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U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 40-F

[Check one]

[ ] Registration statement pursuant to section 12 of the Securities Exchange Act of 1934

or

[X] Annual report pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002 Commission File Number 1-14942

Manulife Financial Corporation

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English (if applicable))

Canada

(Province or other jurisdiction of incorporation or organization)

N/A

(Primary Standard Industrial Classification Code Number (if applicable))

N/A

(I.R.S. Employer Identification Number (if applicable))

200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5 (416) 926-3000

(Address and telephone number of Registrant's principal executive offices)

James Gallagher, Manulife Financial Corporation, 73 Tremont Street, Suite 1300
Boston, Massachusetts, 02108-3915 USA (617) 854-8614

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

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N/A

(Title of Class)

N/A

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

N/A

(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

[ ] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

462,609,293 Common Shares

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes [ ] 82-_____ No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements which are made pursuant to the “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995.

These forward-looking statements, include, among others, statements with respect to the business operations and strategy as well as the financial performance and condition of the Company and can 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. These statements involve inherent risks and uncertainties that may cause actual results to differ materially from those expressed or implied by the forward-looking statements. Factors that could cause actual results to differ materially from the Company’s expectations include, but are not limited to, general economic conditions worldwide, market factors, including global capital market activity, interest rate and currency value fluctuations, business competition, changes in government regulations or in tax laws, including estate taxes and changes in treatment of dividends, technological changes, changes in consumer demand for the Company’s products and services, realizing increased revenue from the expansion and development of distribution channel capacity, the Company’s ability to complete strategic acquisitions and to integrate acquisitions, catastrophic events, political conditions and developments and international conflicts including the war on terrorism. Investors and others are cautioned to consider these and other factors carefully and not to place undue reliance on the Company’s forward-looking statements. The Company does not undertake to update any forward-looking statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

In accordance with the rules of the Securities and Exchange Commission, the Company maintains disclosure controls and procedures and, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of these disclosure controls and procedures within 90 days prior to the date of this annual report. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that, as of the date of the evaluation, the Company’s disclosure controls and procedures were adequate and effective.

Change in Internal Controls

There were no significant changes in the Company’s internal controls or in other factors that could significantly affect these internal controls subsequent to the date on which the Chief Executive Officer and Chief Financial Officer completed their evaluation of these controls.

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UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

MANULIFE FINANCIAL CORPORATION

By: /s/ “Christer V. Ahlvik”

Christer V. Ahlvik
Vice President, Corporate Law and Corporate Secretary

Date: March 31, 2003

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CERTIFICATION

I, Dominic D'Alessandro, certify that:

1. I have reviewed this annual report on Form 40-F of Manulife Financial Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ "Dominic D'Alessandro"

Dominic D'Alessandro
President and Chief Executive Officer

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CERTIFICATION

I, Peter H. Rubenovitch, certify that:

1. I have reviewed this annual report on Form 40-F of Manulife Financial Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (and persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ "Peter H. Rubenovitch"

Peter H. Rubenovitch
Executive Vice President and
Chief Financial Officer

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EXHIBITS

Exhibit No.	Description
Ex. 99.1	2002 Consolidated Financial Statements
Ex. 99.2	Management's Discussion and Analysis of Financial Conditions and Results of Operations
Ex. 99.3	Consent of Appointed Actuary
Ex. 99.4	Consent of Independent Auditors

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 accounting requirements of the Superintendent of Financial Institutions (Canada). Appropriate accounting policies and estimates are also used in the determination of the information prepared in accordance with 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 and Risk Management Committee of unrelated directors appointed by the Board of Directors.

The Audit and Risk Management 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 and Risk Management Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit and Risk Management 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 and Risk Management Committee.

/s/ DOMINIC D'ALESSANDRO
President and
Chief Executive Officer

/s/ PETER H. RUBENOVITCH
Executive Vice President and
Chief Financial Officer

Toronto, Canada

February 4, 2003

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, 2002 and 2001 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.

/**s**/ **GEOFF I. GUY, F.C.I.A.**
Executive Vice President and Appointed Actuary

Toronto, Canada *February 4, 2003*

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, 2002 and 2001 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, 2002 and 2001 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).

/**s**/ **ERNST & YOUNG LLP**
Chartered Accountants

Toronto, Canada *February 4, 2003*

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31 (Canadian $ in millions, except per share amounts)	2002	2001
Revenue		
Premium income	$10,779	$10,247
Investment income (note 3(b))	4,235	4,479
Other revenue	1,518	1,505
Total revenue	$16,532	$16,231
Policy benefits and expenses		
To policyholders and beneficiaries		
Death and disability benefits	$ 3,388	$ 3,186
Maturity and surrender benefits	4,045	4,171
Annuity payments	1,342	1,307
Policyholder dividends and experience rating refunds	932	900
Net transfers to segregated funds	656	1,470
Change in actuarial liabilities (note 4)	307	(208)
General expenses	2,490	2,478
Commissions	1,207	1,133
Interest expense	243	257
Premium taxes	111	105
Non-controlling interest in subsidiaries	72	4
Trust preferred securities issued by subsidiaries	65	65
Total policy benefits and expenses	$14,858	$14,868
Income before income taxes	$ 1,674	$ 1,363
Income taxes (note 5)	(304)	(196)
Net income	$ 1,370	$ 1,167
Net income (loss) attributed to participating policyholders	$ (8)	$ 8
Net income attributed to shareholders	$ 1,378	$ 1,159
Net income	$ 1,370	$ 1,167
Weighted average number of common shares outstanding (in millions)	476	482
Weighted average number of diluted common shares outstanding (in millions)	479	486
Basic earnings per share	$ 2.90	$ 2.40
Diluted earnings per share	$ 2.88	$ 2.38

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

CONSOLIDATED BALANCE SHEETS

As at December 31 (Canadian $ in millions)	2002	2001
ASSETS		
Invested assets (note 3)		
Bonds	$46,677	$46,070
Mortgages	9,294	7,902
Stocks	6,898	6,964
Real estate	3,570	3,484
Policy loans	4,939	4,644
Cash and short-term investments	5,143	4,995
Other investments	1,041	693
Total invested assets	$77,562	$74,752
Other assets		
Accrued investment income	$ 1,010	$ 1,041
Outstanding premiums	558	482
Future income taxes (note 5)	132	517
Goodwill	634	595
Miscellaneous	1,299	1,226
Total other assets	$ 3,633	$ 3,861
Total assets	$81,195	$78,613
Segregated funds net assets	$58,831	$59,206
LIABILITIES AND EQUITY		
Actuarial liabilities (note 4)	$56,397	$54,690
Benefits payable and provision for unreported claims	2,693	2,411
Policyholder amounts on deposit	2,835	2,702
Deferred realized net gains (note 3)	3,297	3,583
Banking deposits	1,437	769
Other liabilities	2,499	2,881
	$69,158	$67,036
Subordinated debt (note 6)	1,436	1,418
Non-controlling interest in subsidiaries (note 7)	1,059	1,064
Trust preferred securities issued by subsidiaries (note 8)	794	802
Equity		
Participating policyholders' equity	92	62
Shareholders' equity		
Common shares (note 9)	596	614
Shareholders' retained earnings	8,060	7,617
Total equity	$ 8,748	$ 8,293
Commitments and contingencies (note 13)		
Total liabilities and equity	$81,195	$78,613
Segregated funds net liabilities	$58,831	$59,206

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

/s/ DOMINIC D'ALESSANDRO
President and
Chief Executive Officer

/s/ ARTHUR R. SAWCHUK
Chairman of the
Board of Directors

CONSOLIDATED STATEMENTS OF EQUITY

For the years ended December 31 (Canadian $ in millions)	Participating policyholders	Shareholders	2002	2001
Operating retained earnings				
Balance, January 1	$ 62	$ 7,330	$ 7,392	$ 6,468
Net income (loss)	(8)	1,378	1,370	1,167
Shareholder dividends	–	(285)	(285)	(231)
Issuance costs	–	–	–	(12)
Purchase and cancellation of common shares (note 9)	–	(700)	(700)	–
Transfer of participating policyholders' retained earnings from acquisition	38	–	38	–
Balance, December 31	$ 92	$ 7,723	$ 7,815	$ 7,392
Currency translation account				
Balance, January 1	$ –	$ 287	$ 287	$ 131
Change during the year	–	50	50	156
Balance, December 31	$ –	$ 337	$ 337	$ 287
Total retained earnings	$ 92	$ 8,060	$ 8,152	$ 7,679
Common shares				
Balance, January 1	$ –	$ 614	$ 614	$ 612
Common shares issued on exercise of options (note 9)	–	8	8	2
Purchase and cancellation of common shares (note 9)	–	(26)	(26)	–
Balance, December 31	$ –	$ 596	$ 596	$ 614
Total equity	$ 92	$ 8,656	$ 8,748	$ 8,293

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (Canadian $ in millions)	2002	2001
Operating activities		
Operating cash inflows		
Premiums and annuity considerations	$ 10,705	$ 10,255
Investment income received	4,124	3,839
Other revenue	1,518	1,471
Total operating cash inflows	$ 16,347	$ 15,565
Operating cash outflows		
Benefit payments	$ 8,505	$ 10,981
Insurance expenses and taxes (notes 5 and 6)	4,042	3,980
Dividends paid to policyholders	932	900
Net transfers to segregated funds	656	1,470
Change in other assets and liabilities	(46)	1,143
Total operating cash outflows	$ 14,089	$ 18,474
Cash provided by (used in) operating activities	$ 2,258	$ (2,909)
Investing activities		
Purchases and mortgage advances	$(46,259)	$(48,468)
Disposals and repayments	44,980	39,718
Cash received from assumptions and acquisition of businesses, net of cash paid	(139)	10,874
Net cash proceeds on disposition of Seamark Asset Management Ltd.	–	29
Cash provided by (used in) investing activities	$ (1,418)	$ 2,153
Financing activities		
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	$ (356)	$ 273
Banking deposits, net	668	177
Shareholder dividends	(285)	(231)
Borrowed (repaid) funds, net	(2)	32
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)	8	2
Purchase and cancellation of common shares (note 9)	(726)	–
Cash provided by (used in) financing activities	$ (693)	$ 2,037
Cash and short-term investments		
Increase during the year	$ 147	$ 1,281
Balance, January 1	4,761	3,480
Balance, December 31	$ 4,908	$ 4,761
COMPOSITION OF CASH AND SHORT-TERM INVESTMENTS		
Beginning 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, January 1	$ 4,761	$ 3,480
End of year		
Gross cash and short-term investments	$ 5,143	$ 4,995
Net payments in transit, included in other liabilities	(235)	(234)
Net cash and short-term investments, December 31	$ 4,908	$ 4,761

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

SEGREGATED FUNDS

CONSOLIDATED STATEMENTS OF NET ASSETS

As at December 31 (Canadian $ in millions)	2002	2001
Investments, at market values		
Bonds	$ 3,698	$ 2,405
Stocks	51,014	53,511
Mortgages	26	–
Real estate	–	2
Cash and short-term investments	4,119	3,390
Accrued investment income	10	9
Other assets (liabilities), net	(36)	(111)
Total segregated funds net assets	$58,831	$59,206
Composition of segregated funds net assets:		
Held by Policyholders	$58,450	$59,052
Held by the Company	381	154
Total segregated funds net assets	$58,831	$59,206

SEGREGATED FUNDS

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31 (Canadian $ in millions)	2002	2001
Additions		
Deposits from policyholders	$ 17,013	$14,044
Net realized and unrealized investment losses	(10,552)	(7,868)
Interest and dividends	1,332	1,505
Net transfers from general fund	656	1,470
Funds assumed and acquired (note 11)	40	287
Currency revaluation	(377)	2,697
Total additions	$ 8,112	$12,135
Deductions		
Payments to policyholders	$ 7,617	$ 6,993
Management and administrative fees	870	844
Total deductions	$ 8,487	$ 7,837
Net addition (reduction) to segregated funds for the year	$ (375)	$ 4,298
Segregated funds net assets, January 1	59,206	54,908
Segregated funds net assets, December 31	$ 58,831	$59,206

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

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 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 makes 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. No recognition of unrealized gains and losses unless there is impairment.	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	At amortized cost less repayments and an allowance for specific losses. No recognition of unrealized gains and losses unless there is impairment.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.	Impairment is recognized on a specific mortgage when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages 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, net of expected costs of realization and any amounts legally required to be paid to borrowers, or at observable market prices for the mortgages. Mortgages are classified as impaired whenever payments are three months or more in arrears or if there is a provision against the mortgage. 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	Recognition of unrealized gains and losses is on a moving average market basis whereby carrying values are adjusted towards market value at 5% per quarter.	Deferred and brought into income at the rate of 5% of unamortized deferred realized gains and losses each quarter.	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	Recognition of unrealized gains and losses is on a moving average market basis whereby carrying values are adjusted towards market value at 3% per quarter.	Deferred and brought into income at the rate of 3% of unamortized deferred realized gains and losses each quarter.	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.

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

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.

Other investments include investments in oil and gas properties, equipment leases, limited partnerships, commercial loans, investments in segregated and mutual funds and derivative assets.

c) GOODWILL

Goodwill represents the excess of the cost of businesses acquired over fair values of the net assets acquired. Goodwill is not amortized but is tested for impairment on at least an annual basis. When goodwill is determined to be impaired, a charge is recorded in income to the extent the carrying value exceeds the estimated fair value.

d) 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.

e) 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 liabilities associated with these minimum guarantees are recorded in actuarial liabilities in the general fund of the Company.

f) 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).

g) 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 substantively 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.

h) 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.

i) STOCK-BASED COMPENSATION

The Company provides compensation to certain employees and directors 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.

j) EMPLOYEE FUTURE BENEFITS

The Company maintains a number of pension plans for its eligible employees and agents. The assets supporting trusteed pension plans are held in separate trusteed pension funds. Other pension plan benefits are included in Other liabilities and are supported by the Company's general fund assets.

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 dates of full entitlement.

k) 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.

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.

NOTE 2 Changes in Accounting Policies and Estimates and Newly Issued Accounting Policies

a) EARNINGS PER SHARE

Effective January 1, 2001, the Company adopted retroactively the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3500, "Earnings Per Share," which requires the use of the treasury stock method of computing diluted earnings per share. 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

Effective January 1, 2002, the Company adopted CICA Handbook Section 1581, "Business Combinations" and Handbook Section 3062, "Goodwill and Other Intangible Assets." 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 completed the transitional and annual impairment tests and determined that goodwill is not impaired.

The following table presents the net income attributed to shareholders and basic and diluted earnings per share in accordance with the transitional provisions of Handbook Section 3062 in effect since January 1, 2002:

For the years ended December 31	2002	2001
Net income attributed to shareholders, as reported	$1,378	$1,159
Add back: goodwill amortization, net of tax	–	27
Net income attributed to shareholders, excluding goodwill amortization, net of tax	$1,378	$1,186
Basic earnings per share, as reported	$ 2.90	$ 2.40
Basic earnings per share, excluding goodwill amortization, net of tax	$ 2.90	$ 2.46
Diluted earnings per share, as reported	$ 2.88	$ 2.38
Diluted earnings per share, excluding goodwill amortization, net of tax	$ 2.88	$ 2.44

c) STOCK-BASED COMPENSATION

Effective January 1, 2002, the Company adopted prospectively CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments," which requires that stock-based compensation awarded to non-employees, direct awards of stock, awards that call for settlement in cash or other assets 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 require the disclosure of the pro forma net income and pro forma earnings per share amounts as if fair value based accounting had been used. This standard did not materially affect these consolidated financial statements and the calculation of Manulife Financial Corporation's earnings per share. The Company expects to change its accounting policy for stock options granted to employees from the intrinsic method to the fair value method effective January 1, 2003 for awards granted on or after January 1, 2002.

d) HEDGING RELATIONSHIPS

In November 2001, the CICA issued Accounting Guideline 13, "Hedging Relationships," effective for fiscal years beginning on or after July 1, 2003, 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.

e) MOVING AVERAGE MARKET METHOD

In the second quarter of 2002, OSFI modified the moving average market method for stocks and real estate portfolios. As such, the rates used to adjust carrying values towards market value have been changed to 5% per quarter from 15% per annum for stocks and to 3% per quarter from 10% per annum for real estate. The Company adopted the change in rates effective for the second quarter.

NOTE 3 Invested Assets and Income

a) INVESTED ASSETS

As at December 31 2002	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains	Total realized and unrealized net gains
Bonds (fixed maturity) Canadian government	$ 8,674	$ 9,889	$ 1,328	$ (113)	$ 277	$ 1,492
Foreign governments	9,958	10,727	824	(55)	318	1,087
Corporate	26,953	28,376	1,553	(130)	860	2,283
Mortgage-backed securities	1,092	1,163	77	(6)	35	106
Mortgages	9,294	10,023	735	(6)	46	775
Stocks	6,898	5,799	566	(1,665)	1,632	533
Real estate	3,570	3,868	372	(74)	100	398
Policy loans	4,939	4,939	–	–	–	–
Cash and short-term investments	5,143	5,144	1	–	–	1
Other investments	1,041	1,077	46	(10)	29	65
Total invested assets	$ 77,562	$81,005	$ 5,502	$ (2,059)	$ 3,297	$ 6,740
2001						
Bonds (fixed maturity) Canadian government	$ 8,075	$ 8,973	$ 918	$ (20)	$ 195	$ 1,093
Foreign governments	10,593	10,811	266	(48)	256	474
Corporate	26,158	26,973	1,102	(287)	630	1,445
Mortgage-backed securities	1,244	1,283	43	(4)	30	69
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

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 creditworthiness 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. Foreclosed properties of $13 are included in real estate as at December 31, 2002 (2001 – $40). 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. Included in other investments are oil and gas properties, the fair value of which is determined by external appraisals.

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

BONDS

As at December 31	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
Maturity				
Due in one year or less	$ 4,066	$ 4,103	$ 3,711	$ 3,733
Due after one year through five years	14,923	15,414	14,732	14,995
Due after five years through ten years	17,080	19,239	10,903	11,318
Due after ten years	9,516	10,236	15,480	16,711
Mortgage-backed securities	1,092	1,163	1,244	1,283
Total	$46,677	$50,155	$46,070	$48,040

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

MORTGAGES

As at December 31	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
Residential	$ 2,020	$ 2,125	$ 1,761	$ 1,817
Office	2,619	2,869	2,015	2,126
Retail	2,196	2,357	1,891	1,995
Industrial	2,160	2,350	1,942	2,038
Other	299	322	293	310
Total	$ 9,294	$10,023	$ 7,902	$ 8,286

The carrying value of government-insured mortgages was 4% of the total carrying value of the mortgage portfolio as at December 31, 2002 (2001 – 3%) and the value of privately-insured mortgages was 1.1% of the total mortgage portfolio as at December 31, 2002 (2001 – 1.3%).

b) INVESTMENT INCOME

For the years ended December 31 2002	Gross investment income (loss)	Provision for impairment, net (note 3(e))	Amortization of net realized and unrealized gains (losses)	Total	Yield (%)
Bonds	$ 2,627	$ (198)	$ 160	$ 2,589	5.82
Mortgages	635	(3)	15	647	7.95
Stocks	101	–	185	286	5.84
Real estate	272	4	50	326	10.64
Policy loans	393	–	–	393	8.23
Cash and short-term investments	77	–	–	77	N/A
Other investments	(86)	–	4	(82)	N/A
Currency	–	–	(1)	(1)	N/A
Total	$ 4,019	$ (197)	$ 413	$ 4,235	5.93
2001					
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	N/A
Other investments	5	(1)	43	47	N/A
Currency	–	–	16	16	N/A
Total	$ 3,962	$ (99)	$ 616	$ 4,479	6.90

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, 2002, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $3,347 and $3,387,respectively (2001 – $2,692 and $2,712, respectively).

d) MORTGAGE SECURITIZATION

In prior years, the Company sold commercial mortgages for cash, with limited recourse. The maximum recourse on these mortgages is less than 10% of the proceeds. When the mortgages were sold, they were removed from the Company's Consolidated Balance Sheets with any resultant gain or loss deferred and amortized into investment income. As at December 31, 2002, outstanding balances of sold mortgages with limited recourse was $313 (2001 – $389).

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 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)).

The carrying value of impaired assets was as follows:

As at December 31, 2002	Gross amount	Allowance	Carrying value
Mortgages	$ 36	$ 20	$ 16
Other impaired assets	377	270	107
Total	$ 413	$ 290	$ 123
2001			
Mortgages	$ 64	$ 25	$ 39
Other impaired assets	330	183	147
Total	$ 394	$ 208	$ 186

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

ALLOWANCE FOR IMPAIRMENT	2002	2001
Balance, January 1	$ 208	$ 162
Provisions during the year	197	99
Write-offs, net of recoveries	(115)	(53)
Balance, December 31	$ 290	$ 208

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, 2002, 96% of bonds (2001 – 97%) were rated at investment grade "BBB" or higher, and 81% (2001 – 78%) were rated "A" or higher. Government bonds represented 40% (2001 – 41%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was $436 (2001 – $585). 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 $4,222 (2001 – $3,660) of the total portfolio. Income-producing commercial office properties were the largest concentration in the real estate portfolio with $2,530 (2001 – $2,508). As at December 31, 2002, 95% (2001 – 96%) of the stock portfolio was comprised of publicly listed corporations. The largest single issuer represented 6% (2001 – 4%) 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. As at December 31,2002,52% (2001 – 85%) of the exposed amount was with counterparties rated "AA" or higher. The largest single counterparty exposure as at December 31, 2002 was $32 (2001 – $23).

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 estimated future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies in force. Under Canadian GAAP, the determination of actuarial liabilities is based on an explicit projection of cash flows using best estimate assumptions for each material cash flow item and contingency. Investment returns are based on projected investment income using the current asset portfolios and projected reinvestment strategies. Each assumption is adjusted by a margin for adverse deviation.

For minimum guarantees on segregated funds, the Company determines actuarial liabilities 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 termination assumptions are the key variables that are modeled.

The composition of actuarial liabilities by line of business and geographic territory was as follows:

As at December 31, 2002	Individual life insurance		Annuities and pensions	Other insurance liabilities	Total
	Participating	Non-participating			
United States	$ 11,294	$ 3,735	$ 7,000	$ 1,360	$23,389
Canada	2,914	2,840	10,892	1,953	18,599
International	11,070	1,827	1,423	89	14,409
Total	$ 25,278	$ 8,402	$ 19,315	$ 3,402	$56,397
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

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, 2002, $15,983 (2001 – $15,123) of both assets and actuarial liabilities related to the participating policy-holders’ account were included in the closed blocks.

b) ASSETS BACKING LIABILITIES AND EQUITY

The Company has established target invested asset portfolio mixes, which take 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 annuities 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, 2002 was estimated at $59,087 (2001 – $56,405).

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, 2002 was estimated at $25,551 (2001 – $24,647).

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

As at December 31, 2002	Individual life insurance		Annuities and pensions	Other(1)	Capital(2)	Total
	Participating	Non-participating				
Assets						
Bonds	$ 13,809	$ 5,197	$ 12,412	$ 9,507	$ 5,752	$46,677
Mortgages	1,583	880	3,886	2,393	552	9,294
Stocks	2,317	311	307	1,157	2,806	6,898
Real estate	1,772	483	61	915	339	3,570
Other	5,797	1,531	2,649	2,250	2,529	14,756
Total	$ 25,278	$ 8,402	$ 19,315	$16,222	$11,978	$81,195

(1) Other includes group insurance, reinsurance 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.

As at December 31, 2001	Individual life insurance		Annuities and pensions	Other(1)	Capital(2)	Total
	Participating	Non-participating				
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

(1) Other includes group insurance, reinsurance 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 31,2002 were $1,859 (2001 – $2,025).

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
Mortality and Morbidity	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. Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on Company and industry experience.	The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. 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. Mortality is monitored monthly and 2002 experience was consistent with the Company's assumptions. Morbidity is also monitored monthly and 2002 experience was favourable when compared with the Company's assumptions.
Investment return	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. 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.	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. The interest rate risk positions in business segments are monitored on an ongoing basis. Under the Canadian Asset Liability Method (CALM), the reinvestment rate is quantified by using interest rate scenario testing. The exposure to asset default is managed by policies and procedures, which limit concentrations by issuer, connections, rating, sector and geographic region. On certain policies, such as for participating insurance and universal life, asset default experience is passed back to policyholders through the investment return crediting formula. The Company holds explicit provisions in actuarial liabilities for asset credit risk, which including provisions for adverse deviation, totaled $1,699 as at December 31, 2002 (2001 – $1,525).

	Nature of factor and assumption methodology	Risk management
Investment return, continued		In 2002, mortgage default experience continued to be favourable when compared to the Company's assumptions. Bond default experience for 2002 was favourable when compared with the Company's assumptions, with the exception of the telecommunications sector, which was unfavourable. Stocks and real estate are used primarily to support liabilities where investment return experience is passed back to policyholders through dividends or credited investment return adjustments. A limited amount of stocks are also used to support long-dated obligations in the Company's U.S. annuity and pension businesses, and for insurance liabilities in Japan.
Policy terminations	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.	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. In aggregate, 2002 lapse experience on insurance products was slightly unfavourable when compared to assumptions used in the computation of actuarial liabilities.
Expenses and taxes	Operating expense assumptions reflect the projected costs of maintaining and servicing in force policies and associated overhead expenses. These expenses are derived from the Company's internal cost studies projected into the future with an allowance for inflation. Taxes reflect assumptions for future premium taxes and other non-income related taxes. The impact of income taxes, projected on the basis of the valuation assumptions (expected plus margin for adverse deviation), is also included.	The Company prices its products to cover the expected costs of servicing and maintaining them. In addition, the Company monitors expenses monthly, including comparisons of actual expenses to expense levels allowed for in pricing and valuation. Maintenance expenses for 2002 were favourable when compared with the assumptions used in the computation of actuarial liabilities. The Company prices its products to cover the expected cost of taxes.

Provision for adverse deviation assumptions

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 rate risk. For other risks, which are not specifically addressed by the Canadian Institute of Actuaries, a range is defined as 5% to 20% of the expected experience assumption, taking into account the risk profiles of the business. The Company uses assumptions at the conservative end of the permissible ranges.

d) RISK MANAGEMENT

In addition to risks related to reserve assumptions, the Company is also exposed to the following risks, which are considered in establishing actuarial liabilities:

Interest rate risk

Interest rate changes may result in losses if asset and liability cash flows are not closely matched with respect to timing and amount. The Company measures and manages interest rate risk exposure using a variety of sophisticated measures, including cash flow gaps, durations, key rate durations, convexity, and economic value at risk based on both stochastic scenarios and predetermined scenarios.

The Company's exposure to interest rate movements, expressed as the impact on economic value(1), was as follows:

As at December 31	2002	2001
1% increase	$ (56)	$ 34
1% decrease	$ 83	$ (87)

(1) Impact on economic value represents the potential economic gain (loss) as a result of an immediate and parallel change of 1% in interest rates across all maturities in all markets, with a 0% interest rate floor.

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.

As at December 31, 2002, assets exceeded liabilities denominated in foreign currencies by approximately $4,318 (2001 – $3,278), of which $3,360 as at December 31, 2002 (2001 – $2,340) related to the United States dollar. The impact of a 1% strengthening of the Canadian dollar relative to the United States dollar would have resulted in an $8 decrease in net income for the year ended December 31, 2002 (2001 – $3) and a $34 decrease in equity as at December 31, 2002 (2001 – $23).

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. The economic impact of dis-intermediation risk is captured as part of the interest rate risk testing in the CALM methodology.

The Company has established minimum levels for both operating and strategic liquidity measures. Operating liquidity is maintained at or above the level of one month's operating cash outflows. Strategic liquidity is measured using an industry-accepted model under both immediate (within one month) and ongoing (within one year) stress scenarios. Under this model, adjusted liquid assets include cash and short-term investments, and marketable bonds and stocks discounted to reflect their convertibility to cash, net of maturing debt obligations. Under the model, actuarial liabilities are adjusted to reflect their potential for withdrawal. The Company's policy is to maintain adjusted liquid assets at a level well above adjusted actuarial liabilities.

The Company's strategic liquidity was as follows:

As at December 31	2002		2001	
	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Adjusted liquid assets	$52,463	$53,231	$51,263	$52,101
Adjusted actuarial liabilities	$ 9,176	$12,617	$ 9,016	$12,451
Liquidity ratio	572%	422%	569%	418%

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 $3,306 as at December 31, 2002 (2001 – $2,435).

The effect of reinsurance on premium income was as follows:

For the years ended December 31	2002	2001
Direct premium income	$10,272	$ 9,896
Reinsurance assumed	1,109	821
Reinsurance ceded	(602)	(470)
Total premium income	$10,779	$10,247

e) CHANGE IN ACTUARIAL LIABILITIES

Change in actuarial liabilities during the year was a result of the following business activities and changes in actuarial estimates:

For the years ended December 31	2002	2001
Balance, January 1	$54,690	$41,384
Normal change		
New policies	1,605	1,932
In force	(1,307)	(2,271)
Changes in methods and assumptions	9	131
Changes due to acquisition and assumption transactions	668	12,150
Currency impact	732	1,364
Balance, December 31	$56,397	$54,690

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 continued volatility in world equity markets in 2002, 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 margins for investment risks on certain insurance products where investment performance can be passed back to policyholders. Actuarial liabilities on these insurance policies continue to be adequate, appropriate and consistent with the Company's actuarial policies. In aggregate, these changes decreased pre-tax earnings by $9 (2001— $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 38% as at December 31, 2002 (2001 – 41%) for the following reasons:

RECONCILIATION OF INCOME TAX EXPENSE

For the years ended December 31	2002	2001
Income tax at Canadian statutory rates	$ 636	$ 559
Increase (decrease) in tax due to:		
Tax-exempt investment income	(80)	(49)
Differences in tax rates on income not subject to tax in Canada	(265)	(207)
Recognition of tax benefit from prior years	(15)	(118)
Changes in future tax asset from statutory rate changes	(14)	18
Other	42	(7)
Income taxes	$ 304	$ 196

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

For the years ended December 31	2002	2001
Canadian income tax expense:		
Current taxes	$ 96	$ 71
Future taxes	28	2
	$ 124	$ 73
Foreign income tax expense:		
Current taxes	$ (105)	$ –
Future taxes	285	123
	$ 180	$ 123
Income tax expense	$ 304	$ 196

The amount of income taxes paid in cash during the year ended December 31, 2002 was $103 (2001 – $188).

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	2002	2001
Future income tax asset:		
Gains on sale of invested assets	$ 457	$ 502
Other	1,185	667
	$ 1,642	$ 1,169
Valuation allowance	(174)	(114)
Future income tax asset	$ 1,468	$ 1,055
Future income tax liability:		
Actuarial liabilities	$ (613)	$ (3)
Real estate	(392)	(314)
Securities	(245)	(127)
Other	(86)	(94)
Future income tax liability	$ (1,336)	$ (538)
Net future income tax asset	$ 132	$ 517

As at December 31, 2002, the Company has approximately $2,903 (2001 – $1,790) of tax loss carryforwards available, which expire between the years 2003 and 2016. A benefit has been recognized in the amount of $843 (2001 – $607) in future income taxes. A benefit in the amount of $174 (2001 – $22) has not been recognized.

NOTE 6 Subordinated Debt

As at December 31	2002	2001
7.875% U.S. dollar	$ 395	$ 398
8.25% U.K. pound	241	220
5.70% Canadian dollar	250	250
6.24% Canadian dollar	550	550
Total	$ 1,436	$ 1,418
Fair value	$ 1,523	$ 1,470

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, 2002 was $98 (2001 – $91).

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).

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 10 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	2002	2001
Non-controlling interest in common equity of subsidiaries	$ 59	$ 64
Manulife Financial Capital Securities – Series A	60	60
Manulife Financial Capital Securities – Series B	940	940
Total	$ 1,059	$ 1,064

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, under 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	2002	2001
Trust Preferred Securities	$ 794	$ 802

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 purchase 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:

a) an unlimited number of common shares without nominal or par value; and

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

On October 14, 2002, 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 4.3% of common shares issued and outstanding at the time, in the 12-month period commencing October 17, 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. As at December 31, 2002, two million shares were purchased pursuant to this bid at a cost of $64.

A previous normal course issuer bid program terminated on October 16, 2002.

During the year, Manulife Financial Corporation purchased and subsequently cancelled 20 million of its common shares pursuant to the two normal course issuer bids at a total cost of $726. Common shares outstanding were reduced by $26 and retained earnings were reduced by $700.

For the years ended December 31	2002		2001	
	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
Common shares				
Balance, January 1	**482**	$ **614**	482	$ 612
Issued on exercise of stock options and deferred share units (note 10)	**1**	**8**	–	2
Normal course issuer bids – purchased for cancellation	**(20)**	**(26)**	–	–
Balance, December 31	**463**	$ **596**	482	$ 614

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 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 issuances under the ESOP.

In 2000, 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 2002 and 2001. The number of DSUs outstanding was two million as at December 31, 2002 (2001 – three 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.

The Company also granted stock options to eligible directors under the new Director Equity Incentive Plan ("DEIP"). An option provides the holder the right to purchase one common share at an exercise price equal to the closing market price of Manulife Financial Corporation's common shares on the Exchange on the business day immediately preceding the date the option was granted. These DEIP options vest immediately and expire not more than 10 years from the grant date. A total of 500,000 common shares have been reserved for issuance under the DEIP.

For the years ended December 31	2002		2001	
	Number of options (in millions)	Weighted average exercise price	Number of options (in millions)	Weighted average exercise price
Outstanding, January 1	8	$ 36.22	5	$ 31.60
Granted	3	$ 42.76	3	$ 41.80
Outstanding, December 31	11	$ 38.20	8	$ 36.22
Exercisable, as at December 31	4	$ 33.91	2	$ 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 8.3 years.

The weighted average fair value of each option granted in the year has been estimated at $13.85 (2001 – $14.12) using the Black-Scholes option pricing model. The pricing model uses the following weighted average assumptions: risk-free interest rate of 5.2% (2001 – 5.3%), dividend yield of 1.4% (2001 – 1.2%), expected volatility of 25% (2001 – 25%) and expected life of seven (2001 – seven) years.

The following table presents the impact on net income and both basic and diluted earnings per share had the fair value method been used for all awards granted in 2002 and prior years:

For the years ended December 31	2002	2001
Reduction in net income	$ 48	$ 58
Reduction in basic earnings per share	$ 0.10	$ 0.12
Reduction in diluted earnings per share	$ 0.10	$ 0.12

NOTE 11 Acquisition and Assumption Transactions

a) 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”). 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.

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

Total general fund assets	$15,860
Segregated fund assets	$ 157
Total general fund liabilities	$15,860
Segregated fund liabilities	$ 157

b) OTHER

The fair value of assets acquired or assumed for other transactions was as follows:

Transaction date	Company/business	Fair value of assets acquired or assumed	
		General fund	Segregated funds
November 25, 2002	CMG Life Insurance Co., Inc. and CMG Plans, Inc.	$ 134	$ –
March 25, 2002	Zurich Life Insurance Company of Canada	754	40
April 1, 2001	Commercial Union Life Assurance Company of Canada's Canadian life insurance operations	1,120	77
April 1, 2001	Zurich Life Insurance Company of Canada's group life and health employee benefits business	97	–

NOTE 12 Employee Future Benefits

The Company maintains a number of pension and benefit plans for its eligible employees and agents. The Company's funding policy for all applicable plans is to make at least the minimum annual contributions required by regulations of the countries in which the plans are offered. Information about the Company's benefit plans, in aggregate, was as follows:

For the years ended December 31	Pension benefits		Other employee benefits	
	2002	2001	2002	2001
Change in accrued benefit obligation:				
Balance, January 1	$ 727	$ 675	$ 130	$ 118
Service cost	25	22	6	7
Interest cost	47	42	8	8
Plan participants' contributions	1	1	–	–
Amendments	4	8	–	–
Actuarial loss (gain)	52	14	–	(2)
Benefits paid	(48)	(42)	(3)	(3)
Currency	2	7	–	2
Balance, December 31	$ 810	$ 727	$ 141	$ 130
Change in plan assets:				
Fair value of plan assets, January 1	$ 632	$ 682	$ –	$ –
Actual return on plan assets	(33)	(16)	–	–
Employer contribution	6	–	3	3
Plan participants' contributions	1	1	–	–
Benefits paid	(48)	(42)	(3)	(3)
Currency	–	7	–	–
Fair value of plan assets, December 31	$ 558	$ 632	$ –	$ –

As at December 31	Pension benefits		Other employee benefits	
	2002	2001	2002	2001
Funded status, end of year	$ (252)	$ (95)	$ (141)	$ (130)
Unrecognized net actuarial loss (gain)	174	46	(56)	(62)
Unrecognized initial transition gain	(5)	(10)	–	–
Unrecognized prior service cost	20	19	–	–
Accrued benefit liability	$ (63)	$ (40)	$ (197)	$ (192)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit – cost	$ 120	$ 129	$ –	$ –
Accrued benefit liability	(183)	(169)	(197)	(192)
Accrued benefit liability	$ (63)	$ (40)	$ (197)	$ (192)

Included in the above amounts were $505 (2001 – $110) of plan assets and $757 (2001 – $287) of benefit obligations for pension plans that are not fully funded.

Components of the net benefit expense were as follows:

For the years ended December 31	Pension benefits		Other employee benefits	
	2002	2001	2002	2001
Defined benefit service cost	$ 25	$ 22	$ 6	$ 7
Defined contribution service cost	15	13	–	–
Interest cost	47	42	8	8
Expected return on plan assets	(47)	(49)	–	–
Net amortizations and deferrals	1	1	(4)	(5)
Net benefit expense	$ 41	$ 29	$ 10	$ 10

For the years ended December 31	Pension benefits	
	2002	2001
Weighted-average assumptions:		
Discount rate	6.6%	6.7%
Expected return on plan assets	7.7%	8.2%
Rate of compensation increase	3.6%	3.6%

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 have been as follows:

	100 basis-point increase	100 basis-point decrease
Effect on total service and interest costs	3	(3)
Effect on post-employment benefit obligation	24	(21)

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 $706 of outstanding investment commitments as at December 31, 2002, of which $127 mature in 30 days, $383 mature in 31 to 365 days and $196 mature in 2004 or later. There were $519 of outstanding investment commitments as at December 31, 2001, of which $161 matured in 30 days, $324 matured in 31 to 365 days and $34 mature in 2003 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, 2002, letters of credit in the amount of $2,739 (2001 – $2,275), which included $21 (2001 – $14) against which assets have been pledged, were 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	2002		2001	
	Bonds	Other	Bonds	Other
In respect of:				
Securities lent	$ 2,319	$ 246	$ 1,569	$ –
Letters of credit	21	–	14	–
Derivatives	–	7	–	14
Regulatory requirements	49	–	54	–
Total	$ 2,389	$ 253	$ 1,637	$ 14

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, Manulife Financial Corporation's principal insurance subsidiary is domiciled in Michigan. Michigan regulatory approval is required if a shareholder dividend distribution from a Michigan insurance subsidiary to the parent company would exceed that subsidiary'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 2002, Manulife Financial Corporation's Michigan insurance subsidiary would have required regulatory approval prior to the payment of dividends to the parent company.

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, 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 $1,444 as at December 31, 2002 (2001 – $775) compared to a carrying value of $1,437 as at December 31, 2002 (2001 – $769). 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, forwards and futures agreements and options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

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. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency.

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.

Forward and futures agreements are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are over-the-counter contracts negotiated between counterparties, and futures agreements are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy or sell a specified amount of the financial instrument at a predetermined price within a specified time.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. 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 that permit offsetting of positions or any collateral that may be obtained. 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 counter-party, as prescribed by OSFI.

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

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

The Company had the following amounts outstanding:

	Remaining term to maturity (notional amounts)				Fair value				
As at December 31 2002	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net	Credit risk equivalent	Risk weighted amount
Interest rate contracts:									
Swap contracts	$ 868	$ 1,645	$ 1,110	$ 3,623	$ 111	$ (118)	$ (7)	$ 136	$ 35
Futures contracts	11	–	–	11	–	–	–	–	–
Options written	72	34	–	106	–	(3)	(3)	–	–
Sub-total	$ 951	$ 1,679	$ 1,110	$ 3,740	$ 111	$ (121)	$ (10)	$ 136	$ 35
Foreign exchange:									
Swap contracts	1,011	3,010	485	4,506	96	(294)	(198)	293	81
Forward contracts	2,890	274	–	3,164	25	(18)	7	67	13
Equity contracts	374	68	–	442	12	(3)	9	34	10
Total	$ 5,226	$ 5,031	$ 1,595	$ 11,852	$ 244	$ (436)	$(192)	$ 530	$ 139
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

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 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, Japan and Reinsurance divisions. Effective January 1, 2002, Japan was established as its own division and was no longer included in the results of Asian Division. 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

For the year ended December 31, 2002	U.S. Division	Canadian Division	Asian Division	Japan Division	Reinsurance Division	Corporate & Other	Total
REVENUE							
Premium income							
Life and health insurance	$ 1,939	$ 2,465	$ 1,424	$ 1,451	$ 1,063	$ –	$ 8,342
Annuities and pensions	1,616	726	95	–	–	–	2,437
Total premium income	$ 3,555	$ 3,191	$ 1,519	$ 1,451	$ 1,063	$ –	$ 10,779
Investment income	1,773	1,629	334	81	226	192	4,235
Other revenue	998	287	114	34	43	42	1,518
Total revenue	$ 6,326	$ 5,107	$ 1,967	$ 1,566	$ 1,332	$ 234	$ 16,532
Interest expense	$ 20	$ 64	$ 45	$ 3	$ 1	$ 110	$ 243
Income (loss) before income taxes	$ 633	$ 472	$ 265	$ 163	$ 238	$ (97)	$ 1,674
Income taxes	(162)	(104)	(6)	(52)	(54)	74	(304)
Net income (loss)	$ 471	$ 368	$ 259	$ 111	$ 184	$ (23)	$ 1,370
Amortization of realized and unrealized net gains (losses)	$ 106	$ 135	$ 13	$ (9)	$ 3	$ 165	$ 413
Segregated fund deposits	$14,229	$ 1,283	$ 1,024	$ 477	$ –	$ –	$ 17,013
As at December 31, 2002							
Actuarial liabilities	$22,668	$18,120	$ 4,254	$ 9,786	$ 952	$ 617	$ 56,397
Funds under management							
General fund	$26,790	$24,235	$ 6,476	$13,153	$ 4,134	$ 6,407	$ 81,195
Segregated funds	47,189	8,577	2,497	568	–	–	58,831
Mutual funds	–	1,324	843	–	–	–	2,167
Other managed funds	–	–	1,718	–	–	2,264	3,982

BY GEOGRAPHIC LOCATION

For the year ended December 31, 2002	United States	Canada	Asia	Other	Total
REVENUE					
Premium income					
Life and health insurance	$ 2,281	$ 2,511	$ 2,875	$ 675	$ 8,342
Annuities and pensions	1,616	726	95	–	2,437
Total premium income	$ 3,897	$ 3,237	$ 2,970	$ 675	$10,779
Investment income	1,880	1,872	415	68	4,235
Other revenue	1,022	309	154	33	1,518
Total revenue	$ 6,799	$ 5,418	$ 3,539	$ 776	$16,532

BY SEGMENT

For the year ended December 31, 2001	U.S. Division	Canadian Division	Asian Division	Japan Division	Reinsurance Division	Corporate & Other	Total
REVENUE							
Premium income							
Life and health insurance	$ 1,780	$ 2,278	$ 1,187	$ 1,349	$ 791	$ –	$ 7,385
Annuities and pensions	2,056	646	160	–	–	–	2,862
Total premium income	$ 3,836	$ 2,924	$ 1,347	$ 1,349	$ 791	$ –	$10,247
Investment income	1,942	1,617	333	114	231	242	4,479
Other revenue	939	287	94	25	38	122	1,505
Total revenue	$ 6,717	$ 4,828	$ 1,774	$ 1,488	$ 1,060	$ 364	$16,231
Interest expense	$ 52	$ 56	$ 47	$ 5	$ 3	$ 94	$ 257
Income before income taxes	$ 524	$ 417	$ 196	$ 167	$ 2	$ 57	$ 1,363
Income taxes	(151)	(82)	1	(47)	46	37	(196)
Net income	$ 373	$ 335	$ 197	$ 120	$ 48	$ 94	$ 1,167
Amortization of realized and unrealized net gains (losses)	$ 179	$ 196	$ 50	$ (21)	$ –	$ 212	$ 616
Segregated fund deposits	$11,790	$ 1,190	$ 1,063	$ 1	$ –	$ –	$14,044
As at December 31, 2001							
Actuarial liabilities	$22,019	$17,567	$ 3,804	$10,122	$ 1,033	$ 145	$54,690
Funds under management							
General fund	$26,731	$23,012	$ 5,361	$13,726	$ 3,821	$ 5,962	$78,613
Segregated funds	47,975	9,279	1,865	87	–	–	59,206
Mutual funds	–	1,313	340	–	–	–	1,653
Other managed funds	–	–	637	–	–	2,073	2,710

BY GEOGRAPHIC LOCATION

For the year ended December 31, 2001	United States	Canada	Asia	Other	Total
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

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:

	Net income		Equity	
For the years ended December 31	2002	2001	2002	2001
Net income and equity determined in accordance with Canadian GAAP	$ 1,370	$ 1,167	$ 8,748	$ 8,293
Bonds	338	247	1,507	1,121
Mortgages	85	(5)	(67)	(132)
Stocks	(932)	(668)	503	1,619
Real estate	(43)	(4)	(829)	(789)
Actuarial liabilities	(901)	(232)	(6,754)	(5,889)
Deferred acquisition costs(1)	1,249	807	7,529	6,283
Deferred revenue	(181)	(142)	(610)	(465)
Future income taxes(2)	38	2	(274)	(292)
Derivative instruments and hedging activities	(12)	41	29	41
Other reconciling items	(38)	(132)	148	80
Net income and equity determined in accordance with U.S. GAAP	$ 973	$ 1,081	$ 9,930	$ 9,870
Foreign currency translation(3)	(75)	277	–	–
Effect of unrealized gains and losses on available-for-sale bonds and stocks:				
Bonds	1,508	679	3,478	1,970
Stocks	(813)	(182)	(19)	794
Actuarial liabilities	(91)	30	(887)	(796)
Deferred acquisition costs	(252)	(96)	(418)	(166)
Deferred revenue	30	3	35	5
Other	(59)	(30)	(89)	(30)
Future income taxes(2) on above	(71)	(109)	(531)	(460)
SFAS 133 transitional provisions(4)	–	–	–	(14)
SFAS 133 adjustments(4)	165	(308)	(157)	(308)
Comprehensive income and equity determined in accordance with U.S. GAAP(5)	$ 1,315	$ 1,345	$11,342	$10,865

(1) Deferred acquisition costs consist of $1,509 (2001 – $1,433) of capitalized expenditures and $260 (2001 – $626) of amortization charged to income.

(2) U.S. GAAP terminology is deferred income taxes.

(3) Included a gain of $1 (2001 – loss of $4), net of tax, arising from hedges of foreign currency exposure of a net investment in a foreign operation.

(4) Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities.” Other comprehensive income related to SFAS 133 is net of $83 in income taxes (2001 – $138).

(5) Included in comprehensive equity are gross unrealized investment gains and gross unrealized investment losses of $4,238 and $779 (2001 – $3,530 and $766), respectively.

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 in other comprehensive income, a component of equity.

	Canadian GAAP	U.S. GAAP
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 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 5% per quarter. 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 5% of the unamortized deferred realized gains and losses each quarter	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, other than losses considered to be other than temporary, are excluded from income and reported net of tax in other comprehensive income, a component of equity.
Real estate	Real estate is carried at a moving average market basis whereby the carrying values are adjusted towards market value at 3% per quarter. 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 3% of the unamortized deferred realized gains and losses each quarter.	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 term of the liabilities 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 actuarial liabilities 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 liabilities as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities as follows: 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 Cost (“DAC”) asset, in which case the DAC asset 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. 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

	Canadian GAAP	U.S. GAAP
Actuarial liabilities, continued		adequate to recover the existing DAC, the DAC asset 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. 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 asset 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. 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.
Deferred acquisition costs	The cost of acquiring new insurance and annuity business, consisting primarily of commissions and underwriting and issue expenses, is implicitly recognized as a reduction in actuarial liabilities for most policies	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. DACs 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 asset is amortized in proportion to the amount of the expected future benefit payments for payout annuities and in proportion to face amount for insurance contracts. DACs 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. In addition, EITF D-41 requires that DACs 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 the DAC asset is recognized directly in equity and is not included in income.
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 the amortization of the DAC asset.

	Canadian GAAP	U.S. GAAP
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 and effectiveness 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.

	Canadian GAAP	U.S. GAAP
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

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

As at December 31	2002		2001	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Bonds	$46,677	$ 50,155	$46,070	$ 48,040
Mortgages	9,294	9,182	7,902	7,732
Stocks	6,898	5,799	6,964	6,657
Real estate	3,570	2,641	3,484	2,589
Policy loans	4,939	4,939	4,644	4,644
Cash and short-term investments	5,143	5,143	4,995	4,995
Other investments	1,041	864	693	619
Total invested assets	$77,562	$ 78,723	$74,752	$ 75,276
Other assets				
Accrued investment income	$ 1,010	$ 1,010	$ 1,041	$ 1,012
Outstanding premiums	558	558	482	482
Deferred acquisition costs	–	7,110	–	6,117
Future income taxes(1)	132	–	517	–
Reinsurance deposits and amounts recoverable	–	1,760	–	1,344
Miscellaneous	1,933	2,153	1,821	2,119
Total other assets	$ 3,633	$ 12,591	$ 3,861	$ 11,074
	$81,195	$ 91,314	$78,613	$ 86,350
Segregated funds net assets(2)	–	58,831	–	59,206
Total assets	$81,195	$150,145	$78,613	$145,556
Segregated funds net assets(2)	$58,831		$59,206	
Liabilities and equity				
Actuarial liabilities	$56,397	$ 65,450	$54,690	$ 62,294
Other policy-related benefits	5,528	5,996	5,113	5,553
Future income taxes(1)	–	592	–	97
Deferred realized net gains	3,297	–	3,583	–
Banking deposits	1,437	1,437	769	769
Other liabilities	2,499	3,192	2,881	3,472
	$69,158	$ 76,667	$67,036	$ 72,185
Subordinated debt	1,436	1,436	1,418	1,418
Non-controlling interest in subsidiaries	1,059	1,075	1,064	1,080
Trust preferred securities issued by subsidiaries	794	794	802	802
Segregated funds net liabilities(2)	–	58,831	–	59,206
Common shares and retained earnings	8,748	9,930	8,293	9,870
Accumulated effect of comprehensive income on equity	–	1,412	–	995
Total liabilities and equity	$81,195	$150,145	$78,613	$145,556

Segregated funds net liabilities(2)	$58,831	$59,206

(1) U.S. GAAP terminology is deferred income taxes.

(2) U.S. GAAP terminology is separate accounts.

e) CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

For the years ended December 31	2002		2001	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Revenue				
Premium income	$10,779	$ 6,533	$10,247	$ 6,086
Fee income	–	1,829	–	1,519
Investment income	4,235	4,005	4,479	3,964
Realized investment gains (losses)	–	(350)	–	132
Other revenue	1,518	237	1,505	583
Total revenue	$16,532	$12,254	$16,231	$12,284
Policy benefits and expenses				
Policyholder payments	$10,363	$ 7,154	$11,034	$ 7,378
Change in actuarial liabilities	307	694	(208)	(40)
General expenses	4,051	3,030	3,973	3,599
Non-controlling interest in subsidiaries	72	72	4	7
Trust preferred securities issued by subsidiaries	65	65	65	65
Total policy benefits and expenses	$14,858	$11,015	$14,868	$11,009
Income before income taxes	$ 1,674	$ 1,239	$ 1,363	$ 1,275
Income taxes	(304)	(266)	(196)	(194)
Net income	$ 1,370	$ 973	$ 1,167	$ 1,081
Weighted average number of common shares outstanding (in millions)	476	476	482	482
Weighted average number of diluted common shares outstanding (in millions)	479	479	486	486
Basic earnings per share	$ 2.90	$ 2.05	$ 2.40	$ 2.24
Diluted earnings per share	$ 2.88	$ 2.03	$ 2.38	$ 2.22

f) ADDITIONAL INFORMATION REQUIRED TO BE REPORTED UNDER U.S. GAAP

(i) Fair value of actuarial liabilities of investment contracts

The fair value of actuarial liabilities of investment contracts as at December 31, 2002 was estimated at $16,931 (2001 – $16,678).

(ii) Stock-based compensation

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

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, 2002 would have been reduced by $33 (2001 – $23), and both basic and diluted earnings per share reduced by $0.07 (2001 – $0.05).

(iii) Derivative instruments and hedging activities

The Company adopted 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.

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 $37, included in other comprehensive income as at December 31, 2002 (2001 – $53), 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 were 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 is no impact to the Company’s reconciliation of Canadian GAAP financial statements to U.S. GAAP. The Company has reviewed the new standards and determined that goodwill is not impaired.

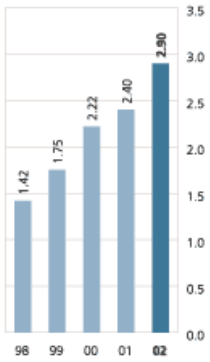
The FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities,” which addresses consolidation of certain variable interest entities by their primary beneficiary. This interpretation is effective for the fiscal or interim period beginning after June 15, 2003 for variable interest entities acquired before February 1, 2003, and immediately for variable interest entities created after January 31, 2003. This interpretation is not expected to have a material impact.

NOTE 18 Comparatives

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

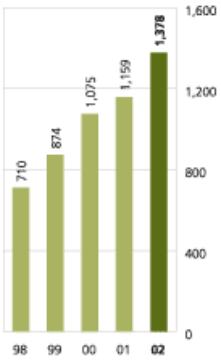
MANAGEMENT'S DISCUSSION AND ANALYSIS

As at and for the years ended December 31



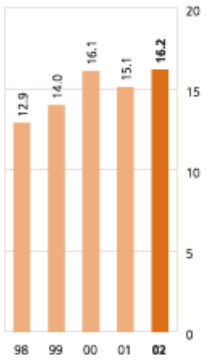
BASIC EARNINGS PER SHARE[(1)]
(Canadian $)

- Basic earnings per share of $2.90, an increase of 21 per cent from 2001. Excluding non-recurring items in 2001 [(2)], basic earnings per share increased by 15 per cent in the year
- Medium-term target of 15 per cent growth in earnings per share was achieved
- Five-year annual compound growth rate for earnings per share of 18 per cent



SHAREHOLDERS' NET INCOME[(1)]
(Canadian $ in millions)

- 19 per cent growth in shareholders' net income to $1,378 million. Excluding non-recurring items in 2001 [(2)], shareholders' net income increased by 13 per cent over 2001
- Ninth consecutive year of record earnings



RETURN ON SHAREHOLDERS' EQUITY(1)
(per cent)

- Return on shareholders' equity of 16.2 per cent, exceeding the Company's 16 per cent objective. Excluding non-recurring items in 2001(2), return on shareholders' equity was 15.9 per cent

(1) For 1998 and 1999 — Shareholders' net income refers to earnings from mutual operations (prior to demutualization) and net income attributed to shareholders (after demutualization).

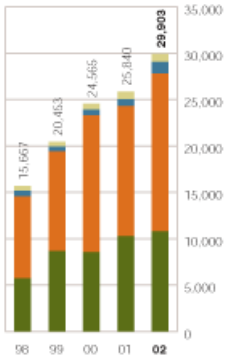
— Basic earnings per share have been calculated assuming common shares issued for demutualization and the initial public offering were outstanding at the beginning of 1998 and 1999.

(2) Please refer to the Financial Performance — Consolidated Net Income section of this Management's Discussion and Analysis.

Ratings as at March 5, 2003

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.

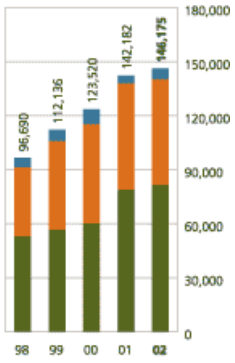
PURPOSE	RATING AGENCY	RATING
Claims paying/Financial strength	A.M. Best	A++ (1st of 16 categories)
	Dominion Bond Rating Service	IC-1 (1st of 5 categories)
	FitchRatings	AA+ (2nd of 24 categories)
	Moody's	Aa2 (3rd of 21 categories)
	Standard & Poor's	AA+ (2nd of 21 categories)



PREMIUMS AND DEPOSITS
(Canadian $ in millions)

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

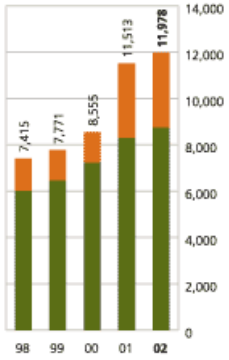
- $4.1 billion increase in total premiums and deposits, up 16 per cent
- 21 per cent growth in segregated fund deposits



FUNDS UNDER MANAGEMENT
(Canadian $ in millions)

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

- $4 billion increase in funds under management
- Strong growth from premiums and deposits was mostly offset by the decline in equity values



CAPITAL
(Canadian $ in millions)

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

- Repurchased $726 million of Manulife's common shares
- Total equity of $8.7 billion
- Total capital of $12.0 billion
- As at December 31, 2002, The Manufacturers Life Insurance Company's MCCSR was 235 per cent

The Minimum Continuing Capital and Surplus Requirements ("MCCSR") is a measure of a company's capital strength. The Manufacturers Life Insurance Company's MCCSR was 235 per cent at year-end 2002, well above the minimum prescribed by the Office of the Superintendent of Financial Institutions (Canada).

MCCSR Year	Ratio	Required Capital	Available Capital
2002	235%	$4.5 billion	$10.6 billion
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

FINANCIAL PERFORMANCE

Canadian generally accepted accounting principles ("GAAP") require the presentation of financial information in discrete segments. The Company views the contracts comprising the general fund, segregated funds and other funds under management as alternative offerings that are managed interdependently. The reason for this is that 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.

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 2002.

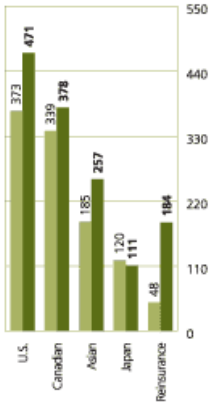
CONSOLIDATED NET INCOME

Manulife Financial reported record earnings in 2002 as shareholders' net income increased by 19 per cent to $1,378 million compared to $1,159 million reported in 2001. Earnings per share grew by 21 per cent to $2.90 from $2.40 in 2001. Shareholders' net income in 2001 included non-recurring items, which in aggregate reduced net income by $64 million.

Excluding these non-recurring items, shareholders' net income increased by 13 per cent to $1,378 million from $1,223 million in 2001. This increase in earnings was driven by very good claims experience in U.S. Insurance and Canadian Group Benefits, business growth in Hong Kong Insurance and the Property and Casualty and Structured Reinsurance lines, together with tight management of expenses across the Company. However, earnings were dampened by the impact of poor equity markets and surrenders from the block of policies acquired from Daihyaku Mutual Life Insurance Company ("Daihyaku"), which was not fully offset by growth in new sales in Japan.

The 2001 non-recurring items related to provisions of $150 million for anticipated claims arising from the terrorist events in the United States on September 11, 2001, mitigated by a $27 million gain from the disposition of a portion of the Company's investment in Seamark Asset Management Ltd. ("Seamark"), and two tax related items, which totaled $59 million.

In 2002, the Company achieved its medium-term targets of 16 per cent return on share-holders'equity and 15 per cent growth in earnings per share. The return on shareholders' equity for the year ended December 31, 2002 was 16.2 per cent compared to 15.1 per cent for 2001. Earnings per share for the year ended December 31, 2002 were $2.90 compared to $2.40 for 2001, an increase of 21 per cent, reflecting the higher earnings together with the favourable impact of common share repurchases during the year. Excluding the nonrecurring items, 2001 return on shareholders'equity and earnings per share were 15.9 per cent and $2.53, respectively.

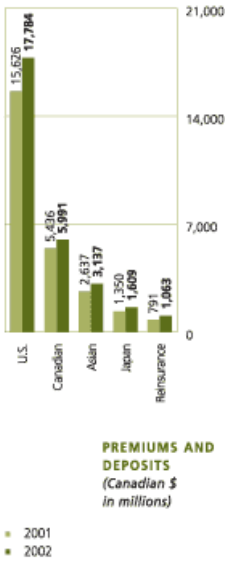


OPERATING DIVISIONS' SHAREHOLDERS' NET INCOME *(Canadian $ in millions)*

2001
2002

SUMMARY STATEMENT OF OPERATIONS

For the years ended December 31 (Canadian $ in millions, unless otherwise stated)	2002	2001	2000
Premium income	$10,779	$10,247	$ 8,515
Investment income	4,235	4,479	4,350
Other revenue	1,518	1,505	1,287
Total revenue	$16,532	$16,231	$14,152
Policy benefits	$10,670	$10,826	$ 9,335
General expenses	2,490	2,478	2,191
Commissions	1,207	1,133	1,086
Interest expense	243	257	191
Premium taxes	111	105	96
Non-controlling interest in subsidiaries	72	4	(151)
Trust preferred securities issued by subsidiaries	65	65	63
Total policy benefits and expenses	$14,858	$14,868	$12,811
Income before income taxes	$ 1,674	$ 1,363	$ 1,341
Income taxes	(304)	(196)	(273)
Net income	$ 1,370	$ 1,167	$ 1,068
Less: net income (loss) attributed to participating policyholders	(8)	8	(7)
Net income attributed to shareholders	$ 1,378	$ 1,159	$ 1,075
Basic earnings per share	$ 2.90	$ 2.40	$ 2.22



PREMIUMS AND DEPOSITS

Premiums and deposits increased by 16 per cent to $29.9 billion in 2002 compared to $25.8 billion for the year ended December 31, 2001. Segregated fund deposits increased by 21 per cent to $17.0 billion in 2002 from $14.0 billion in 2001, primarily due to record sales of 401(k) pension products and a 25 per cent increase in variable annuity deposits in the United States. General fund premiums increased five per cent to $10.8 billion in 2002 from $10.2 billion in 2001. This increase is due to business growth in Asia, higher Property and Casualty premiums in Reinsurance Division, and higher Individual Insurance and Group Benefits premiums together with strong sales of guaranteed products in Canada. This increase in general fund premiums was partially offset by reduced client utilization of the variable annuity dollar-cost-averaging program in the United States, which allows pre-authorized periodic transfers from the fixed-rate general fund portfolio to a segregated fund.

PREMIUMS AND DEPOSITS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
General fund premiums	$10,779	$10,247	$ 8,515
Segregated fund deposits	17,013	14,044	14,777
Mutual fund deposits	1,251	754	630
ASO premium equivalents	860	795	643
Total	$29,903	$25,840	$24,565

INVESTMENT INCOME

Investment income decreased to $4.2 billion in 2002 from $4.5 billion in 2001. The favourable impact of a higher average level of fixed-income investments, with lower yields, was more than offset by the effect of weak equity markets and higher provisions. As at December 31, 2002, approximately 34 per cent of stocks supported the Company's participating policies and the impact of a decrease in investment income from these stocks was substantially offset by a change in actuarial liabilities. The remaining 66 per cent of stocks supported other actuarial liabilities and the Company's capital. Investment income on these stocks impacts the Company's net income over time.

Provisions against impaired assets increased to $197 million in 2002 from $99 million in 2001, primarily due to the establishment of $220 million in specific provisions in the second quarter of 2002 against certain investments in the telecommunications sector, partially offset by recoveries related to bonds in other sectors, including investments in Californian utilities. As a result of the aforementioned and lower yields, total investment yield for the Company decreased to 5.93 per cent from 6.90 per cent in 2001.

INVESTMENT INCOME

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Gross investment income before:	$ 4,019	$ 3,962	$ 3,807
Provisions for impaired assets	(197)	(99)	(100)
Amortization of net realized and unrealized gains	413	616	643
Total	$ 4,235	$ 4,479	$ 4,350
Yield	5.93%	6.90%	8.58%

OTHER REVENUE

Other revenue remained unchanged at $1.5 billion in 2002. Included in other revenue, fee income increased by six per cent to $1.4 billion, primarily due to the management of a higher average level of segregated fund assets in 2002. The impact of higher fees was offset by the 2001 one-time gain from the sale of a portion of the Company's investment in Seamark and the settlement of a tax case in Canada related to the capital tax treatment of deferred realized gains.

POLICY BENEFITS AND EXPENSES

Policy benefits decreased slightly to $10.7 billion in 2002 from $10.8 billion in 2001.

A decrease in transfers to segregated funds was significantly offset by an increase in actuarial liabilities.Transfers to segregated funds declined $814 million to $656 million in 2002, reflecting equity market volatility and investors' preference for fixed-income products. Actuarial liabilities increased by $515 million to $307 million in 2002, reflecting higher general fund premiums, and lower surrenders in Japan and in the Canadian wealth management operations.

Policyholder dividends and experience rating refunds increased by four per cent to $932 million in 2002 from $900 million in 2001, primarily due to continued growth in cash values of participating policies.

General expenses remained unchanged at $2.5 billion in 2002. Lower fixed costs were offset by higher variable costs related to increased business activity. Commissions increased by seven per cent to $1.2 billion in 2002,primarily due to higher individual insurance sales

in the United States, Canada and Hong Kong and higher U.S. pension sales. This increase was partially offset by lower commissions in Hong Kong Pensions, which were uniquely high in 2001 due to the launch of the Mandatory Provident Fund business.

Interest expense decreased by five per cent to $243 million in 2002 from $257 million in 2001, primarily due to a decline in interest rates. Premium taxes increased by six per cent to $111 million from $105 million in 2001, due to an increase in premiums.

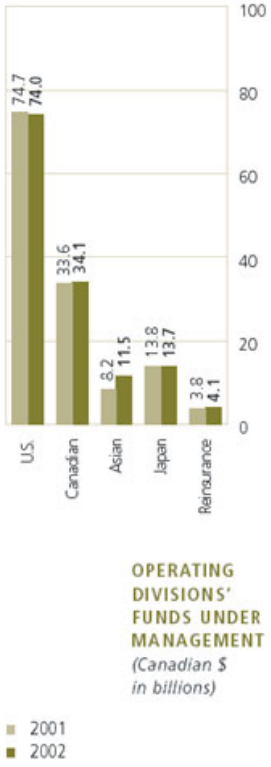
Non-controlling interest in subsidiaries increased to $72 million compared to $4 million in 2001. This increase related to the fixed cash distributions to the holders of Manulife Financial Capital Securities, which were issued in December 2001.

Income taxes increased to $304 million in 2002 from $246 million in 2001, after excluding the non-recurring tax items for 2001. The Company's 2002 provision for income taxes of $304 million is comprised of $9 million of current taxes recoverable and $313 million of future taxes. The increase in the income tax expense was consistent with the increase in earnings and reflected the mix of earnings derived in tax jurisdictions with differing income tax rates and regulations.

FUNDS UNDER MANAGEMENT

Funds under management increased by $4.0 billion to $146.2 billion in 2002 from $142.2 billion in 2001.General fund assets grew by $2.6 billion to $81.2 billion as at December 31, 2002 from $78.6 billion as at December 31, 2001. This reflects the acquisition of Zurich Canada, and growth in insurance businesses, particularly in Asia, partially offset by the scheduled transfer of the U.S. variable annuity business' dollar-cost-averaging assets to segregated funds.

Segregated fund assets decreased marginally to $58.8 billion as at December 31, 2002 from $59.2 billion as at December 31, 2001. This decrease was primarily due to strong net deposits of U.S. 401(k) pension and variable annuity products and increased Mandatory Provident Fund deposits in Hong Kong, more than offset by a reduction in the market value of assets as a result of continued weak equity market performance.



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

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

As at December 31 (Canadian $ in millions)	2002	2001	2000
General fund	$ 81,195	$ 78,613	$ 60,067
Segregated funds	58,831	59,206	54,908
Mutual and other managed funds(1)	6,149	4,363	8,545
Total	$146,175	$142,182	$123,520

(1) Other managed funds included Seamark third party managed funds of $4,288 as at December 31, 2000. Disposition of a portion of the Company's controlling interest in Seamark 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.

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, 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 fixed-interest investments, non-invested assets and non-actuarial liabilities are generally considered acceptable within the Hong Kong accounting framework. Stocks held on a long-term basis are carried at market value as compared to Canadian GAAP where stocks are carried on a moving average market basis. 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, 2002, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required in Hong Kong.

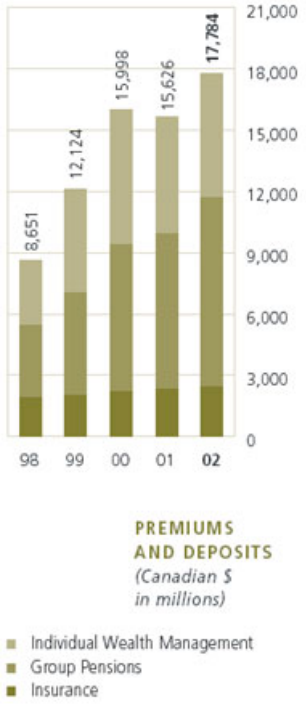
U.S. DIVISION

U.S. Division provides insurance and wealth management products and services to select markets. The Division's Insurance operations focus on the sale of life insurance products to high net-worth individuals. Wealth management services include the operations of Group Pensions, concentrating on 401(k) plans for small and medium-sized businesses, and Individual Wealth Management operations that offers variable annuities, College Savings 529 plans and personalized Private Account investment products primarily to middle- and upper-income individuals.

FINANCIAL PERFORMANCE

U.S. Division's net income was $471 million in 2002 compared to $373 million in 2001, an increase of $98 million or 26 per cent. The increase in earnings was due to very good claims experience, continued tight management of expenses, growth in business and increased profit margins. The increase in earnings was partially offset by the impact of poor equity markets and start-up costs associated with the College Savings 529 plan and Private Account businesses.

In 2002,U.S. Division contributed 34 per cent of the Company's shareholders' net income, 59 per cent of total premiums and deposits and as at December 31,2002, accounted for 51 per cent of the Company's funds under management.



SUMMARY STATEMENT OF OPERATIONS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premium income	$ 3,555	$ 3,836	$ 3,348
Investment income	1,773	1,942	1,925
Other revenue	998	939	885
Total revenue	$ 6,326	$ 6,717	$ 6,158
Policy benefits	$ 4,155	$ 4,697	$ 4,055
General expenses	856	830	759
Commissions	620	572	600
Other	62	94	99
Total policy benefits and expenses	$ 5,693	$ 6,193	$ 5,513
Income before income taxes	$ 633	$ 524	$ 645
Income taxes	(162)	(151)	(168)
Net income attributed to shareholders	$ 471	$ 373	$ 477

PREMIUMS AND DEPOSITS

Premiums and deposits increased by 14 per cent to $17.8 billion in 2002 from the $15.6 billion reported in 2001,despite a difficult operating environment. Excellent growth in 401(k) pension deposits, strong growth in universal life premiums and a solid increase in variable annuity sales contributed to the higher volume. The growth in premiums and deposits reflects U.S. Division's diverse distribution capabilities and continued delivery of innovative products and superior customer service.

General fund premiums declined by seven per cent, with strong universal life premiums more than offset by reduced client utilization of the dollar-cost-averaging program in the variable annuity business, which allows pre-authorized periodic transfers from the fixed-rate general fund portfolio to segregated funds.

Segregated fund deposits increased by 21 per cent during 2002, driven by strong sales in wealth management operations. Deposits related to the 401(k) pension business grew by $1.5 billion to a record $8.9 billion, a 20 per cent increase over 2001, reflecting the ongoing successful penetration of the broker-dealer market and continued strong sales from the Third Party Administrator channel. Variable annuity deposits increased by $949 million over 2001 to $4.8 billion with the success of the new Venture III product, a key factor in driving growth despite very difficult equity market conditions.

PREMIUMS AND DEPOSITS

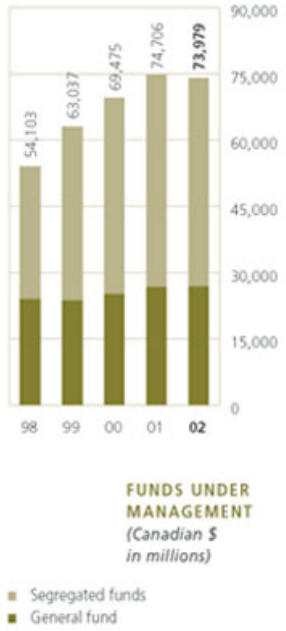
For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premiums	$ 3,555	$ 3,836	$ 3,348
Segregated fund deposits	14,229	11,790	12,650
Total premiums and deposits	$17,784	$15,626	$15,998

FUNDS UNDER MANAGEMENT

Funds under management of $74.0 billion ended the year $0.7 billion lower than in 2001.

Segregated funds under management of $47.2 billion were slightly lower than 2001 levels, despite strong net deposits of $8.4 billion, driven by record sales of 401(k) pension products and strong sales of variable annuity products. This growth was more than offset by the decline in equity values.

General fund assets were comparable to 2001 levels. The favourable impact of strong universal life insurance sales was fully offset by the scheduled transfer of the variable annuity business' dollar-cost-averaging assets to segregated funds.



FUNDS UNDER MANAGEMENT

As at December 31 (Canadian $ in millions)	2002	2001	2000
General fund	$26,790	$26,731	$25,105
Segregated funds	47,189	47,975	44,370
Total funds under management	$73,979	$74,706	$69,475

MOVING FORWARD

Distribution relationships, product innovation and service excellence continue to be the focus of the U.S. Division. In 2003, the Division will expand and build on these strengths.

Product development plans for 2003 include initiatives by Group Pensions to penetrate the upper end of the small case 401(k) market, while Insurance will expand its offerings with the launch of a new universal life product designed to provide lower cost coverage to consumers – this product will supplement Insurance's current universal life offerings. The new universal life product, in addition to a refreshed survivorship universal life offering, will complement Insurance's 2002 product initiatives, which have positioned the portfolio of variable universal life products to take full advantage of a recovery in equity markets.

In 2003, Individual Wealth Management will refresh its variable annuity portfolio to provide clients with attractive offerings while carefully managing the risk profile of its product portfolio in the current challenging equity market environment. In addition, Individual Wealth Management will look to further enhance both its College Savings 529 plan and Private Account product lines through the inclusion of new investment managers and additional portfolio offerings.

Distribution and service developments in 2003 include initiatives by Group Pensions to maintain its strong relationships with Third Party Administrators while continuing to penetrate the broker-dealer network. Group Pensions is committed to expanding its service to include increased participant communication and educational programs, as well as additional service support for key producers. Insurance will continue to build on its broad-based multi-channel distribution system by investing in a series of programs to augment service and support to policyholders and key firms. These initiatives include enhanced compensation programs, additional account management to support top distribution partners, and improved functionality for sales compensation and Web-based systems.

As a result of its new Scudder Investments relationship,Individual Wealth Management is well positioned in 2003 to enhance its presence within the variable annuity marketplace and to gradually decrease unit costs. While continuing to investigate new opportunities, Individual Wealth Management will also strengthen its existing distribution networks through enhanced service delivery.

Variable annuity services will be augmented to provide clients with increased information access and data management capabilities, while expanded College Savings 529 plan services will include enhanced client and broker system functionality, customized sales tools and continued product education.

In 2003, the new Private Account business will focus on establishing additional distribution arrangements as well as implementing an on-line sales proposal system and a Web-based client application process.

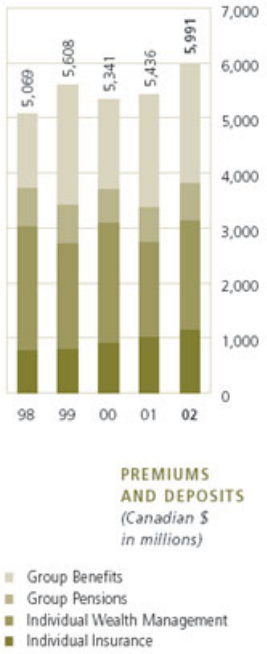
CANADIAN DIVISION

Canadian Division is one of the leading life insurance-based financial services organizations in Canada. Its individual wealth management product offerings include variable and fixed annuities, individual investment and banking products and mutual funds. 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. Group life, health and pension products and services are marketed to Canadian employers.

FINANCIAL PERFORMANCE

Canadian Division's shareholder net income increased 11 per cent to $378 million in 2002 from $339 million in 2001. This result reflects expense efficiencies in protection and wealth management businesses, very good claims experience in Group Benefits,positive contributions from the acquisition of Zurich Canada completed in March 2002 and the effect of a larger in force block, partially offset by the negative impact of lower equity markets on the Division's wealth management businesses and unfavourable claims experience in Individual Insurance.

In 2002, the Canadian Division contributed 27 per cent to the Company's shareholders'net income, 20 per cent of total premiums and deposits and as at December 31, 2002, accounted for 23 per cent of the Company's funds under management.



SUMMARY STATEMENT OF OPERATIONS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premium income	$ 3,191	$ 2,924	$ 2,488
Investment income	1,629	1,617	1,587
Other revenue	287	287	249
Total revenue	$ 5,107	$ 4,828	$ 4,324
Policy benefits	$ 3,581	$ 3,418	$ 3,051
General expenses	679	654	595
Commissions	260	238	238
Other	115	101	90
Total policy benefits and expenses	$ 4,635	$ 4,411	$ 3,974
Income before income taxes	$ 472	$ 417	$ 350
Income taxes	(104)	(82)	(75)
Net income	$ 368	$ 335	$ 275
Less: net loss attributed to participating policyholders	(10)	(4)	(2)
Net income attributed to shareholders	$ 378	$ 339	$ 277

PREMIUMS AND DEPOSITS

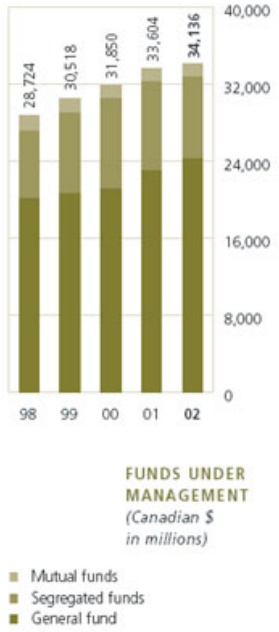
Premiums and deposits of $6.0 billion increased by $0.6 billion or 10 per cent from $5.4 billion in 2001. Individual fixed-rate deposits grew by 19 per cent while individual segregated funds increased by four per cent reflecting investor preference for guaranteed investments. Long-term mutual fund deposits more than doubled to $387 million reflecting the strong performances of a number of specific funds led by the Elliott & Page Monthly High Income Fund. Strong sales along with the impact of recent acquisitions generated an increase of 13 per cent in Individual Insurance premiums, while group premiums and deposits were up six per cent over 2001.

PREMIUMS AND DEPOSITS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premiums	$ 3,191	$ 2,924	$ 2,488
Segregated fund deposits	1,283	1,190	1,681
Mutual fund deposits	657	527	529
ASO premium equivalents	860	795	643
Total premiums and deposits	$ 5,991	$ 5,436	$ 5,341

FUNDS UNDER MANAGEMENT

Funds under management increased by two per cent to $34.1 billion as at December 31, 2002 from $33.6 billion as at December 31, 2001, primarily due to the acquisition of Zurich Canada, organic growth of insurance and fixed-income savings businesses, and positive net segregated and mutual fund policyholder cash flows, partially offset by the impact of lower equity markets.



FUNDS UNDER MANAGEMENT

As at December 31 (Canadian $ in millions)	2002	2001	2000
General fund	$24,235	$23,012	$21,097
Segregated funds	8,577	9,279	9,394
Mutual funds	1,324	1,313	1,359
Total funds under management	$34,136	$33,604	$31,850

MOVING FORWARD

Consolidation, primarily in the form of acquisitions and strategic alliances, remains the key word in the Canadian life insurance industry with significant activity in 2002 and more expected in 2003. In its pursuit of growth, Canadian Division plans to be an active participant in the industry consolidation.

Canadian Division is committed to delivering professional advice and efficient service in support of innovative product offerings. In 2003, the Division will unveil enhancements to its individual insurance and wealth management products. In addition to adding new features to its term and universal life products, the individual life business will continue to enhance in force policies by allowing existing Innovision (universal life) clients to choose the new Investment Accelerator option, which provides lower management fees on the investment accounts within the policy.

Individual wealth management product development will focus on an integrated flow of new products and features to meet the needs of affluent Canadians.In 2002,this approach resulted in the launch of the Manulife Investments brand for all individual wealth management products. Efforts in 2003 will include the continuation of the rollout of the innovative Manulife Investment eXchange (MIX) and GIC Renaissance products brought to the market late in the fourth quarter.

Group Pensions will deliver enhanced plan member education services and an expanded share ownership product,while Group Benefits will deliver a new flexible benefits plan and introduce innovative products designed for and billed directly to plan members, such as optional life insurance.

Leveraging technology remains a key priority for Canadian Division in the challenge to provide superior customer service. The Division will continue its investment in technology in the front and back offices, with ongoing focus on Internet solutions that make it easier to do business with Manulife. From product illustration to order entry to claim payment, advisors and customers will be able to efficiently track transactions and retrieve data on secure Web sites, making previously hard-to-access information readily available. Group customers can expect to see increased Internet functionality and plan member services including member health and dental claims submission, eligibility of benefit statements and electronic claim payments.

Canadian Division’s achievement in growing sales of individual products through the stockbroker channel in 2002 is indicative of the Division’s goal to expand its distribution network through traditional and non-traditional sources. Success in group product distribution depends on quality relationships with key consultants and distribution organizations. In 2003, the Division will continue to strengthen existing relationships and develop new partnerships by delivering enhanced education services and increased Internet functionality.

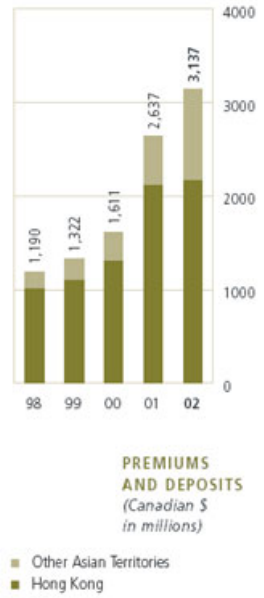
ASIAN DIVISION

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

FINANCIAL PERFORMANCE

Asian Division's shareholder net income increased by 39 per cent to $257 million in 2002 from $185 million in 2001. This increase was attributable to business growth, particularly in Hong Kong, as well as higher fee income from the administration of a growing Mandatory Provident Fund business. This growth was driven by continuous expansion of the agency force,which totaled 17,881 agents as at December 31, 2002 compared to 15,671 at the end of 2001. Product initiatives, such as the launch of the savings-focused Wealth series of products in Hong Kong and the introduction of the Value Preservation Option rider in Vietnam during the year also supported the strong growth.

In 2002, Asian Division contributed 19 per cent to the Company's shareholders' net income, 10 per cent of total premiums and deposits and as at December 31, 2002, accounted for eight per cent of the Company's funds under management. Hong Kong continues to be Asian Division's largest operation, accounting for almost 70 per cent of the Division's premiums and deposits in 2002.



SUMMARY STATEMENT OF OPERATIONS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premium income	$ 1,519	$ 1,347	$ 1,064
Investment income	334	333	313
Other revenue	114	94	74
Total revenue	$ 1,967	$ 1,774	$ 1,451
Policy benefits	$ 1,033	$ 956	$ 770
General expenses	418	382	344
Commissions	197	183	137
Other	54	57	46
Total policy benefits and expenses	$ 1,702	$ 1,578	$ 1,297
Income before income taxes	$ 265	$ 196	$ 154
Income taxes	(6)	1	(6)
Net income	$ 259	$ 197	$ 148
Less: net income (loss) attributed to participating policyholders	2	12	(5)
Net income attributed to shareholders	$ 257	$ 185	$ 153

PREMIUMS AND DEPOSITS

Premiums and deposits increased by 19 per cent to $3.1 billion in 2002 from $2.6 billion in 2001. This increase reflected growth in individual

insurance premiums across the Division as well as mutual fund deposits in Hong Kong and Indonesia.The expansion of the career agency force drove strong sales in Hong Kong and the other Asian territories and general fund premiums increased by 13 per cent over 2001. Mutual fund deposits more than doubled to $594 million in 2002, primarily as a result of the launch of the Dynamic Funds in Hong Kong and new distribution agreements with business partners in Indonesia. Growth

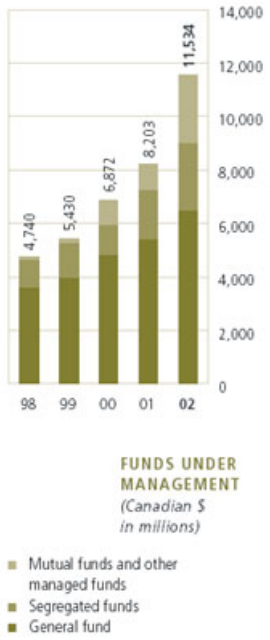
in regular contributions to the Hong Kong pension business was offset by lower deposits from transferred plans, which were uniquely high in 2001 due to the launch of the Mandatory Provident Fund business.

PREMIUMS AND DEPOSITS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premiums	$ 1,519	$ 1,347	$ 1,064
Segregated fund deposits	1,024	1,063	446
Mutual fund deposits	594	227	101
Total premiums and deposits	$ 3,137	$ 2,637	$ 1,611

FUNDS UNDER MANAGEMENT

Funds under management increased by 41 per cent to $11.5 billion in 2002 from $8.2 billion in 2001, primarily due to increases in Hong Kong and Indonesia. Growth in Hong Kong reflected increased business volumes in the Insurance and Mandatory Provident Fund businesses as well as higher mutual fund sales and an increase in institutional funds managed by Manulife Asset Management (Hong Kong); growth in Indonesia was driven by higher mutual fund deposits. General fund assets increased to $6.5 billion in 2002 from $5.4 billion in 2001 due to business growth. Segregated fund assets increased to $2.5 billion in 2002 from $1.9 billion in 2001, primarily due to Mandatory Provident Fund deposits in Hong Kong.



FUNDS UNDER MANAGEMENT

As at December 31 (Canadian $ in millions)	2002	2001	2000
General fund	$ 6,476	$ 5,361	$ 4,776
Segregated funds	2,497	1,865	1,144
Mutual and other managed funds	2,561	977	952
Total funds under management	$11,534	$ 8,203	$ 6,872

MOVING FORWARD

Despite a challenging business environment during 2002, particularly in Hong Kong, Asian Division continued to experience strong business growth. In 2003, the Division will continue to provide quality products and services to grow its business. In addition, the flag-ship Hong Kong operations expect to achieve its goal of one million customers.

The career agency force will remain the primary distribution channel in the region and the Division will continue to drive career agency force expansion while maintaining its focus on the professional delivery of services.

In 2002, product initiatives, including Hong Kong's launch of the Wealth series of products, contributed to solid business growth across the region. In 2003, the Division will launch a new universal variable life and a deferred annuity product in Hong Kong, while the other territories will focus on investment-linked products and product riders in order to meet changing customer needs.

In 2002, Asian Division's business expansion included acquisitions in Taiwan and the Philippines and, in Singapore, the acquisition of full ownership of its former 50 per cent joint venture. In China, a new branch was established to operate in the main southern city of Guangzhou and an application was submitted to establish a branch in the capital city of Beijing. In 2003, further opportunities to acquire and expand business in the region will continue to be actively pursued.

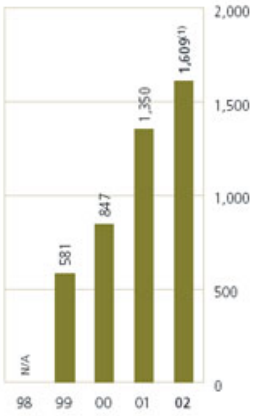
JAPAN DIVISION

Japan Division provides insurance and wealth management products to one of the largest insurance markets in the world, a market currently underserved due to limited product choice. For insurance products, the Division is focused on developing universal life product concepts tailored to meet the needs of two key market segments – middle-and upper-income individuals and their families, and small and medium-sized businesses. Wealth management products contribute to the overall product strategy for these two segments. The Division's universal life product, ManuFlex, one of the first of its type in Japan, and ManuSolution, a variable annuity product, leverage the Company's expertise with these types of products in North America.

FINANCIAL PERFORMANCE

Japan Division's net income decreased by $9 million to $111 million in 2002, down from $120 million in 2001. This decrease primarily reflected the impact of surrenders from the block of policies acquired from Daihyaku, which was not fully offset by growth in new sales given the prevailing economic environment in Japan.

In 2002, Japan Division contributed eight per cent to the Company's shareholders' net income, six per cent of premiums and deposits and as at December 31, 2002, accounted for nine per cent of the Company's funds under management.



PREMIUMS AND DEPOSITS (Canadian $ in millions)

Manulife commenced operations in Japan in 1999.

SUMMARY STATEMENT OF OPERATIONS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premium income	$ 1,451	$ 1,349	$ 847
Investment income	81	114	40
Other revenue	34	25	6
Total revenue	$ 1,566	$ 1,488	$ 893
Policy benefits	$ 875	$ 787	$ 609
General expenses	428	436	323
Commissions	92	96	64
Other	8	2	(155)
Total policy benefits and expenses	$ 1,403	$ 1,321	$ 841
Income before income taxes	$ 163	$ 167	$ 52
Income taxes	(52)	(47)	(7)
Net income attributed to shareholders	$ 111	$ 120	$ 45

PREMIUMS AND DEPOSITS

Premiums and deposits increased by $259 million to $1.6 billion for the year ended December 31, 2002. This was driven by higher single premium sales from the January launch of the new variable annuity product, ManuSolution, as well as higher regular premiums due to the impact of a full year of premiums from the policies transferred from Daihyaku and sales of ManuFlex, a universal life product launched late in 2001.

PREMIUMS AND DEPOSITS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premiums	$ 1,451	$ 1,349	$ 847
Segregated fund deposits(1)	158	1	—
Total premiums and deposits	$ 1,609	$ 1,350	$ 847

(1) Segregated fund deposits for the year ended December 31, 2002 excluded $319 million of net seed capital.

FUNDS UNDER MANAGEMENT

Funds under management decreased by $409 million to $13.4 billion as at December 31, 2002, from $13.8 billion as at December 31, 2001, as increases from policyholder cash flows were more than offset by benefit payments, which included the impact of discontinued policy obligations assumed from Daihyaku at the time of acquisition.



FUNDS UNDER MANAGEMENT
(Canadian $ in millions)

Segregated funds
General fund

Manulife commenced operations in Japan in 1999.

FUNDS UNDER MANAGEMENT

As at December 31 (Canadian $ in millions)	2002	2001	2000
General fund	$13,153	$13,726	$ 2,447
Segregated funds(1)	251	87	—
Total funds under management	$13,404	$13,813	$ 2,447

(1) Segregated funds under management as at December 31, 2002 excluded $317 million of seed capital.

MOVING FORWARD

Commencing in the fourth quarter of 2001, the Japanese economy entered its third recession in 10 years. In 2002, an export-led recovery dissipated as the year progressed and equity markets declined to 20-year lows. The outlook for the short- to medium-term is for continued deflation and consequently, a continuation of the extremely low interest rate environment.

Demand for traditional life insurance is expected to continue to decrease over time. Offsetting this, however, are higher growth expectations for new product segments, such as universal life, variable annuities, interest sensitive insurance products and third sector insurance – sickness and medical insurance – products.

The Division aims to be a product leader in Japan. In 2003, the Division will continue the development of its range of universal life products to meet the changing needs of the Japanese population. The variable annuity product will be enhanced to broaden the target market and to support the Division's goal of growing its bank and stockbroker distribution channels.

The Japan Division will also continue to focus on increasing the size and enhancing the professionalism and efficiency of its distribution channels. The current sales distribution system will be expanded with an increased emphasis on the active recruitment and training of sales agents and the further development of the bank and stockbroker distribution channels.

Maintaining a high level of customer service and improving operational efficiencies are important business objectives. During 2002, significant progress was made in upgrading and rationalizing operational and sales systems. The Division will leverage its investment in technology to better serve both customers and agents and reduce costs.

REINSURANCE DIVISION

Established in 1984, 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 Canada, Germany and Barbados, Reinsurance Division provides customer-focused solutions in the following lines of business:

- Life (offering retrocession of traditional life mortality risk);
- Structured (offering non-traditional life retrocession and reinsurance);
- Property and Casualty (including specialized non-traditional retrocession for property and casualty reinsurers); and
- Accident (including personal and specialized coverages).

FINANCIAL PERFORMANCE

Reinsurance Division's net income increased to $184 million in 2002 from $48 million in 2001. The 2001 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. Excluding the impact of these non-recurring items, earnings for the year were $21 million higher than in 2001, reflecting business growth in the Property and Casualty and the Structured Reinsurance businesses.

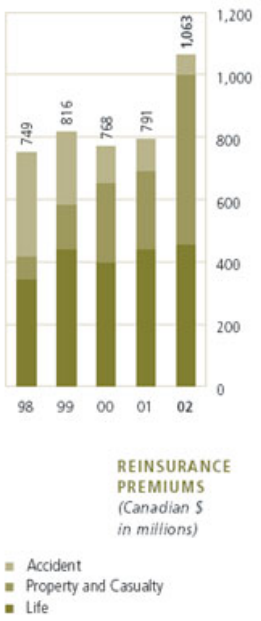
In 2002, Reinsurance Division contributed 13 per cent to the Company's shareholders'net income, four per cent of premiums and deposits and as at December 31, 2002, accounted for three per cent of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Premium income	$ 1,063	$ 791	$ 768
Investment income	226	231	194
Other revenue	43	38	22
Total revenue	$ 1,332	$ 1,060	$ 984
Policy benefits	$ 1,003	$ 963	$ 762
General expenses	45	40	35
Commissions	38	44	47
Other	8	11	8
Total policy benefits and expenses	$ 1,094	$ 1,058	$ 852
Income before income taxes	$ 238	$ 2	$ 132
Income taxes	(54)	46	(24)
Net income attributed to shareholders	$ 184	$ 48	$ 108

PREMIUM INCOME

Premiums increased by 35 per cent to $1.1 billion in 2002 from $791 million in 2001. Life Reinsurance premiums increased by four per cent to $455 million in 2002 from $438 million in 2001, reflecting growth in premiums on in force business. Property and Casualty Reinsurance premiums experienced very strong growth due to higher business volumes and price increases in a hardening rate market. Accident Reinsurance premiums continued to decline in 2002 due to the Company's exit from the U.S. medical reinsurance market and personal accident pool business, together with reduced new business volumes as contracts have been written very selectively in the aftermath of the events of September 11, 2001.



PREMIUMS

For the years ended December 31 (Canadian $ in millions)	2002	2001	2000
Life reinsurance	$ 455	$ 438	$ 394
Property and Casualty reinsurance	544	249	256
Accident reinsurance	64	104	118
Total premiums	$ 1,063	$ 791	$ 768

MOVING FORWARD

Reinsurance Division is committed to a "know your client" philosophy focused on expanding relationships with key business partners. As a leader in the reinsurance marketplace, the Division plays an important role by providing capacity, technical expertise and financial strength. The Division will continue to seek growth by focusing on providing innovative customer-focused solutions that leverage its existing areas of expertise. The Division will also continue to focus on maintaining and improving upon the strong risk management practices that reinforce high quality standards for both new business and the in force block.

Reinsurance Division will seek out new opportunities to grow its business globally and remains focused on maintaining its leadership position within the Life Retrocession market. In addition, increasing focus on maximizing capital efficiency throughout the life insurance industry will provide continued growth opportunities for Structured Reinsurance solutions. The Property and Casualty line is expecting continued growth, taking advantage of opportunities due to improving terms and conditions and continued rate hardening in the Property and Casualty market. In Accident Reinsurance, the Division continues to seek opportunities in today's hard market conditions and will look to further enhance the strong recent performance within this portfolio while adhering to strict underwriting guidelines in assessing new business.

INVESTMENT OPERATIONS

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 many of the asset classes that it manages, with securities management offices located around the globe.

INVESTMENT MANAGEMENT

The Securities Management group manages investments in a wide range of asset classes and securities markets, using a variety of investment styles. The group includes Elliott & Page Limited in Canada, Manulife International Investment Management Limited in London, England, both operating under the brand name of MFC Global Investment Management, as well as offices in Hong Kong and Japan.

As at December 31, 2002, MFC Global Investment Management (Canada) managed assets totaling $53 billion for the Company as well as for institutional and individual investors.MFC Global Investment Management (UK) managed $6 billion of general, segregated and mutual funds for the Company and third parties, while assets managed by the investment offices in Hong Kong and Japan amounted to $17 billion.

In addition, the Asset Origination group managed $14 billion of assets that included mortgages, real estate assets located throughout North America, private placement debt and equity investments (Manulife Capital), and oil and gas properties (NAL Resources Management Limited).

GENERAL FUND ASSETS

Manulife Financial's general fund invested assets increased to $77.6 billion as at December 31, 2002 from $74.8 billion as at December 31, 2001. The goal in investing these assets is to maximize total returns while managing within the Company's investment and risk management policies.

GENERAL FUND INVESTED ASSETS

As at December 31	2002		2001	
(Canadian $ in millions)	Carrying value	% of total	Carrying value	% of total
Bonds	$46,677	60	$46,070	62
Mortgages	9,294	12	7,902	10
Stocks	6,898	9	6,964	9
Real estate	3,570	5	3,484	5
Policy loans	4,939	6	4,644	6
Cash and short-term investments	5,143	7	4,995	7
Other investments	1,041	1	693	1
Total invested assets	$77,562	100	$74,752	100

BONDS

The Company's bond portfolio represented 60 per cent of invested assets as at December 31, 2002. The Company diversifies its bond portfolio by sector as well as by industry and issuer. There was no significant change in sector distribution over the year. The portfolio is monitored closely to enhance yields while optimizing the matching of asset cash flows to the estimated liability cash flows.As at December 31, 2002, 96 per cent of the portfolio was invested in securities rated investment grade (BBB and over).

BOND PORTFOLIO BY SECTOR AND INDUSTRY

As at December 31	2002			2001		
(Canadian $ in millions)	Carrying value	% of total	% investment grade	Carrying value	% of total	% investment grade
Government and Agency	$18,632	40	100	$18,668	41	99
Financial	11,569	25	97	11,664	25	97
Telecommunications	3,039	7	85	3,525	7	99
Utilities	3,821	8	94	2,980	6	92
Energy	2,383	5	93	1,851	4	98
Industrial	1,948	4	96	1,487	3	95
Securitized (ABS/MBS)	1,092	2	99	1,703	4	99
Consumer (non-cyclical)	1,522	3	93	1,406	3	87
Consumer (cyclical)	1,113	2	83	1,186	3	81
Basic materials	384	1	75	378	1	69
Technology	335	1	94	301	1	96
Media and Internet	708	2	94	612	1	83
Other	131	—	94	309	1	92
Total bonds	$46,677	100	96	$46,070	100	97

MORTGAGES AND REAL ESTATE

As at December 31, 2002, mortgages represented 12 per cent of invested assets with 63 per cent of the mortgage portfolio in Canada and 37 per cent in the United States. Commercial mortgages accounted for 96 per cent of total mortgages. Mortgages increased by $1.4 billion in the year, due primarily to favourable business conditions for commercial mortgage origination. The mortgage portfolio consists almost entirely of first mortgages and is diversified by geographic region, property type and mortgagor. Government-insured loans represented four per cent of the total mortgage portfolio. All mortgages are secured by real properties.

As at December 31, 2002, five per cent of the Company's invested assets were held in real estate. The portfolio is focused on high quality office buildings located in superior downtown and large suburban markets across North America. It is diversified by geographic region and property type, with 62 per cent located in the United States, 37 per cent in Canada and one per cent in Asia. Commercial office properties represented 74 per cent of the portfolio, with the remainder split among residential, retail, industrial and other property classifications.

STOCKS

As at December 31, 2002, stocks represented nine per cent of invested assets. The portfolio of publicly traded common stocks is diversified by industry sector and issuer. As at December 31, 2002, the stock portfolio was invested 36 per cent in U.S. issuers, 31 per cent in Canadian issuers, 23 per cent in Asian issuers and 10 per cent in other issuers.

MOVING FORWARD

Consistently achieving superior asset returns and significantly growing the wealth management business remain the two primary goals of Investment Operations. 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 to enhance yields, diversify invested assets and provide a competitive advantage.

RISK MANAGEMENT

OVERVIEW

Manulife Financial has established an integrated, enterprise-wide framework for managing all risks across the organization. The framework guides all risk-taking activities and ensures that they are aligned with the Company's overall risk-taking philosophy as well as shareholder and customer expectations. While Manulife Financial seeks to maximize shareholder value by achieving strong growth and earning an appropriate return on capital, the Company limits the aggregate level of risk assumed and ensures it is diversified across risk types and businesses.

The enterprise risk management framework is built around four key elements:

- comprehensive risk governance
- effective risk management policies and processes
- rigorous risk exposure measurement
- risk limit management

A network of qualified risk management professionals and business managers are accountable for ensuring business operations are consistent with the Company's risk-taking philosophy, standards and limits.

RISK GOVERNANCE

The governance structure is designed to foster a strong and well-informed risk culture across the organization and to facilitate sound business decisions. The Board of Directors, through its Audit and Risk Management Committee and Conduct Review and Ethics Committee, has overall responsibility for overseeing the Company's risk-taking activities and risk management programs.

AUDIT AND RISK MANAGEMENT COMMITTEE

- Approves, and reviews compliance with, key financial and operational risk policies and limits
- Reviews trends in key risk positions and exposures, and major risk-taking activities
- Reviews risk management practices and internal controls

Chair: External Director

CONDUCT REVIEW AND ETHICS COMMITTEE

- Approves code of business conduct and ethics policy
- Reviews procedures to resolve conflicts of interest and restrict use of confidential information
- Reviews procedures to disclose information to customers under the Insurance Companies Act (Canada) and for dealing with customer complaints

Chair: External Director

The Chief Executive Officer ("CEO") is directly accountable to the Board of Directors for all of Manulife Financial's risk-taking activities and risk management programs. The executive management structures that support the CEO include the Chief Financial Officer, the Corporate Risk Management Committee and subcommittees, and the Chief Risk Officer, who is responsible for administering the Company's enterprise risk management program.

CORPORATE RISK MANAGEMENT COMMITTEE

- Oversees administration of the enterprise risk management framework, incorporating policy development, risk assessment and measurement, risk review, risk reporting and risk mitigation
- Establishes global risk management strategic priorities
- Reviews key risk positions and exposure trends, risk-taking activities and risk management strategies

Chair: Chief Risk Officer

RISK MANAGEMENT POLICIES AND PROCESSES

The Company's enterprise risk management framework provides the overall infrastructure designed to ensure all risks to which the Company is exposed are managed using a common set of standards and guidelines. The framework is also designed to ensure assessment of potential returns on all new business initiatives, acquisitions and potential investments incorporates an evaluation of potential returns on a consistent risk-adjusted basis, and an assessment of risk in relation to the Company's targeted risk profile. The framework integrates a series of specific risk management programs administered through the Company's risk committees and risk managers. These comprehensive programs incorporate the following key components:

- policies and limits
- risk management accountabilities
- delegated authorities
- control and mitigation strategies
- processes for risk identification, assessment, measurement, monitoring and reporting



MINIMUM CONTINUING CAPITAL AND SURPLUS REQUIREMENTS BY RISK TYPE

Underwriting/claims	14%
Other product	14%
Interest rate	16%
Equity	28%
Other market	7%
Credit	21%

In addition, stress scenario analysis is performed as part of the Dynamic Capital Adequacy Testing process, independently reported to the Audit and Risk Management Committee by the Chief Actuary. Internal audits of risk controls and of global risk management programs are performed and independently reported to the Audit and Risk Management Committee by the Internal Auditor. Prudent actuarial liabilities are established considering all risk exposures, and are independently signed off by the Chief Actuary.

RISK MEASUREMENT

Individual measures are used to assess risk exposures from various risks. In aggregate, the Company uses the risk-based capital required by its regulator, or Minimum Continuing Capital and Surplus Requirements ("MCCSR"), as a measure of overall capital at risk. The Company allocates capital on this basis and evaluates returns on this risk-based capital. This is supplemented in some situations by an economic-based capital at risk measure that reflects the probable maximum loss of capital that could occur over a specific time horizon with a certain degree of confidence. A key priority is to extend the use of the economic-based capital at risk measure across the Company and establish an integrated risk measurement framework. Enterprise-wide, integrated stochastic scenario-based projection models are being developed to implement the integrated risk measurement framework.



MINIMUM CONTINUING CAPITAL AND SURPLUS REQUIREMENTS BY PRODUCT LINE

Individual insurance	62%
Group insurance	7%
Individual wealth management	21%
Group pensions	10%

RISK LIMIT MANAGEMENT

The Company has established a defined capacity for assuming risk, considering the risk tolerances of the Board of Directors and management and the Company's financial condition. The overall capacity is defined in terms of the Company's MCCSR ratio. This is the ratio of the Company's available capital to its risk-based capital requirements, as defined by its regulator. Manulife Financial targets an MCCSR ratio of at least 180 per cent. To limit exposure to specific risks, the Company has established enterprise-wide limits for various asset liability and market risks, and credit risks, based on the individual risk exposure measures used to assess these risks. The Company's risk profile is well diversified across risks and products.

Manulife Financial uses a standard inventory of risks in all aspects of risk identification, assessment, monitoring and reporting. These risks are summarized into major risk categories, each of which is discussed below.

STRATEGIC RISK

Strategic risk is the risk of loss resulting from the inability to adequately plan or implement an appropriate business strategy, or to adapt to change in the external business, political or regulatory environment.

Manulife Financial faces many strategic and environmental challenges, including product, service and distribution competition, changing political and regulatory environments, and potential loss of reputation. The Company manages risks of a strategic nature by utilizing:

- strategic planning and capital allocation processes incorporating thorough risk analyses, with final approval by the Board of Directors;
- detailed business plans developed and executed by local divisional executive management;
- operational reviews of all businesses by the CEO quarterly and by the Board of Directors annually;
- acquisition and divestiture review processes, incorporating thorough risk analyses and controls, with final approvals by the CEO and Board of Directors; and
- high standards for business conduct in all its operations, well communicated through the Company's Code of Business Conduct and Ethics and published P.R.I.D.E. values.

PRODUCT RISK

Product risk is the risk of loss due to actual experience emerging differently than assumed when the product was designed and priced, as a result of investment returns, expenses, taxes, mortality and morbidity claims, and policyholder behaviour.

The Company's product design and pricing risk is managed through a program, overseen jointly by the Chief Actuary and Chief Risk Officer, incorporating standards and guidelines designed to ensure the level of risk borne by the Company is within acceptable levels and is consistent with its targeted profile. The standards and guidelines cover:

- product design
- pricing methods and assumption setting
- stochastic and stress scenario analysis
- risk-based capital allocations
- profit margin objectives
- pricing models and software
- documentation
- approval processes
- experience monitoring programs

Annual risk and compliance self-assessments and periodic internal audits are required for all business units. Designated pricing officers in each business unit are accountable for all pricing activities. The general manager and chief financial officer of each business unit approve the design and pricing of each product, ensuring the Company's standards and guidelines are met. The Chief Actuary and Chief Risk Officer approve any new product or modification that introduces material changes in risk or product design.

The Company's underwriting and claims risk management program incorporates underwriting policies and procedures, including criteria for approval of risks, and claims adjudication policies and procedures. The global Underwriting Council has the mandate to ensure underwriting practices are consistent across the organization while reflecting local conditions. Periodic reviews ensure compliance with the standards.

Enterprise-wide, claims risk is diversified as a result of the Company's international operations with a wide range of insured individuals and products covering varied risk events. Exposure to individual large claims is mitigated through established retention limits per insured life varying by market and jurisdiction, reviewed periodically and approved by the CEO. Coverage in excess of these limits is reinsured with other companies. The current retention limits in Canada and the U.S. are $10 million in local currency ($15 million for joint life policies). For direct written business, current retention limits are Yen 500 million in Japan and U.S. $100,000 in Hong Kong and, for assumed reinsurance, are U.S. $10 million in both Japan and Hong Kong.

Local concentration risk is mitigated through the use of aggregate retention limits for certain covers and through catastrophe reinsurance for life and disability insurance worldwide. The Company's catastrophe reinsurance covers losses in excess of U.S. $50 million, up to U.S. $150 million (U.S. $100 million for Japan) and covers losses due to certain terrorist activities in Canada, where the bulk of this concentration risk is located.

ASSET LIABILITY AND MARKET RISK

Asset liability and market risk is the risk of loss resulting from market price volatility, interest rate changes, adverse movements in foreign currency rates, and from not having access to sufficient funds to meet both expected liabilities and unexpected cash demands.

The Company's asset liability and market risk management program is carried out through a network of asset liability committees. Global investment policies, approved by the Audit and Risk Management Committee, establish enterprise-wide and portfolio level targets and limits and establish delegated approval authorities. The targets and limits are designed to ensure investment portfolios are widely diversified across asset classes and individual investment risks. Actual investment positions are monitored regularly. They are reported to the asset liability committees monthly and to the Corporate Risk Management Committee and Audit and Risk Management Committee quarterly.

GLOBAL ASSET LIABILITY COMMITTEE

- Approves, and monitors compliance with, asset mix, interest rate risk, equity and real estate market risk, liquidity and foreign exchange risk, and derivatives policies
- Reviews key risk positions and investment strategies to optimize shareholder value within risk tolerances
- Oversees divisional asset liability committee activities

Chair: Chief Risk Officer

SEGMENTATION AND ASSET MIX

The foundation of the asset liability and market risk management program is the segmentation of product liabilities with similar characteristics and the establishment of investment policies and goals for each segment. The investment policies and goals incorporate currency mix, asset mix, asset quality, industry mix, interest rate risk exposure and liquidity targets. They are approved by the governing divisional asset liability committee and the Global Asset Liability Committee.

The Company invests in assets with characteristics that closely match the characteristics of the liabilities they support. 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, and policies with very long-dated liabilities, are supported by a broader range of assets, including real estate and equities. For these products,

target asset mixes are established to optimize returns considering risk-based capital required, downside risk and management risk tolerances, and to minimize potential risk exposure related to long-term contractual minimum return guarantees.

The Company uses derivatives, including foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options, to manage interest rate, foreign currency and equity risk. The risks associated with the use of derivatives are limited by established risk management policies and procedures, including specific limits on the size of derivative transactions, authorized types of derivatives, authorization limits for specific personnel, and detailed derivative strategy documentation requirements.

INTEREST RATE RISK

Interest rate changes may result in losses if asset and liability cash flows are not closely matched with respect to timing and amount. The Company has established interest rate risk management programs for each product liability segment designed to keep potential losses within acceptable limits, but still allow asset managers to add value by taking modest risk positions. Policies and procedures, including delegated authorities and accountabilities for managing and monitoring interest rate risk, are clearly defined. Target asset durations are established consistent with liability durations. Interest rate risk positions are held within prescribed limits. Asset and liability positions are updated with a frequency ranging from daily to monthly depending on the scope and size of potential movements in positions. Interest rate risk positions are monitored and reported to the asset liability committees monthly and the Corporate Risk Management Committee and the Audit and Risk Management Committee quarterly.

The Company measures and manages interest rate risk exposure using a variety of sophisticated measures, including cash flow gaps, durations, key rate durations, convexity, and economic value at risk based on both stochastic scenarios and predetermined scenarios.

IMPACT ON ECONOMIC VALUE OF INTEREST RATE MOVEMENTS(1)

As at December 31 (Canadian $ in millions)	2002		2001	
	One per cent increase	One per cent decrease	One per cent increase	One per cent decrease
Wealth management	$ (1)	$ 2	$ 6	$ (6)
Insurance	264	(263)	250	(310)
Surplus	(319)	344	(222)	229
Total	$ (56)	$ 83	$ 34	$ (87)

(1) Impact on economic value represents the potential economic gain (loss) to shareholders as a result of an immediate and parallel change of one per cent in interest rates across all maturities in all markets, with a zero per cent interest rate floor.

The interest rate risk exposure arises as a result of actual asset durations differing from targets in liability segments and holding non-cash fixed income assets in surplus. The exposure related to insurance segments arises primarily in Japan segments in which the duration of assets held is shorter than that of liabilities to allow the Company to take advantage of potential interest rate increases.

EQUITY AND REAL ESTATE MARKET RISK

Fluctuations in equity market prices, and to a lesser extent real estate prices, may impact returns on assets held in the general fund, fee income earned on market-based funds, and liabilities associated with investment-related guarantees, primarily on variable annuities and segregated funds. The Company's investment-related guarantees include maturity and death benefit guarantees on Canadian segregated fund contracts, minimum income and death benefit guarantees on U.S. variable annuity contracts and minimum death benefit guarantees through reinsurance assumed under several treaties with third parties.

The Company has established specific policies and procedures designed to limit the exposure to losses from equity market volatility. These incorporate:

- guidelines related to product design and pricing of variable annuities and segregated fund products;
- established limits for equity risk exposures arising from investment-related segregated fund guarantees and all other sources;
- use of reinsurance to mitigate risk; and
- monitoring economic capital at risk for equity risk arising from investment-related segregated fund guarantees based on industry-accepted methodologies and stochastic scenario projection models.

SEGREGATED FUND GUARANTEE EXPOSURE

As at December 31, 2002 (Canadian $ in millions)	Fund value(1)	Amount at risk(1)
Maturity/income benefits	$ 7,325	$ 1,237
Death benefits(1)	9,767	3,906
Total	$ 17,092	$ 5,143

(1) Death benefits include stand-alone guarantees and guarantees in excess of maturity or income guarantees where both are provided on a policy. Amount at risk is the excess of guaranteed values over fund values on all policies where the guaranteed value exceeds the fund value. Fund value and amount at risk are net of amounts reinsured. Amounts reinsured do not include amounts covered under stop loss treaties.

The amount at risk is not currently payable. Guaranteed death benefits are contingent and only payable upon the eventual death of policyholders if fund values remain below guaranteed values. Maturity and income benefits are also contingent and only payable at scheduled maturities in the future, if policyholders are still living and have not terminated their policies, and fund values remain below guaranteed values. The Company projects future guaranteed benefit payments under a variety of stochastic market return scenarios, also considering future mortality and policy termination rates. The Company is required to hold actuarial liabilities for these contingent benefit payments sufficient to cover the average of the worst 40 per cent market return scenarios. As at December 31, 2002, actuarial liabilities held for these guarantee payments were $579 million. These exceed the minimum requirements.

Exposures related to direct equity and real estate holdings are managed through established targets and limits. The direct equity and real estate holdings in the general fund represent a small proportion of the Company's total assets and are held in surplus segments or used to support long-term policy liabilities. Equity holdings are diversified and managed against established targets and limits by industry type and corporate connection. Real estate holdings are diversified and managed against established limits by property type and location.

IMPACT ON ECONOMIC VALUE OF A TEN PER CENT DECLINE IN MARKET VALUE OF DIRECT EQUITY HOLDINGS(1)

As at December 31 (Canadian $ in millions)	2002	2001
Liability segments	$ 149	$ 165
Surplus	264	317
Total	$ 413	$ 482

(1) Impact on economic value represents the potential economic loss to shareholders as a result of an immediate decline of ten per cent in the market price of direct equity holdings in all markets.

FOREIGN CURRENCY RISK

The Company may be exposed to losses resulting from adverse movements in foreign exchange rates due to the fact that it manages operations in many currencies and reports financial results in Canadian dollars. The Company's foreign currency risk management program incorporates a policy of matching the currency of its assets with the currency of the liabilities these assets support. The program also incorporates a policy of generally matching the currency of its equity, up to its target MCCSR ratio, with the currency of its liabilities, to limit the impact of changes in foreign exchange rates on the Company's MCCSR ratio. The Company holds equity in excess of its target MCCSR ratio predominantly in Canadian dollars to mitigate the impact of changes in foreign exchange rates on shareholders'equity. The foreign currency management policy also establishes the currencies in which the Company is authorized to transact.

The Company manages foreign currency risk against an established foreign currency Value at Risk exposure limit, based on the industry-accepted J.P. Morgan RiskMetrics methodology, and also monitors sensitivities to predetermined scenarios regularly.

IMPACT ON SHAREHOLDERS' EQUITY OF A ONE PER CENT INCREASE IN THE CANADIAN DOLLAR RELATIVE TO FOREIGN CURRENCIES

As at December 31 (Canadian $ in millions)	2002	2001
U.S. dollar	$ (34)	$ (23)
Japanese yen	$ (5)	$ (6)

LIQUIDITY RISK

The Company's global liquidity risk management program incorporates policies and procedures designed to ensure that adequate liquidity is available. These policies and procedures include managing against established minimum levels of operating and strategic liquidity by focusing on:

- designing products to reduce the possibility of unexpected liquidity demands;
- centrally forecasting and monitoring actual cash movements on a daily basis;
- maintaining investment portfolios with adequate levels of marketable investments; and
- maintaining access to other sources of liquidity such as commercial paper funding and committed standby bank credit facilities.

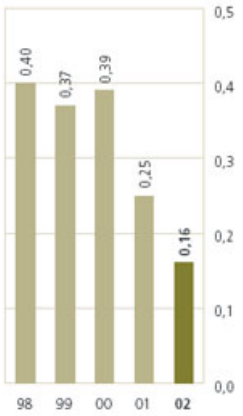
The Company has established minimum levels for both operating and strategic liquidity measures. Operating liquidity is maintained at or above the level of one month's operating cash out-flows. Strategic liquidity is measured using an industry-accepted model under both immediate (within one month) and ongoing (within one year) stress scenarios. Under this model, adjusted liquid assets include cash and short-term investments, and marketable bonds and stocks discounted to reflect their convertibility to cash, net of maturing debt obligations. Under the model, actuarial liabilities are adjusted to reflect their potential for withdrawal. The Company's policy is to maintain adjusted liquid assets at a level well above adjusted actuarial liabilities.

STRATEGIC LIQUIDITY

As at December 31	2002		2001	
(Canadian $ in millions unless otherwise stated)	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Adjusted liquid assets	$52,463	$53,231	$51,263	$52,101
Adjusted actuarial liabilities	$ 9,176	$12,617	$ 9,016	$12,451
Liquidity ratio	572%	422%	569%	418%

CREDIT RISK

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counter-party to fulfill its payment obligations.



NET IMPAIRED ASSETS
(as a per cent of total invested assets)

The Company's credit risk management program, overseen by the Credit Committee, incorporates policies and procedures that emphasize the quality and diversification of the Company's investment portfolio and establishes criteria for the selection of counterparties and intermediaries. The policies establish exposure limits by borrower or issuer, corporate connection, quality rating, industry, and geographic region, and establish delegated credit approval authorities. Distinct derivative counterparty exposure limits are in place with respect to notional amounts outstanding and daily mark-to-market exposures. Specific reinsurance counterparty exposure measures and limits are in place. All counterparties are required to meet minimum credit-rating criteria.

CREDIT COMMITTEE

- Approves, and monitors compliance with, credit policies
- Approves credits within tiered authority structure
- Actively monitors credit exposures and commitments
- Monitors overall asset portfolio quality
- Oversees provisioning for impaired assets

Chair: Chief Financial Officer

An 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 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. There is no assurance that the allowance for losses will be adequate to cover future losses or that additional provisions or asset write-downs will not be required. However, the Company remains conservatively provisioned for credit losses overall and the level of impaired assets continues to be very low. Actuarial liabilities also include general provisions for credit losses from future asset impairments. These are set conservatively, taking into account normal historical levels and future expectations. The Company monitors a variety of aggregate credit risk exposure measures.

CREDIT RISK MEASURES

As at December 31 (Canadian $ in millions unless otherwise stated)	2002	2001
Net impaired assets	$ 123	$ 186
Net impaired assets as a per cent of total invested assets	0.16%	0.25%
Allowance for impairment	$ 290	$ 208
Provision for future credit losses included in actuarial liabilities	$ 1,699	$ 1,525
Performing assets coverage ratio(1)	4.27%	3.84%
Impaired assets coverage ratio(1)	482%	440%

(1) Performing assets coverage ratio is calculated as allowance for impairment and provision for future credit losses included in actuarial liabilities less gross impaired assets, as a per cent of total mortgages and non-government bonds less gross impaired assets. Impaired assets coverage ratio is calculated as allowance for impairment and provision for future credit losses included in actuarial liabilities, as a per cent of gross impaired assets.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems failures, human performance failures or from external events.

The Company's operational risk management programs seek to minimize exposure by ensuring appropriate internal controls and systems, together with trained and competent people, are in place throughout the Company. The Company uses an established program of comprehensive risk self-assessments in conjunction with independent internal audits to monitor and assess inherent operational risks and the effectiveness of internal controls. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the Company's financial statements. Both the internal and external auditors report independently to the Audit and Risk Management Committee on the findings of their audits.

Established global risk management programs for potential high risks, including business interruption, technology management, information security and privacy, and regulatory compliance, ensure risk controls are effective enterprise-wide.

A global business continuity program is in place to ensure key business functions can continue and normal operations can resume effectively and efficiently in the event of a major disruption. The program incorporates periodic scenario analysis to validate the assessment of both critical and non-critical units and the establishment and testing of appropriate business continuity plans for all key units. Off-site backup facilities are available to minimize recovery time. Systems-related risks are managed through a rigorous systems development protocol, global information security programs, and comprehensive policies and procedures for managing outsourcing arrangements.

The Company's regulatory compliance management program facilitates compliance with regulatory obligations worldwide, ensuring awareness of the laws and regulations that affect the Company and the risks associated with failing to comply. The program covers a broad range of regulations impacting product design, financial reporting, investment activities, employment practices, underwriting and claims processing, and sales and marketing practices. The program includes processes for assessing risks and monitoring compliance with related obligations.

CONSENT OF APPOINTED ACTUARY

I hereby consent to the use in this Annual Report on Form 40-F of Manulife Financial Corporation for the year ended December 31, 2002 of my Appointed Actuary's Report to the Shareholders and Directors dated February 4, 2003 (the "Report"), relating to the valuation of the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 2002 and 2001 and their change in the Consolidated Statements of Operations for the years then ended.

I also consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-12610, 333-13072, and 333-91102) of Manulife Financial Corporation of the Report.

/s/ "Geoffrey I. Guy"

Geoffrey I. Guy
Executive Vice President and Appointed Actuary
Fellow, Canadian Institute of Actuaries
Toronto, Canada

Date: March 31, 2003

CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our report dated February 4, 2003, with respect to the consolidated financial statements of Manulife Financial Corporation included in this Annual Report (Form 40-F) for the year ended December 31, 2002, filed with the Securities and Exchange Commission.

We also consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-12610, 333-13072, and 333-91102) of Manulife Financial Corporation of our report dated February 4, 2003 with respect to the above-mentioned financial statements.

/s/ “Ernst & Young LLP”

ERNST & YOUNG LLP
Toronto, Ontario

March 31, 2003