,780 | \$ 2,278 | \$ 2,536 | \$ 791 | \$ – | \$ 7,385 |
| Annuities and pensions | 2,056 | 646 | 160 | – | – | 2,862 |
| Total premium income | \$ 3,836 | \$ 2,924 | \$ 2,696 | \$ 791 | \$ – | \$ 10,247 |
| Investment income | 1,942 | 1,617 | 447 | 231 | 242 | 4,479 |
| Other revenue | 939 | 287 | 119 | 38 | 122 | 1,505 |
| Total revenue | \$ 6,717 | \$ 4,828 | \$ 3,262 | \$ 1,060 | \$ 364 | \$ 16,231 |
| Interest expense | \$ 52 | \$ 56 | \$ 52 | \$ 3 | \$ 94 | \$ 257 |
| Income before income taxes | \$ 524 | \$ 417 | \$ 363 | \$ 2 | \$ 57 | \$ 1,363 |
| Income taxes | (151) | (82) | (46) | 46 | 37 | (196) |
| Net income | \$ 373 | \$ 335 | \$ 317 | \$ 48 | \$ 94 | \$ 1,167 |
| Amortization of realized and unrealized gains | \$ 179 | \$ 196 | \$ 29 | \$ – | \$ 212 | \$ 616 |
| Segregated fund deposits | \$ 11,790 | \$ 1,190 | \$ 1,064 | \$ – | \$ – | \$ 14,044 |
| As at December 31, 2001 | | | | | | |
| Actuarial liabilities | \$ 22,019 | \$ 17,567 | \$ 13,926 | \$ 1,033 | \$ 145 | \$ 54,690 |
| Funds under management | | | | | | |
| General fund | \$ 26,731 | \$ 23,012 | \$ 19,087 | \$ 3,821 | \$ 5,962 | \$ 78,613 |
| Segregated funds | 47,975 | 9,279 | 1,952 | – | – | 59,206 |
| Mutual funds | – | 1,313 | 340 | – | – | 1,653 |
| Other managed funds | – | – | 637 | – | 2,073 | 2,710 |

| By geographic location | United States | Canada | Asia | Other | Total |
|--------------------------------------|---------------|----------|----------|--------|-----------|
| For the year ended December 31, 2001 | | | | | |
| Revenue | | | | | |
| Premium income | | | | | |
| Life and health insurance | \$ 2,131 | \$ 2,317 | \$ 2,536 | \$ 401 | \$ 7,385 |
| Annuities and pensions | 2,056 | 646 | 160 | – | 2,862 |
| Total premium income | \$ 4,187 | \$ 2,963 | \$ 2,696 | \$ 401 | \$ 10,247 |
| Investment income | 2,062 | 1,895 | 447 | 75 | 4,479 |
| Other revenue | 959 | 394 | 125 | 27 | 1,505 |
| Total revenue | \$ 7,208 | \$ 5,252 | \$ 3,268 | \$ 503 | \$ 16,231 |

| By segment | U.S. | Canadian | Asian | Reinsurance | Other | Total |
|--|------------------|------------------|-----------------|-----------------|---------------|------------------|
| For the year ended December 31, 2000 | Division | Division | Division | Division | | |
| Revenue | | | | | | |
| Premium income | | | | | | |
| Life and health insurance | \$ 1,662 | \$ 1,882 | \$ 1,740 | \$ 768 | \$ – | \$ 6,052 |
| Annuities and pensions | 1,686 | 606 | 171 | – | – | 2,463 |
| Total premium income | \$ 3,348 | \$ 2,488 | \$ 1,911 | \$ 768 | \$ – | \$ 8,515 |
| Investment income | 1,925 | 1,587 | 353 | 194 | 291 | 4,350 |
| Other revenue | 885 | 249 | 80 | 22 | 51 | 1,287 |
| Total revenue | \$ 6,158 | \$ 4,324 | \$ 2,344 | \$ 984 | \$ 342 | \$ 14,152 |
| Interest expense | \$ 56 | \$ 51 | \$ 40 | \$ 2 | \$ 42 | \$ 191 |
| Income before income taxes | \$ 645 | \$ 350 | \$ 206 | \$ 132 | \$ 8 | \$ 1,341 |
| Income taxes | (168) | (75) | (13) | (24) | 7 | (273) |
| Net income | \$ 477 | \$ 275 | \$ 193 | \$ 108 | \$ 15 | \$ 1,068 |
| Amortization of realized and unrealized gains | \$ 255 | \$ 119 | \$ 39 | \$ 6 | \$ 224 | \$ 643 |
| Segregated fund deposits | \$ 12,650 | \$ 1,681 | \$ 446 | \$ – | \$ – | \$ 14,777 |
| As at December 31, 2000 | | | | | | |
| Actuarial liabilities | \$ 20,180 | \$ 16,130 | \$ 4,041 | \$ 819 | \$ 214 | \$ 41,384 |
| Funds under management | | | | | | |
| General fund | \$ 25,105 | \$ 21,097 | \$ 7,223 | \$ 3,259 | \$ 3,383 | \$ 60,067 |
| Segregated funds | 44,370 | 9,394 | 1,144 | – | – | 54,908 |
| Mutual funds | – | 1,359 | 204 | – | – | 1,563 |
| Other managed funds | – | – | 748 | – | 6,234 | 6,982 |
| By geographic location | | | | | | |
| For the year ended December 31, 2000 | | United States | Canada | Asia | Other | Total |
| Revenue | | | | | | |
| Premium income | | | | | | |
| Life and health insurance | | \$ 1,966 | \$ 1,934 | \$ 1,745 | \$ 407 | \$ 6,052 |
| Annuities and pensions | | 1,686 | 606 | 171 | – | 2,463 |
| Total premium income | | \$ 3,652 | \$ 2,540 | \$ 1,916 | \$ 407 | \$ 8,515 |
| Investment income | | 2,025 | 1,944 | 354 | 27 | 4,350 |
| Other revenue | | 899 | 288 | 80 | 20 | 1,287 |
| Total revenue | | \$ 6,576 | \$ 4,772 | \$ 2,350 | \$ 454 | \$ 14,152 |

Note 17 Material Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material respects from U.S. GAAP. The following is a summary of such material differences:

a) Reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity

| For the years ended December 31 | Net income | | Equity | |
|--|------------|----------|-----------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| Net income and equity determined in accordance with Canadian GAAP | \$ 1,167 | \$ 1,068 | \$ 8,293 | \$ 7,211 |
| Bonds | 247 | (252) | 1,121 | 798 |
| Mortgages | (5) | (7) | (132) | (123) |
| Stocks | (668) | 1,653 | 1,619 | 1,931 |
| Real estate | (4) | (81) | (789) | (762) |
| Actuarial liabilities | (232) | (1,017) | (5,889) | (4,974) |
| Deferred acquisition costs | 807 | 905 | 6,283 | 5,217 |
| Deferred revenue | (142) | (94) | (465) | (273) |
| Future income taxes | 2 | 43 | (292) | (378) |
| Derivative instruments and hedging activities | 41 | – | 41 | – |
| Other reconciling items | (132) | (59) | 80 | 95 |
| Net income and equity determined in accordance with U.S. GAAP | \$ 1,081 | \$ 2,159 | \$ 9,870 | \$ 8,742 |
| Foreign currency translation ⁽¹⁾ | 277 | 102 | – | – |
| Effect of unrealized gains and losses on available-for-sale bonds and stocks: | | | | |
| Bonds | 679 | 1,334 | 1,970 | 1,291 |
| Stocks | (260) | (1,686) | 716 | 976 |
| Actuarial liabilities | 30 | (318) | (796) | (826) |
| Deferred acquisition costs | (96) | 85 | (166) | (70) |
| Deferred revenue | 3 | 11 | 5 | 2 |
| Future income taxes on above | (211) | 1 | (562) | (351) |
| SFAS 133 transitional provisions ⁽²⁾ | – | – | (14) | – |
| SFAS 133 adjustments ⁽²⁾ | – | – | (398) | – |
| Comprehensive income and equity determined in accordance with U.S. GAAP | \$ 1,503 | \$ 1,688 | \$ 10,625 | \$ 9,764 |

(1) Includes a loss of \$4, net of tax, arising from hedges of foreign currency exposure of a net investment in a foreign operation.

(2) Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities."

b) Valuation and income recognition differences between Canadian GAAP and U.S. GAAP

| | Canadian GAAP | U.S. GAAP |
|------------------|---|---|
| Bonds | Bonds are carried at amortized cost, less an allowance for specific losses. Allowances are provided on a specific bond whenever a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on sale are deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold. | Bonds may be classified as "available-for-sale," "held to maturity" or "trading" securities. All bonds are classified as "available-for-sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. A decline in the value of a specific bond that is considered to be other than temporary results in a write-down in the cost basis of the bond and a charge to income in the period of recognition. Realized gains and losses on sale are recognized in income immediately. Unrealized gains and losses, other than losses considered to be other than temporary, are excluded from income and reported net of tax as a separate component of equity. |
| Mortgages | Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage or loan sold. | Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are recognized in income immediately. |
| Stocks | Stocks are carried at a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum. Specific stocks are written down to fair value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 15% of the unamortized deferred realized gains and losses each year. | Stocks may be classified as "available-for-sale" or "trading" securities. All stocks are classified as "available-for-sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. Other than temporary declines in the value of stocks result in a write-down in the cost basis of the stocks and a charge to income in the period of recognition. Realized gains and losses are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity. |

| | Canadian GAAP | U.S. GAAP |
|-----------------------------------|--|--|
| Real estate | Real estate is carried at a moving average market basis whereby the carrying values are adjusted towards market value at 10% per annum. Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 10% of the unamortized deferred realized gains and losses each year. | Real estate is carried at cost less accumulated depreciation. Specific properties are written down, taking into account discounted cash flows, if an impairment in the value of the property is considered to be other than temporary. Realized gains and losses are recognized in income immediately. |
| Actuarial liabilities | Actuarial liabilities for all types of policies are calculated using the Canadian Asset Liability Method (CALM) and represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, tax (other than income taxes) and expenses on policies in force. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Best estimate reserve assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity trends, investment returns, rates of policy termination, policyholder dividend payments, operating expenses and certain taxes. To recognize the uncertainty in the assumptions underlying the calculation of best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits, the Appointed Actuary is required to add a margin to each assumption. These margins result in the calculation of provisions for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized when products are sold. Assumptions are updated regularly and the effects of any changes in assumptions are recognized in income immediately. The provisions for adverse deviations are recognized in income over the term of the policy as the risk of deviation from estimates declines. | <p>There are three main standards for valuing actuarial liabilities as follows:</p> <p>Statement of Financial Accounting Standards No. 60, "Accounting and Reporting by Insurance Enterprises" ("SFAS 60") applies to non-participating insurance, including whole life and term insurance, payout annuities, disability insurance and certain reinsurance contracts. Actuarial liabilities are calculated using a net level premium method and represent the present value of future benefits to be paid to, or on behalf of, policyholders and related expenses, less the present value of future net premiums. The assumptions include expected investment yields, mortality, morbidity, terminations and maintenance expenses. A provision for adverse deviation is also included. The assumptions are based on best estimates of long-term experience at the time of policy issue. The assumptions are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing Deferred Acquisition Costs ("DAC"), in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable.</p> <p>Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" ("SFAS 97") applies to universal life type contracts and investment contracts. The actuarial liability for these contracts is equal to the policyholder account value. There is no provision for adverse deviation. If it is determined that future income for universal life type contracts is no longer adequate to recover the existing DAC, the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable.</p> <p>Statement of Financial Accounting Standards No. 120, "Accounting and Reporting by Mutual Life Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts" ("SFAS 120") applies to participating insurance contracts. The actuarial liability for these contracts is computed using a net level premium method with mortality and interest assumptions consistent with the non-forfeiture assumptions. There is no provision for adverse deviation. The assumptions are not changed unless it is determined that future income is no longer adequate to recover the existing DAC, in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable.</p> <p>In addition, in accordance with Emerging Issues Task Force Topic No. D-41 ("EITF D-41"), U.S. GAAP requires that actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses not already provided for on bonds and stocks had been realized. This adjustment to actuarial liabilities is recognized directly in equity and is not included in income.</p> |
| Deferred acquisition costs | All policy acquisition costs are expensed as incurred. The computation of actuarial liabilities takes this into consideration. | <p>Acquisition costs which vary with, and are primarily related to, the production of new business are deferred and recorded as an asset. This DAC asset is amortized into income in proportion to different measures, depending on the policy type. The DAC associated with SFAS 60 policies are amortized and charged to income in proportion to premium income recognized. For non-participating limited payment policies, including annuities not classified as investment contracts, the DAC are amortized in proportion to the amount of the expected future benefit payments for payout annuities and in proportion to face amount for insurance contracts. The DAC associated with SFAS 97 and SFAS 120 policies (i.e. universal life type contracts, investment contracts and participating insurance contracts) are amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contracts. Under SFAS 97 and SFAS 120, the assumptions used to estimate future gross profits change as experience emerges.</p> <p>In addition, EITF D-41 requires that DAC related to SFAS 97 and SFAS 120 contracts should be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on available-for-sale bonds and stocks had actually been realized. This adjustment to DAC is recognized directly in equity and is not included in income.</p> |
| Deferred revenue | All premium income is recorded as revenue. The anticipated costs of future services are included within the actuarial liabilities. | Under SFAS 97, fees assessed to policyholders relating to services that are to be provided in future years are recorded as deferred revenue. Deferred revenue is amortized to income in the same pattern as DAC. |
| Derivatives | Derivatives are designated and effective as hedges if there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on derivatives designated and effective as hedges are accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivatives no longer considered hedges are included in income from the date they are no longer considered hedges. | All derivatives are reported in the Consolidated Balance Sheets at their fair values, with changes in fair values recorded in income or equity, depending on the nature of the hedge. Changes in the fair value of derivatives not designated as hedges will be recognized in current period earnings. Specific guidance is provided relating to the types of hedges, the measurement of hedge ineffectiveness, and hedging strategies. |

c) Presentation differences between Canadian GAAP and U.S. GAAP

| | Canadian GAAP | U. S. GAAP |
|---|--|---|
| Premiums | All premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations. | Under SFAS 60 and SFAS 120, gross premiums are reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations. Premiums collected on SFAS 97 contracts are not reported as revenue in the Consolidated Statements of Operations but are recorded as deposits to policyholders' account balances. Fees assessed against policyholders' account balances relating to mortality charges, policy administration and surrender charges are recognized as revenue. |
| Death, maturity and surrender benefits | All death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations. | For SFAS 60 and SFAS 120 contracts, all death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations. For universal life type contracts and investment contracts accounted for under SFAS 97, benefits incurred in the period in excess of related policyholders' account balances are recorded in the Consolidated Statements of Operations. |
| Change in actuarial liabilities | Interest credited on policyholders' account balances is included in change in actuarial liabilities in the Consolidated Statements of Operations. | Interest required to support SFAS 97 contracts is included in actuarial liabilities in the Consolidated Balance Sheets and is classified in general expenses in the Consolidated Statements of Operations. |
| Segregated fund assets and liabilities | Investments held in segregated funds are carried at market value. Segregated funds are managed separately from those of the general fund of the Company and are, therefore, presented in a separate schedule and are not included in the general fund Consolidated Balance Sheets or Consolidated Statements of Operations. | Assets and liabilities are called separate accounts and are presented in summary lines in the Consolidated Balance Sheets. Assets and liabilities are carried at market values and contract values, respectively. |
| Consolidated statements of cash flows | The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity in the Consolidated Statements of Cash Flows. | The cash flows from investment contracts accounted for under SFAS 97 are disclosed as a financing activity in the Consolidated Statements of Cash Flows. |
| Reinsurance | Reinsurance recoverables relating to ceded life insurance risks and ceded annuity contract risks are recorded as an offset to actuarial liabilities. | Where transfer of risk has occurred, life insurance actuarial liabilities are presented as a gross liability with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to annuities are also presented on a gross basis with the reinsured portions accounted for as deposits with reinsurers. |
| Equity | Shares issued to policyholders are recorded at nominal value and shares issued in a treasury offering are recorded at proceeds received net of share issuance costs in the Consolidated Balance Sheets. | Surplus is reclassified to share capital net of share issuance costs. Shares issued in a treasury offering are recorded at proceeds received net of share issuance costs. |

d) Condensed consolidated balance sheets, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 17 b) and 17 c) would impact the Consolidated Balance Sheets as follows:

| As at December 31 | 2001 | | 2000 | |
|--|------------------|--------------|------------------|--------------|
| | Canadian GAAP | U.S. GAAP | Canadian GAAP | U.S. GAAP |
| Assets | | | | |
| Bonds | \$ 46,070 | \$ 48,040 | \$ 33,270 | \$ 34,561 |
| Mortgages | 7,902 | 7,732 | 7,174 | 7,009 |
| Stocks | 6,964 | 6,657 | 4,621 | 4,997 |
| Real estate | 3,484 | 2,589 | 3,262 | 2,450 |
| Other investments | 693 | 619 | 884 | 923 |
| Deferred acquisition costs | – | 6,117 | – | 5,147 |
| Future income taxes | 517 | – | 515 | – |
| Reinsurance deposits and amounts recoverable | – | 2,160 | – | 1,467 |
| Other miscellaneous assets | 1,821 | 2,119 | 1,621 | 1,664 |
| Liabilities and equity | | | | |
| Actuarial liabilities | \$ 54,690 | \$ 63,110 | \$ 41,384 | \$ 48,279 |
| Other policy-related benefits | 5,113 | 5,553 | 3,171 | 3,543 |
| Future income taxes | – | 337 | – | 214 |
| Deferred realized net gains | 3,583 | – | 3,434 | – |
| Other liabilities | 1,839 | 2,457 | 1,798 | 2,164 |
| Non-controlling interest in subsidiaries | 64 | 80 | 299 | 205 |
| Common shares and retained earnings | 8,293 | 9,870 | 7,211 | 8,742 |
| Accumulated effect of comprehensive income on equity | – | 755 | – | 1,022 |

e) Condensed consolidated statements of operations, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 17 b) and 17 c) would impact the Consolidated Statements of Operations as follows:

| For the years ended December 31 | 2001 | | 2000 | |
|--|------------------|--------------|------------------|--------------|
| | Canadian GAAP | U.S. GAAP | Canadian GAAP | U.S. GAAP |
| Revenue | | | | |
| Premium income | \$ 10,247 | \$ 6,086 | \$ 8,515 | \$ 4,934 |
| Fee income | – | 1,519 | – | 1,534 |
| Investment income | 4,479 | 3,964 | 4,350 | 3,681 |
| Realized investment gains | – | 132 | – | 1,911 |
| Other revenue | 1,505 | 583 | 1,287 | 131 |
| Policy benefits and expenses | | | | |
| Policyholder payments | \$ 11,034 | \$ 6,658 | \$ 8,513 | \$ 4,933 |
| Change in actuarial liabilities | (208) | (40) | 822 | 1,425 |
| Expenses | 3,977 | 4,185 | 3,413 | 3,382 |
| Income taxes | \$ (196) | \$ (194) | \$ (273) | \$ (229) |
| Net income | \$ 1,167 | \$ 1,081 | \$ 1,068 | \$ 2,159 |
| Weighted average number of common shares outstanding (in millions) | | 482 | | 483 |
| Weighted average number of diluted common shares outstanding (in millions) | | 486 | | 484 |
| Basic earnings per share | | \$ 2.24 | | \$ 4.47 |
| Diluted earnings per share | | \$ 2.22 | | \$ 4.46 |

f) Additional information required to be reported under U.S. GAAP

(i) *Deferred acquisition costs*

Changes in deferred acquisition costs were as follows:

| For the years ended December 31 | 2001 | 2000 |
|---|-----------------|-----------------|
| Balance, January 1 | \$ 5,147 | \$ 4,066 |
| Capitalization | 1,433 | 1,443 |
| Amortization | (626) | (538) |
| Effect of net unrealized gains and losses on bonds and stocks | (96) | 85 |
| Foreign currency translation adjustment | 259 | 91 |
| Balance, December 31 | \$ 6,117 | \$ 5,147 |

(ii) *Unrealized gains (losses) on bonds and stocks*

Net unrealized gains (losses) on bonds and stocks included in equity were as follows:

| As at December 31 | 2001 | 2000 |
|---|---------------|-----------------|
| Gross unrealized gains | \$ 3,319 | \$ 3,089 |
| Gross unrealized losses | (1,045) | (822) |
| Effect on deferred acquisition cost asset | (166) | (70) |
| Effect on unearned revenue liability | 5 | 2 |
| Effect on actuarial liabilities | (796) | (826) |
| Effect on future income taxes | (562) | (351) |
| Total | \$ 755 | \$ 1,022 |

(iii) *Fair value of actuarial liabilities of investment contracts*

The fair value of actuarial liabilities of investment contracts as at December 31, 2001 was estimated at \$16,678 (2000 – \$9,324).

(iv) *Stock-based compensation*

The Company uses the intrinsic value method of accounting for stock-based compensation.

The weighted average fair value of each option granted in the year has been estimated at \$14.12 (2000 – \$10.41) using the Black-Scholes option pricing model. The pricing model uses the following weighted average assumptions: risk-free interest rate of 5.3% (2000 – 5.8%), dividend yield of 1.2% (2000 – 1.5%), expected volatility of 25% (2000 – 24%) and expected life of seven (2000 – seven) years.

The fair value of the deferred share units (“DSUs”) is measured as the intrinsic value of the DSUs at the grant date and recognized over the vesting period.

Had the fair value method been used for all awards granted, net income for the year ended December 31, 2001 would have been reduced by \$23 (2000 – \$12), and both basic and diluted earnings per share reduced by \$0.05 (2000 – \$0.02).

(v) *Derivative instruments and hedging activities*

The Company adopted the Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by Statement of Financial Accounting Standards No. 138, on January 1, 2001 and recorded an after tax cumulative transition adjustment gain of \$21 in the condensed Consolidated Statements of Operations and a reduction of \$14 in other comprehensive income relating to derivatives.

For fair value hedges, the Company is hedging changes in the fair value of assets, liabilities or firm commitments with changes in fair values of the derivative instruments recorded in income. For cash flow hedges, the Company is hedging the variability of cash flows related to variable rate assets, liabilities or forecasted transactions. The effective portion of changes in fair values of derivative instruments is recorded in other comprehensive income and reclassified into income in the same period or periods during which the hedged transaction affects earnings. The Company estimates that deferred net losses of \$53, included in other comprehensive income as at December 31, 2001, will be reclassified into earnings within the next twelve months. Cash flow hedges include hedges of certain forecasted transactions up to a maximum of 40 years. For a hedge of its net investment in a foreign operation, the Company is hedging the foreign currency exposure of a net investment in a foreign subsidiary with changes in fair values of derivative instruments recorded in the cumulative translation account.

g) *Newly issued accounting statements*

The U.S. Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 141, “Business Combinations,” (“SFAS 141”) and Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). Both Statements will be adopted by the Company effective for fiscal periods commencing January 1, 2002. SFAS 141 requires that all business combinations be accounted for using the purchase method and provides specific criteria for recognizing intangible assets separately from goodwill. Under SFAS 142, goodwill and intangible assets with an indefinite useful life are no longer amortized but are reviewed for impairment annually, or more frequently if impairment indicators arise. The Statements are consistent with the recently issued Canadian GAAP standards and therefore, there will be no impact to the Company’s reconciliation of Canadian GAAP financial statements to U.S. GAAP. The Company is currently reviewing the new standards to determine whether there are any intangible assets with an indefinite useful life and will perform the required transitional impairment test on existing goodwill effective January 1, 2002 by June 30, 2002.

Note 18 *Comparatives*

Certain comparative amounts have been reclassified to conform with the current year’s presentation.

Supplementary Tables

Table 1 Key Performance Measures

| (Canadian \$ in millions unless otherwise stated) | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Net income | 1,167 | 1,068 | 866 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |
| Net operating income | 1,167 | 1,068 | 866 | 710 | 624 | 503 | 372 | 281 | 187 | 85 | 201 |
| Adjusted shareholders' net income | 1,159 | 1,075 | 874 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |
| Capital ⁽¹⁾ | 11,513 | 8,555 | 7,771 | 7,415 | 6,377 | 4,859 | 3,826 | 3,052 | 2,771 | 2,584 | 2,162 |
| Operating return on shareholders' equity (%) ⁽²⁾ | 15.1% | 16.1% | 14.0% | 12.9% | 13.6% | 12.4% | 11.4% | 9.6% | 7.0% | 3.3% | 9.7% |
| Capital ⁽¹⁾ as a per cent of liabilities | 17.2% | 16.7% | 16.1% | 16.2% | 14.4% | 11.5% | 10.6% | 8.2% | 7.8% | 8.0% | 7.6% |

(1) Capital includes: Total equity (formerly surplus), Subordinated debt, Non-controlling interest in Manulife Financial Capital Trust and Trust preferred securities issued by subsidiaries

(2) Previously reported as operating return on surplus

Table 2 Summary Consolidated Balance Sheets

| As at December 31 (Canadian \$ in millions) | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Assets | | | | | | | | | | | |
| Bonds | 46,070 | 33,270 | 30,853 | 30,691 | 28,662 | 25,627 | 21,259 | 18,452 | 16,763 | 14,805 | 12,382 |
| Mortgages | 7,902 | 7,174 | 6,867 | 7,702 | 7,809 | 8,106 | 6,917 | 8,555 | 9,368 | 9,565 | 9,052 |
| Stocks | 6,964 | 4,621 | 4,832 | 4,042 | 3,529 | 2,796 | 2,592 | 2,954 | 2,684 | 2,260 | 2,249 |
| Real estate | 3,484 | 3,262 | 3,179 | 2,992 | 2,806 | 3,044 | 2,888 | 3,350 | 3,395 | 3,275 | 2,873 |
| Policy loans | 4,644 | 3,616 | 3,207 | 3,137 | 2,663 | 2,354 | 1,973 | 1,856 | 1,651 | 1,425 | 1,187 |
| Cash and short-term investments | 4,995 | 3,783 | 3,047 | 1,329 | 1,842 | 2,600 | 1,792 | 2,683 | 2,447 | 1,554 | 1,724 |
| Other investments | 693 | 884 | 1,180 | 499 | 479 | 292 | 173 | 209 | 368 | 557 | 571 |
| Total invested assets | 74,752 | 56,610 | 53,165 | 50,392 | 47,790 | 44,819 | 37,594 | 38,059 | 36,676 | 33,441 | 30,038 |
| Other assets | 3,861 | 3,457 | 3,543 | 2,710 | 2,733 | 2,424 | 2,268 | 2,168 | 1,818 | 1,459 | 711 |
| Total assets | 78,613 | 60,067 | 56,708 | 53,102 | 50,523 | 47,243 | 39,862 | 40,227 | 38,494 | 34,900 | 30,749 |
| Liabilities | | | | | | | | | | | |
| Actuarial liabilities | 54,690 | 41,384 | 39,748 | 38,738 | 37,227 | 36,248 | 31,257 | 31,296 | 29,028 | 26,666 | 23,219 |
| Other liabilities | 12,346 | 9,829 | 8,439 | 6,873 | 6,865 | 6,088 | 4,759 | 5,863 | 6,678 | 5,635 | 5,351 |
| Subordinated debt | 1,418 | 588 | 582 | 627 | 581 | 566 | 341 | - | - | - | - |
| Non-controlling interest in subsidiaries | 1,064 | 299 | 750 | 76 | 54 | 48 | 20 | 16 | 17 | 15 | 17 |
| Trust preferred securities issued by subsidiaries | 802 | 756 | 735 | 783 | 728 | - | - | - | - | - | - |
| Total equity⁽¹⁾ | 8,293 | 7,211 | 6,454 | 6,005 | 5,068 | 4,293 | 3,485 | 3,052 | 2,771 | 2,584 | 2,162 |
| Total liabilities and equity | 78,613 | 60,067 | 56,708 | 53,102 | 50,523 | 47,243 | 39,862 | 40,227 | 38,494 | 34,900 | 30,749 |

(1) Previously reported as surplus

Table 3 Summary Consolidated Statements of Equity⁽¹⁾

| For the years ended December 31 (Canadian \$ in millions) | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Balance, January 1 | 7,211 | 6,454 | 6,005 | 5,068 | 4,293 | 3,485 | 3,052 | 2,771 | 2,584 | 2,162 | 2,174 |
| Net income for the year | 1,167 | 1,068 | 866 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |
| Shareholder dividends | (231) | (193) | - | - | - | - | - | - | - | - | - |
| Adjustment to equity ⁽¹⁾ | - | - | - | - | (48) | 321 | - | - | - | 337 | (213) |
| Conversion costs | - | - | (31) | - | - | - | - | - | - | - | - |
| Cash distributions to policyholders | - | - | (694) | - | - | - | - | - | - | - | - |
| Issue of common shares | 2 | - | 694 | - | - | - | - | - | - | - | - |
| Initial public offering costs | - | - | (58) | - | - | - | - | - | - | - | - |
| Purchase & cancellation of common shares | - | (206) | (128) | - | - | - | - | - | - | - | - |
| Issuance costs | (12) | - | - | - | - | - | - | - | - | - | - |
| Change in Currency Translation Account | 156 | 88 | (200) | 227 | 80 | (16) | (48) | - | - | - | - |
| Balance, December 31 | 8,293 | 7,211 | 6,454 | 6,005 | 5,068 | 4,293 | 3,485 | 3,052 | 2,771 | 2,584 | 2,162 |

(1) Previously reported as surplus

Table 4 *Summary Consolidated Statements of Operations*

| For the years ended December 31 (Canadian \$ in millions) | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|--|---------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | | | | | | | | | | | |
| Premium income | 10,247 | 8,515 | 8,672 | 5,696 | 5,622 | 5,694 | 5,193 | 4,988 | 4,456 | 4,104 | 4,000 |
| Investment income | 4,479 | 4,350 | 4,369 | 4,123 | 4,010 | 3,734 | 3,231 | 2,882 | 2,853 | 2,744 | 2,635 |
| Other revenue | 1,505 | 1,287 | 1,015 | 792 | 574 | 447 | 212 | 218 | 151 | 102 | 106 |
| Total revenue | 16,231 | 14,152 | 14,056 | 10,611 | 10,206 | 9,875 | 8,636 | 8,088 | 7,460 | 6,950 | 6,741 |
| Policy benefits and expenses | | | | | | | | | | | |
| Payments to policyholders and beneficiaries | 10,134 | 7,654 | 6,608 | 6,385 | 6,508 | 5,883 | 5,132 | 4,678 | 3,764 | 3,239 | 2,722 |
| Policyholder dividends and experience rating refunds | 900 | 859 | 738 | 604 | 508 | 471 | 356 | 312 | 267 | 247 | 212 |
| Change in actuarial liabilities | (208) | 822 | 2,628 | 252 | 169 | 873 | 1,089 | 1,214 | 1,788 | 2,004 | 2,378 |
| General expenses and commissions | 3,611 | 3,277 | 2,703 | 2,118 | 1,868 | 1,693 | 1,220 | 1,204 | 1,058 | 996 | 910 |
| Interest expense | 257 | 191 | 179 | 158 | 156 | 161 | 203 | 243 | 281 | 297 | 223 |
| Premium taxes | 105 | 96 | 84 | 74 | 83 | 72 | 64 | 57 | 50 | 52 | 38 |
| Non-controlling interest in subsidiaries | 4 | (151) | (114) | 7 | 11 | 6 | 2 | 1 | 2 | (3) | - |
| Trust preferred securities issued by subsidiaries | 65 | 63 | 62 | 62 | 54 | - | - | - | - | - | - |
| Total policy benefits and expenses | 14,868 | 12,811 | 12,888 | 9,660 | 9,357 | 9,159 | 8,066 | 7,709 | 7,210 | 6,832 | 6,483 |
| Income before preferred share dividends, unusual items and income taxes | 1,363 | 1,341 | 1,168 | 951 | 849 | 716 | 570 | 379 | 250 | 118 | 258 |
| Preferred share dividends | - | - | - | - | - | - | - | - | - | (16) | (16) |
| Unusual items | - | - | - | - | 176 | - | 126 | - | - | - | - |
| Income taxes | (196) | (273) | (302) | (241) | (282) | (213) | (215) | (98) | (63) | (17) | (41) |
| Net income | 1,167 | 1,068 | 866 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |
| Net income (loss) attributed to: | | | | | | | | | | | |
| Participating policyholders (after demutualization) | 8 | (7) | (8) | - | - | - | - | - | - | - | - |
| Net income attributed to: | | | | | | | | | | | |
| Shareholders (after demutualization) | 1,159 | 1,075 | 267 | - | - | - | - | - | - | - | - |
| Mutual operations (prior to demutualization) | - | - | 607 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |
| Adjusted shareholders' net income | 1,159 | 1,075 | 874 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |
| Net income | 1,167 | 1,068 | 866 | 710 | 743 | 503 | 481 | 281 | 187 | 85 | 201 |

Table 5 *Funds under Management*

| As at December 31 (Canadian \$ in millions) | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|----------------|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Funds under management by category | | | | | | | | | | | |
| General fund | 78,613 | 60,067 | 56,708 | 53,102 | 50,523 | 47,243 | 39,862 | 40,227 | 38,494 | 34,900 | 30,749 |
| Segregated funds | 59,206 | 54,908 | 49,055 | 38,200 | 27,018 | 18,553 | 5,532 | 5,445 | 4,012 | 2,734 | 2,270 |
| Mutual funds | 1,653 | 1,563 | 1,641 | 1,708 | 2,125 | 2,782 | 934 | 746 | 563 | 441 | 477 |
| Securitized funds | - | - | - | - | - | - | - | 4,622 | 4,477 | 3,696 | 2,435 |
| Other managed funds ⁽¹⁾ | 2,710 | 6,982 | 4,732 | 3,680 | 2,652 | 2,944 | 330 | 279 | - | - | - |
| Total | 142,182 | 123,520 | 112,136 | 96,690 | 82,318 | 71,522 | 46,658 | 51,319 | 47,546 | 41,771 | 35,931 |

(1) Other managed funds included Seamark Asset Management Ltd. third party managed funds of \$4,288, \$3,074, \$2,314, \$1,797 and \$931 as at December 31, 2000, 1999, 1998, 1997 and 1996, respectively. Disposition of a portion of the Company's controlling interest in Seamark Asset Management Ltd. occurred in July 2001, at which time the Company ceased consolidation of the assets and liabilities and results of operations of Seamark and commenced accounting for this investment on an equity basis.

Table 6 *Premiums and Deposits by Line of Business and Geographic Territory*

| For the years ended December 31 (Canadian \$ in millions) | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 | 1991 |
|---|---------------|---------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| General fund premiums by line of business | | | | | | | | | | | |
| Life and health insurance | 6,594 | 5,284 | 5,552 | 3,953 | 3,758 | 3,743 | 3,089 | 2,836 | 2,541 | 2,295 | 2,050 |
| Annuities and pensions | 2,862 | 2,463 | 2,304 | 994 | 1,067 | 1,298 | 1,535 | 1,598 | 1,417 | 1,408 | 1,619 |
| Reinsurance | 791 | 768 | 816 | 749 | 797 | 653 | 569 | 554 | 498 | 401 | 331 |
| Total | 10,247 | 8,515 | 8,672 | 5,696 | 5,622 | 5,694 | 5,193 | 4,988 | 4,456 | 4,104 | 4,000 |
| General fund premiums by geographic territory | | | | | | | | | | | |
| United States | 4,187 | 3,652 | 3,498 | 2,276 | 2,202 | 2,181 | 2,152 | 2,241 | 2,373 | 2,161 | 2,190 |
| Canada | 2,963 | 2,540 | 3,347 | 2,292 | 2,294 | 2,549 | 2,142 | 1,963 | 1,548 | 1,459 | 1,418 |
| International | 3,097 | 2,323 | 1,825 | 1,120 | 1,121 | 964 | 806 | 685 | 438 | 367 | 280 |
| Divested operations | – | – | 2 | 8 | 5 | – | 93 | 99 | 97 | 117 | 112 |
| Total | 10,247 | 8,515 | 8,672 | 5,696 | 5,622 | 5,694 | 5,193 | 4,988 | 4,456 | 4,104 | 4,000 |
| Segregated fund deposits by geographic territory | | | | | | | | | | | |
| United States | 11,790 | 12,650 | 9,031 | 6,837 | 5,376 | 3,365 | 931 | 670 | 385 | 214 | 126 |
| Canada | 1,190 | 1,681 | 1,347 | 1,730 | 1,418 | 757 | 323 | 671 | 488 | 204 | 118 |
| International | 1,064 | 446 | 331 | 279 | 232 | 169 | 113 | 78 | 57 | 37 | 32 |
| Divested operations | – | – | – | – | – | – | 37 | 171 | 162 | 161 | 168 |
| Total | 14,044 | 14,777 | 10,709 | 8,846 | 7,026 | 4,291 | 1,404 | 1,590 | 1,092 | 616 | 444 |

Table 7 *Quarterly Information – Summary Statements of Operations*

| For the three months ended (Canadian \$ in millions) | 2001 | | | | 2000 | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 12/31 | 9/30 | 6/30 | 3/31 | 12/31 | 9/30 | 6/30 | 3/31 |
| Revenues | | | | | | | | |
| Premium income | 2,802 | 2,771 | 2,558 | 2,116 | 2,114 | 1,981 | 2,141 | 2,279 |
| Investment income | 1,289 | 1,023 | 1,166 | 1,001 | 1,056 | 1,120 | 1,098 | 1,076 |
| Other revenue | 401 | 401 | 357 | 346 | 338 | 337 | 321 | 291 |
| Total revenue | 4,492 | 4,195 | 4,081 | 3,463 | 3,508 | 3,438 | 3,560 | 3,646 |
| Policy benefits and expenses | | | | | | | | |
| Payments to policyholders and beneficiaries | 2,676 | 2,981 | 2,549 | 1,928 | 1,734 | 1,931 | 1,875 | 2,114 |
| Policyholder dividends and experience rating refunds | 239 | 253 | 215 | 193 | 254 | 200 | 222 | 183 |
| Change in actuarial liabilities | 37 | (237) | (69) | 61 | 177 | 134 | 293 | 218 |
| General expenses and commissions | 989 | 872 | 895 | 855 | 935 | 793 | 812 | 737 |
| Interest expense | 68 | 66 | 57 | 66 | 55 | 48 | 48 | 40 |
| Premium taxes | 28 | 25 | 28 | 24 | 25 | 24 | 24 | 23 |
| Non-controlling interest in subsidiaries | 7 | – | 2 | (5) | (70) | (42) | (54) | 15 |
| Trust preferred securities issued by subsidiaries | 16 | 17 | 16 | 16 | 16 | 16 | 15 | 16 |
| Total policy benefits and expenses | 4,060 | 3,977 | 3,693 | 3,138 | 3,126 | 3,104 | 3,235 | 3,346 |
| Income before income taxes | 432 | 218 | 388 | 325 | 382 | 334 | 325 | 300 |
| Income taxes | (96) | 31 | (80) | (51) | (96) | (19) | (83) | (75) |
| Net income | 336 | 249 | 308 | 274 | 286 | 315 | 242 | 225 |
| Net income (loss) attributed to participating policyholders | – | 1 | 3 | 4 | – | – | (5) | (2) |
| Net income attributed to shareholders | 336 | 248 | 305 | 270 | 286 | 315 | 247 | 227 |
| Net income | 336 | 249 | 308 | 274 | 286 | 315 | 242 | 225 |
| Return on shareholders' equity (annualized) | 16.4% | 12.6% | 16.2% | 15.0% | 16.1% | 18.5% | 15.3% | 14.3% |
| Capital as a per cent of liabilities | 17.2% | 15.1% | 14.9% | 18.3% | 16.7% | 16.4% | 15.8% | 15.9% |

Subsidiary Listing

| (Canadian \$ in millions as at December 31, 2001) | Ownership Percentage | Equity Interest | Address | Description |
|--|----------------------|-----------------|------------------------------------|---|
| MANULIFE FINANCIAL CORPORATION | | | | |
| The Manufacturers Life Insurance Company | 100 | \$ 577 | Toronto, Canada | Publicly traded stock life insurance company |
| The Manufacturers Investment Corporation | 100 | 4,665 | Bloomfield Hills, Michigan, U.S.A. | Holding company |
| Manulife Reinsurance Corporation (U.S.A.) ⁽¹⁾ | 100 | | | Provides life and financial reinsurance |
| The Manufacturers Life Insurance Company (U.S.A.) | 100 | | | Issues traditional life insurance and pension products |
| The Manufacturers Life Insurance Company of America ⁽¹⁾ | 100 | | | Provides variable life insurance products |
| Manulife-Wood Logan Holding Co., Inc. ⁽¹⁾ | 100 | | | Holding company |
| Manulife Wood Logan, Inc. ⁽¹⁾ | 100 | | | Markets and distributes annuities and variable life insurance |
| The Manufacturers Life Insurance Company of North America ⁽¹⁾ | 100 | | | Provides variable annuities |
| The Manufacturers Life Insurance Company of New York | 100 | | | Provides group pension, individual annuities and life insurance products in the State of New York |
| Manufacturers Securities Services, LLC | 100 | | | Investment advisor |
| Manulife Reinsurance Limited | 100 | | | Provides financial reinsurance |
| MIL Holdings (Bermuda) Limited | 100 | 654 | Hamilton, Bermuda | Holding company |
| ManuLife (International) Reinsurance Limited | 100 | | | Holding company |
| Manufacturers P&C Limited | 100 | | | Provides property & casualty and financial reinsurance |
| Manulife International Holdings Limited | 100 | 698 | Hamilton, Bermuda | Holding company |
| Manulife (International) Limited | 100 | | | Hong Kong life insurance company |
| Manulife-Sinochem Life Insurance Co. Ltd. | 51 | | | Chinese life insurance company |
| Manulife Funds Direct (Barbados) Limited | 100 | | | Holding company |
| Manulife Funds Direct (Hong Kong) Limited | 100 | | | Mutual fund marketing, investment management and advisory company |
| Manulife Bank of Canada | 100 | 49 | Waterloo, Canada | Provides integrated banking products and service options not available from an insurance company |
| FNA Financial Inc. | 100 | 22 | Toronto, Canada | Holding company |
| Elliott & Page Limited | 100 | | | Investment counseling, portfolio and mutual fund manager and mutual fund dealer |
| First North American Insurance Company | 100 | 42 | Toronto, Canada | Canadian property and casualty insurance company |
| NAL Resources Management Limited | 100 | 5 | Calgary, Canada | Management company for oil and gas properties |
| 3550435 Canada Inc. | 100 | 159 | Waterloo, Canada | Holding company |
| MFC Insurance Company Limited | 100 | | | Canadian life insurance company |
| Manulife Securities International Ltd. | 100 | 0 | Waterloo, Canada | Mutual fund dealer for Canadian Operations |
| Manulife International Capital Corporation Limited | 100 | 32 | Toronto, Canada | A specialized financing corporation and holding company |
| Regional Power Inc. | 80 | | | Operator of hydro-electric power projects |
| 994744 Ontario Inc. | 100 | 5 | Toronto, Canada | Real estate holding company |
| MLI Resources Inc. | 100 | 48 | Calgary, Canada | Holding company for oil and gas assets |
| P.T. Asuransi Jiwa Manulife Indonesia | 51 | 31 | Jakarta, Indonesia | Indonesian life insurance company |
| The Manufacturers Life Insurance Co. (Phils.), Inc. | 100 | 34 | Manila, Philippines | Philippines life insurance company |
| OUB Manulife Pte. Ltd. | 50 | 5 | Singapore | Singapore life insurance company |
| Manulife (Vietnam) Limited | 100 | 17 | Ho Chi Minh City, Vietnam | Vietnamese life insurance company |
| Manulife Century Investments (Alberta) Inc. | 100 | 1,174 | Calgary, Canada | Holding company |
| Manulife Life Insurance Company | 100 | | | Japanese life insurance company |
| Manulife Europe Ruckversicherungs-Aktiengesellschaft | 100 | 45 | Cologne, Germany | European property and casualty reinsurance company |
| Manulife International Investment Management Limited | 100 | 8 | London, England | Investment management company for Manulife Financial's international funds |
| Manulife European Holdings (Alberta) Limited | 100 | 21 | Calgary, Canada | Holding company for European financing subsidiary |
| Total | | \$ 8,291 | | |

(1) Effective January 1, 2002, these companies have been dissolved or have been merged into and/or had their businesses transferred to The Manufacturers Life Insurance Company (U.S.A.).

Board of Directors

CORPORATE GOVERNANCE PRACTICES

Manulife Financial's approach to corporate governance reflects its core values and supports its vision to be the most professional life insurance company in the world. The Company believes that adopting appropriate governance practices is fundamental to a well-run company, to the execution of its chosen strategies and to its successful business and financial performance. The Company is committed to continuing the tradition of remaining at the forefront of good governance and to ensuring the highest standards of corporate governance for its shareholders.

For a full report on Manulife Financial Corporation's corporate governance practices, please refer to the Company's Management Proxy Circular, where you will find the Company's Statement of Corporate Governance Practices, Directors' biographies, Board and Committee attendance and additional information relating to the Company's corporate governance practices. The Proxy Circular also contains reports from the Board's Committees, including Audit & Conduct Review, Corporate Governance and Management Resources & Compensation.

BOARD OF DIRECTORS

Effective as of February 1, 2002

Director Since refers to the year of first election to the Board of The Manufacturers Life Insurance Company. The Committees listed are those on which the Directors serve for Manulife Financial Corporation.

Arthur R. Sawchuk (Chairman)

*Chairman, Manulife Financial
Toronto, Canada*
Committees: Corporate Governance & Nominating (Chair); Management Resources & Compensation; Audit; Conduct Review
Director Since: 1993

Dominic D'Alessandro

*President & CEO, Manulife Financial
Toronto, Canada*
Director Since: 1994

Kevin E. Benson

*President & CEO, The Insurance
Corporation of British Columbia
Vancouver, Canada*
Committees: Audit; Conduct Review
Director Since: 1995

John M. Cassaday

*President & CEO,
Corus Entertainment Inc.
Toronto, Canada*
Committee: Management Resources & Compensation (Vice Chair)
Director Since: 1993

Lino J. Celeste

*Past Chairman, Aliant Inc.
Saint John, Canada*
Committee: Corporate Governance & Nominating
Director Since: 1994

Gail C.A. Cook-Bennett

*Chairperson, Canada Pension Plan
Investment Board
Toronto, Canada*
Committee: Management Resources & Compensation
Director Since: 1978

Robert E. Dineen, Jr.

*Partner, Shearman & Sterling
New York City, U.S.A.*
Committee: Corporate Governance & Nominating
Director Since: 1999

Pierre Y. Ducros

*President, P. Ducros & Associates Inc.
Montreal, Canada*
Committee: Management Resources & Compensation
Director Since: 1999

Allister P. Graham

*Chairman, Nash Finch Company
Minneapolis, U.S.A.*
Committees: Audit; Conduct Review
Director Since: 1996

Thomas E. Kierans

*Chairman, The Canadian Institute
for Advanced Research
Toronto, Canada*
Committees: Audit (Chair);
Conduct Review (Chair)
Director Since: 1990

Lorna R. Marsden

*President & Vice-Chancellor
York University
Toronto, Canada*
Committee: Management Resources & Compensation
Director Since: 1995

Hugh W. Sloan, Jr.

*Deputy Chairman,
Woodbridge Foam Corporation
Troy, U.S.A.*
Committee: Management Resources & Compensation (Chair)
Director Since: 1985

Gordon G. Thiessen

*Corporate Director
Ottawa, Canada*
Committees: Audit; Conduct Review
Director Since: 2002

Michael H. Wilson

*President & CEO, Brinson Canada Co.
Toronto, Canada*
Committees: Audit; Conduct Review
Director Since: 1995

Officers

EXECUTIVE COMMITTEE

Effective as of April 1, 2002

Dominic D'Alessandro
President & Chief Executive Officer

Victor S. Apps
Executive Vice President and
General Manager
Asia

John DesPrez III
Executive Vice President
U.S. Operations and
Chairman & President
Manulife USA

Bruce Gordon
Executive Vice President
Canadian Operations

Donald Guloien
Executive Vice President and
Chief Investment Officer

Geoff Guy
Executive Vice President and
Chief Actuary

Paul G. Haggis
Executive Vice President
Business Development

John C. Mather
Executive Vice President and
Chief Information Officer

Trevor J. Matthews
Executive Vice President and
President & Chief Executive Officer
Manulife Life Insurance Company
Japan

Peter H. Rubenovitch
Executive Vice President and
Chief Financial Officer

MANAGEMENT COMMITTEE

Effective as of April 1, 2002

Includes members of the Executive Committee plus:

Diane Bean
Senior Vice President
Business Development

Jim Boyle
Senior Vice President
U.S. Annuities

Robert T. Cassato
President
Manulife Wood Logan

Robert A. Cook
Senior Vice President
U.S. Insurance

Geoff Crickmay
Senior Vice President
Group Business
Canadian Operations

J. Roy Firth
Senior Vice President
Wealth Management
Canadian Operations

Peter Hutchison
Senior Vice President
Corporate Taxation

Edward Lau
Senior Vice President and
General Manager
Hong Kong

Norman Light
Senior Vice President and
Corporate Controller

Steve Mannik
Senior Vice President and
General Manager
Reinsurance Operations

Beverly S. Margolian
Senior Vice President and
Chief Risk Officer

Jim O'Malley
Senior Vice President
U.S. Group Pensions

Susan E. Robinson
Senior Vice President
Human Resources and
Communications

Paul Rooney
Senior Vice President
Individual Insurance
Canadian Operations

Dale W. J. Scott
Senior Vice President and
General Counsel

Marc Sterling
Senior Vice President
Regional Operations
Asia

Warren Thomson
Senior Vice President
Investments

Keith Walter
Senior Vice President
Marketing and Business
Development
Japan

Office Listing

CORPORATE HEADQUARTERS

Manulife Financial Corporation
Tel: (416) 926-3000
200 Bloor Street East
Toronto, ON
Canada M4W 1E5

CANADIAN DIVISION

Head Office
Tel: (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

CANADIAN SUBSIDIARIES

**Elliott & Page Limited
Mutual Funds**
Tel: (416) 581-8300
393 University Avenue
Suite 2100
Toronto, ON
Canada M5G 1E6

Manulife Bank of Canada
Tel: (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

**Manulife Securities
International Ltd.**
Tel: (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

MFC Insurance Company Limited
Tel: (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

U.S. DIVISION

**Boston National Sales and
Marketing Office**
Tel: (617) 854-4300
73 Tremont Street
Suite 1300
Boston, MA 02108-3915 U.S.A.

Toronto Office
Tel: (416) 926-0100
200 Bloor Street East, NT-G
Toronto, ON
Canada M4W 1E5

U.S. SUBSIDIARIES

**The Manufacturers Life Insurance
Company (U.S.A.) – U.S. Annuities**
Tel: (800) 344-1029
500 Boylston Street
Suite 400
Boston, MA 02116-3739 U.S.A.

**The Manufacturers Life Insurance
Company (U.S.A.) –
Manulife Wood Logan**
Tel: (800) 334-4437
680 Washington Boulevard
9th Floor
Stamford, CT 06901-3710 U.S.A.

**The Manufacturers Life Insurance
Company of New York**
Tel: (877) 391-3748
100 Summit Lake Drive
2nd Floor
Valhalla, NY 10595 U.S.A.

ASIAN DIVISION

Head Office
Tel: (852) 2510-5888
48/F., Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

HONG KONG

Manulife (International) Limited
Tel: (852) 2510-5600
31/F., Manulife Tower
169 Electric Road
North Point
Hong Kong

**Manulife Provident Funds Trust
Company Limited**
Tel: (852) 2510-5600
31/F., Manulife Tower
169 Electric Road
North Point
Hong Kong

**Manulife Funds Direct
(Hong Kong) Limited**
Tel: (852) 2510-5888
47/F., Manulife Plaza
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

INDONESIA

Manulife Indonesia
Wisma Manulife Indonesia
Tel: (62-21) 230-3223
Jl. Pegangsaan Timur No. 1A
Jakarta 10320
Indonesia

PHILIPPINES

Manulife Philippines
Tel: (63-2) 817-2976
Manulife Centre
108 Tordesillas corner
Gallardo Sts.
Salcedo Village, Makati City
Metro Manila
Philippines

TAIWAN

Manulife Taiwan
Tel: (886-2) 2740-9080
4/F., 2 Tun Hwa South Road
Section 1, Taipei
Taiwan

CHINA

**Manulife-Sinochem
Life Insurance Co. Ltd.**
Tel: (86-21) 5049-2288
21/F., Jin Mao Tower
88 Century Boulevard
Pudong New Area
Shanghai 200120
PR China

SINGAPORE

OUB Manulife Pte. Ltd.
Tel: (65) 6737-1221
491B River Valley Road
#07-00 Valley Point
Singapore 248373

VIETNAM

Manulife (Vietnam) Limited
Tel: (84-8) 825-7722
12/F., Diamond Plaza
34 Le Duan, Ho Chi Minh City
Vietnam

JAPAN

Manulife Life Insurance Company
Tel: (81-424) 898-009
1 Kokuryocho, 4 - chome
Chofu-shi, Tokyo
Japan 182-8621

REINSURANCE DIVISION

Manulife Reinsurance
Tel: (416) 926-3507
200 Bloor Street East, NT-8
Toronto, ON
Canada M4W 1E5

INVESTMENT OPERATIONS

Mortgage
Tel: (416) 926-5925 (Canada)
Tel: (416) 926-5840 (U.S.A.)
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

Real Estate
Tel: (416) 926-5500
250 Bloor Street East, 8th Floor
Toronto, ON
Canada M4W 1E5

Securities
Tel: (416) 926-5977
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

INVESTMENT AFFILIATES

**Elliott & Page Limited
Asset Management**
Tel: (416) 926-6962
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

Manulife Capital
Tel: (416) 926-5727
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

Manulife Capital Corporation
Tel: (617) 350-8500
175 Federal Street, Suite 825
Boston, MA 02110 U.S.A.

**Manulife International
Investment Management Limited**
Tel: (44-20) 7330-1900
Broad Street House
55 Old Broad Street
London, England
EC2M 1TL

Ironside Ventures LLC
Tel: (781) 622-5800
Bay Colony Corporate Center
950 Winter Street, Suite 1400
Waltham, MA 02451 U.S.A.

**NAL Resources
Management Limited**
Tel: (403) 294-3600
550 6th Avenue S.W., Suite 600
Calgary, AB
Canada T2P 0S2

Seamark Asset Management Ltd.
Tel: (902) 423-9367
1801 Hollis Street, Suite 310
Halifax, NS
Canada B3J 3N4

Shareholder Information

MANULIFE FINANCIAL CORPORATION HEAD OFFICE

200 Bloor Street East
Toronto, ON Canada M4W 1E5
Tel: (416) 926-3000
Fax: (416) 926-5454
Web site: www.manulife.com

ANNUAL MEETING OF SHAREHOLDERS

Shareholders are invited to attend the annual meeting of Manulife Financial Corporation to be held on April 30, 2002 at 10:00 a.m. in the International Room at 200 Bloor Street East, Toronto, Ontario, M4W 1E5

TRANSFER AGENT AND REGISTRAR

Contact our Transfer Agent for information regarding your shareholdings, including changes of address, changes in registration, direct deposit of dividends (Canada, United States and Hong Kong), lost certificates, or to eliminate duplicate mailings of shareholder material or to receive shareholder material electronically.

Transfer Agent in Canada

CIBC Mellon Trust Company
P.O. Box 7010,
Adelaide Street Postal Station
Toronto, ON
Canada M5C 2W9
Local: (416) 643-6268
Toll Free: 1-800-783-9495
Fax: 1-877-713-9291
e-mail:
[inquiries@cibcmellon.com](mailto:inquiries@ cibcmellon.com)

CIBC Mellon offices are also available in Montreal, Halifax, Winnipeg, Vancouver and Calgary.

Transfer Agent in the United States

Mellon Investor Services
P.O. Box 3420
South Hackensack, NJ 07606-3420
U.S.A.
Tel: 1-800-783-9768
e-mail:
inquiries@cibcmellon.com

STOCK EXCHANGE LISTINGS

Manulife Financial Corporation's common shares are listed on:
The Toronto Stock Exchange (MFC)
New York Stock Exchange (MFC)
The Stock Exchange of Hong Kong (0945)
Philippine Stock Exchange (MFC)

INVESTOR RELATIONS

Institutional investors, brokers, security analysts and other investors requiring financial information may contact our Investor Relations Department or access our Web site at www.manulife.com.
Tel: 1-800-795-9767
Fax: (416) 926-3503
e-mail:
investor_relations@manulife.com

Transfer Agent in Hong Kong

Central Registration
Hong Kong Limited
Shops 1712 - 1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
Tel: (852) 2862-8628

Transfer Agent in the Philippines

The Hong Kong and Shanghai
Banking Corporation Limited
Stock Transfer Department
30/F Discovery Suites
25 ADB Avenue
Ortigas Center, Pasig City
Philippines
Tel: (632) 683-2691

AUDITORS

Ernst & Young LLP
Chartered Accountants
Toronto, Canada

MFC ANNUAL REPORT

This annual report is also available online at www.manulife.com

COMMON SHARE TRADING SUMMARY

| | Toronto (Canadian \$) | New York (U.S. \$) | Hong Kong (Hong Kong \$) | Philippines (Philippine Peso) |
|------------------|--------------------------|-----------------------|-----------------------------|----------------------------------|
| Year 2001 | | | | |
| Fourth Quarter | | | | |
| High | \$ 44.39 | \$ 27.84 | \$ 213.00 | P 1,420 |
| Low | \$ 36.87 | \$ 23.27 | \$ 192.00 | P 1,150 |
| Close | \$ 41.60 | \$ 26.06 | \$ 203.00 | P 1,250 |
| Third Quarter | | | | |
| High | \$ 48.25 | \$ 31.36 | \$ 242.00 | P 1,640 |
| Low | \$ 34.35 | \$ 22.03 | \$ 161.00 | P 1,100 |
| Close | \$ 41.35 | \$ 26.21 | \$ 197.00 | P 1,255 |
| Second Quarter | | | | |
| High | \$ 42.50 | \$ 27.98 | \$ 214.00 | P 1,410 |
| Low | \$ 37.59 | \$ 24.40 | \$ 187.00 | P 1,175 |
| Close | \$ 42.35 | \$ 27.91 | \$ 206.00 | P 1,380 |
| First Quarter | | | | |
| High | \$ 47.25 | \$ 31.38 | \$ 237.00 | P 1,565 |
| Low | \$ 36.50 | \$ 24.25 | \$ 180.50 | P 1,100 |
| Close | \$ 41.55 | \$ 26.40 | \$ 193.00 | P 1,210 |

Year 2000

| | | | | |
|----------------|----------|----------|-----------|---------|
| Fourth Quarter | | | | |
| High | \$ 48.40 | \$ 32.19 | \$ 239.00 | P 1,545 |
| Low | \$ 30.85 | \$ 20.44 | \$ 158.50 | P 940 |
| Close | \$ 46.95 | \$ 31.38 | \$ 236.00 | P 1,530 |
| Third Quarter | | | | |
| High | \$ 32.55 | \$ 22.00 | \$ 168.00 | P 970 |
| Low | \$ 25.20 | \$ 17.06 | \$ 129.00 | P 760 |
| Close | \$ 31.60 | \$ 20.75 | \$ 163.50 | P 960 |
| Second Quarter | | | | |
| High | \$ 28.25 | \$ 19.19 | \$ 146.50 | P 805 |
| Low | \$ 20.85 | \$ 14.31 | \$ 109.00 | P 585 |
| Close | \$ 26.10 | \$ 17.81 | \$ 136.50 | P 775 |
| First Quarter | | | | |
| High | \$ 21.45 | \$ 14.75 | \$ 109.50 | P 585 |
| Low | \$ 15.25 | \$ 10.25 | \$ 79.00 | P 425 |
| Close | \$ 21.30 | \$ 14.69 | \$ 108.00 | P 575 |

COMMON SHARE DIVIDENDS

| (Canadian \$) | Record Date | Payment Date | Per Share Amount |
|------------------|-------------------|--------------------|---------------------|
| Year 2001 | | | |
| Fourth Quarter | February 15, 2002 | March 19, 2002 | \$ 0.14 |
| Third Quarter | November 15, 2001 | December 19, 2001 | \$ 0.12 |
| Second Quarter | August 15, 2001 | September 19, 2001 | \$ 0.12 |
| First Quarter | May 15, 2001 | June 19, 2001 | \$ 0.12 |

Year 2000

| | | | |
|----------------|-------------------|--------------------|---------|
| Fourth Quarter | February 21, 2001 | March 19, 2001 | \$ 0.12 |
| Third Quarter | November 20, 2000 | December 18, 2000 | \$ 0.10 |
| Second Quarter | August 25, 2000 | September 29, 2000 | \$ 0.10 |
| First Quarter | June 2, 2000 | July 7, 2000 | \$ 0.10 |

Our Market Leadership

United States

#1 provider of 401(k) defined contribution plans

US\$1 million average face value of new life insurance sales, the **highest in the industry**

2.3% market share of new annualized life insurance premiums

#12 variable annuity provider (based on sales); 3.3% market share

Canada

#1 provider of life and health insurance to alumni associations

#2 in individual life insurance market (based on new annualized premiums)

#2 in individual annuity market (based on total premiums)

#2 in individual segregated fund assets

#3 in individual segregated fund based annuity sales

#3 in group life and health insurance (based on new annualized premiums and premium equivalents)

Reinsurance

#1 life retrocessionaire in North America (based on new and inforce business)

A leading provider of financial reinsurance

Investments

Canada's **largest** commercial mortgage lender

One of **Canada's largest managers** of investment grade corporate bonds

One of the largest Canadian direct owners and managers of real estate, ranked by assets and square footage

Asia

Hong Kong

#2 in life insurance market (based on new annualized premiums); **9% market share**

#2 in defined contribution pension plans for small and medium-sized businesses; 13% of all participants in group pensions

#3 in group life and health plans for small and medium-sized organizations (based on gross earned premiums); **12% market share**

Japan

2.4% market share of term life market and 1.8% market share of medical products market (based on case count)

China

#5 in life insurance market (based on total individual premiums) in Shanghai; **3% market share**

Indonesia

#1 provider of pensions and pension administration services (based on total assets)

#2 asset manager (based on total assets under management)

#5 in group life and health insurance market (based on total life premium); **6% market share**

Philippines

#4 in individual life insurance premiums (based on direct premiums); **6% market share**

Vietnam

#3 in life insurance market (based on total premium); **10% market share**

Singapore

2% market share in individual life market, based on weighted annualized and single premiums

Taiwan

Niche player with **strong product-innovation** focus



Manulife Financial Corporation

Head Office

200 Bloor Street East
Toronto, ON, Canada M4W 1E5
Tel: (416) 926-3000
Fax: (416) 926-5454

Investor Relations

Tel: 1-800-795-9767
Fax: (416) 926-3503
e-mail: investor_relations@manulife.com

Manulife Financial is a leading provider of financial protection and wealth management products in Canada, the United States and Asia. Established in 1887 and headquartered in Canada, Manulife Financial's extensive network of employees, agents and distribution partners serve more than 8.5 million customers in 15 countries and territories worldwide.

\$1,159,000,000 shareholders' net income

8 consecutive years of record financial performance

\$142,182,000,000 funds under management



Toronto Stock Exchange



Hong Kong Exchanges
and Clearing Limited

(The Holding Company of The Stock Exchange of Hong Kong)



PHILIPPINE
STOCK
EXCHANGE

www.manulife.com