# UNITED STATES
# 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, 2007** **Commission file number 1-14942**

# MANULIFE FINANCIAL CORPORATION

**(Exact name of Registrant as specified in its charter)**

**Canada**
**(Province or other jurisdiction of incorporation or organization)**

**6311**
**(Primary Standard Industrial Classification Code Number (if applicable))**

**Not applicable**
**(I.R.S. Employer Identification Number (if applicable))**

**200 Bloor Street East, NT 11, Toronto, Ontario, Canada M4W 1E5**
**(416) 926-3000**
**(Address and Telephone Number of Registrant's Principal Executive Offices)**

**James Gallagher, Manulife Financial Corporation, 601 Congress Street, Boston, MA 02210-2805 (617) 663-3000**
**(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. None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. None.**

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

**x 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:

| | |
|---|---|
| Common Shares | 1,500,956,505 |
| Class A Shares, Series 1 | 14,000,000 |
| Class A Shares, Series 2 | 14,000,000 |
| Class A Shares, Series 3 | 12,000,000 |

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 file number assigned to the Registrant in connection with such Rule. Yes ¨ 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 ¨

**Principal Documents**

The following documents, filed as exhibits 99.1, 99.2 and 99.3 hereto, are hereby incorporated by reference into this Annual Report:

(a) Renewal Annual Information Form, dated March 27, 2008, for the fiscal year ended December 31, 2007;

(b) Management's Discussion and Analysis for the fiscal year ended December 31, 2007; and

(c) Consolidated Financial Statements for the fiscal year ended December 31, 2007 *(Note 23 to the Consolidated Financial Statements relates to United States Accounting Principles and Reporting (U.S. GAAP)).*

**Certifications and Disclosure Regarding Controls and Procedures.**

(a) Certifications. See Exhibits 99.4 and 99.5 to this Annual Report on Form 40-F.

(b) Disclosure Controls and Procedures. The required disclosure has been provided under the heading "Critical Accounting and Actuarial Policies – Controls and Procedures – Disclosure Controls and Procedures" in the Company's Management's Discussion and Analysis for the fiscal year ended December 31, 2007, filed as Exhibit 99.2 to this annual Report on Form 40-F.

(c) Management's Annual Report on Internal Control over Financial Reporting. The required disclosure has been provided under the heading "Critical Accounting and Actuarial Policies – Controls and Procedures - Management's Report on Internal Control over Financial Reporting" in the Company's Management's Discussion and Analysis for the fiscal year ended December 31, 2007, filed as Exhibit 99.2 to this Annual Report on Form 40-F.

(d) Attestation Report of the Registered Public Accounting Firm. The required disclosure has been provided under the heading "Independent Auditors' Report on Internal Controls under Standards of the Public Company Accounting Oversight Board (United States)" in the Company's Consolidated Financial Statements for the fiscal year ended December 31, 2007, filed as Exhibit 99.3 to this Annual Report on Form 40-F.

(e) Changes in Internal Control Over Financial Reporting. The required disclosure has been provided under the heading "Critical Accounting and Actuarial Policies – Controls and Procedures – Changes in Internal Control over Financial Reporting" in the Company's Management's Discussion and Analysis for the fiscal year ended December 31, 2007, filed as Exhibit 99.2 to this Annual Report on Form 40-F.

**Audit Committee Financial Expert.**

The Board of Directors of the Company has determined that each of Messrs. Celeste, DeWolfe, Dineen, Graham, Hand, Helms and Kierans (the "Financial Experts") has the necessary qualifications to be designated as an "audit committee financial expert" (within the meaning of applicable Securities and Exchange Commission rules). The Financial Experts are independent, as that term is defined by the New York Stock Exchange's listing standards. The disclosure provided under the heading "Audit & Risk Management Committee" in the Company's Renewal Annual Information Form, filed as Exhibit 99.1 hereto, is incorporated by reference herein. The Board's determination does not make these directors "experts" for any purposes or impose greater duties, obligations or liabilities on them nor does it affect duties, obligations or liabilities of other members of the Board.

**Code of Ethics**.

The Company has adopted a Code of Business Conduct and Ethics ("Code") that applies to all directors, officers and employees, and that qualifies as a "code of ethics" as that term is defined in Form 40-F. The Code is available for viewing at:

http://www.manulife.com/corporate/corporate2.nsf/LookupFiles/DownloadableFileCorporateGovernance-CodeofBusinessConduct/$File/businessConductEthics.pdf

Since the adoption of the Code, there have not been any amendments to the Code, other than technical or administrative amendments, nor have there been any waivers, including implied waivers, from any provision of the Code.

**Principal Accountant Fees and Services.**

The following table represents the fees billed by Ernst & Young LLP to the Manulife Financial group of companies in 2007 and 2006.

| (Canadian $ in millions) | Year ended December 31, 2007 | Year ended December 31, 2006 |
|---|---|---|
| Audit fees [1] | $ 19.8 | $ 27.6 |
| Audit-related fees [2] | 0.5 | 0.8 |
| Tax fees [3] | 0.5 | 0.2 |
| All other fees [4] | 0 | 0.1 |
| | $ 20.8 | $ 28.7 |

1 Includes the annual audit, Sarbanes-Oxley Act of 2002 ("SOX") attestation, reviews of quarterly reports, statutory audits and regulatory filings.
2 Includes consultations concerning financial accounting and reporting standards, due diligence in connection with mergers and acquisitions and audits in connection with proposed or consummated acquisitions.
3 Includes tax compliance, tax planning and tax advice services.
4 Includes work relating to accident and health claims.

**Pre-Approval Policies and Procedures.**

The Audit and Risk Management Committee ("Audit Committee") reviews all requests for proposed audit or permitted non-audit services to be provided by the Company's independent auditor under the Audit Committee's Protocol for Approval of Audit and Permitted Non-Audit Services (the "Protocol"). Under the Protocol, the Audit Committee annually reviews and pre-approves recurring audit and non-audit services that are identifiable for the coming year. The Protocol also requires that any audit or non-audit services that are proposed during the year be approved by the Audit Committee, or by a member of the Audit Committee appointed by the Audit Committee and acting on its behalf.

All audit and non-audit services provided to the Company by Ernst & Young LLP have been pre-approved by the Audit Committee pursuant to the Protocol. The Audit Committee has reviewed the magnitude and nature of these services to ensure that they are compatible with maintaining the independence of the external auditor.

**Off-Balance Sheet Arrangements.**

In addition to the discussion of risk in Management's Discussion and Analysis for the fiscal year ended December 31, 2007, filed as Exhibit 99.2 to this Annual Report on Form 40-F, the notes to the Consolidated Financial Statements for the fiscal year ended December 31, 2007, filed as Exhibit 99.3 to this Annual Report on Form 40-F, include the following disclosures related to off-balance sheet arrangements:

| | |
|---|---|
| Note 5(d) | Securities Lending |
| Note 18 | Variable Interest Entities |
| Note 19 | Commitments and Contingencies |
| Note 21 | Derivative and Hedging Instruments |

**Tabular Disclosure of Contractual Obligations.**

The required disclosure has been provided under the heading "Contractual Obligations" in the Company's Management's Discussion and Analysis, filed as Exhibit 99.2 to this Annual Report on Form 40-F.

**Identification of the Audit and Risk Management Committee.**

The Company has a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are:

| | | |
|---|---|---|
| Richard B. DeWolfe | Lino J. Celeste | Scott M. Hand |
| Robert E. Dineen, Jr | Allister P. Graham | Luther S. Helms |
| Thomas E. Kierans | | |

**Disclosure Pursuant to the Requirements of the New York Stock Exchange.**

Independence of Directors

Based on the standards established by the New York Stock Exchange, the Board of Directors of the Company has determined that all but one member of the Board is independent. Dominic D'Alessandro is not independent because he is the Company's President and Chief Executive Officer. The Board has determined that no other Director is in a relationship with the Company that would cause the Director to lose his or her status as independent.

Presiding Director at Meetings of Non-Management Directors

Each meeting of the Board and of its Committees is followed by an *in camera* meeting at which the independent Chair of the Board or the independent Chair of one of the Committees of the Board acts as Chair of the meeting.

Communication with Non-Management Directors

Shareholders wishing to contact non-management Directors of the Company may write to the Chair of the Board, in care of the Corporate Secretary, at the head office of the Company, 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5.

Corporate Governance Guidelines

The Company has established corporate governance guidelines in accordance with the requirements of the New York Stock Exchange. These guidelines, which the Company calls Corporate Governance Practices, are available for viewing on the Company's website at:

http://www.manulife.com/corporate/corporate2.nsf/Public/corporategovernance.html

The Company's corporate governance practices comply with the domestic issuer corporate governance requirements of the New York Stock Exchange Rules.

Board Committee Charters

The Company has established Board committee charters in accordance with the requirements of the New York Stock Exchange, which are available for viewing on the Company's website at:

http://www.manulife.com/corporate/corporate2.nsf/Public/directorsandcommittees.html

Requests for print copies of the above documents available for viewing on the Company's website should be made by contacting the Corporate Secretary at the head office of the Company.

## UNDERTAKING AND CONSENT TO SERVICE OF PROCESS

**A. 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.

**B. Consent to Service of Process.**

The Company has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name or address of the agent for service of process of the registrant shall be communicated promptly to the Securities and Exchange Commission by an amendment to the Form F-X referencing the file number of the relevant registration statement.

## 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, on March 27, 2008.

**Manulife Financial Corporation**

By: */s/ Angela K. Shaffer*
Name: Angela K. Shaffer
Title: Vice President and Corporate Secretary

**EXHIBIT INDEX**

| Exhibit | Description |
|---|---|
| 99.1 | Renewal Annual Information Form, dated March 27, 2008, for the fiscal year ended December 31, 2007 |
| 99.2 | Management's Discussion and Analysis for the fiscal year ended December 31, 2007 |
| 99.3 | Consolidated Financial Statements for the fiscal year ended December 31, 2007 *(Note 23 to the Consolidated Financial Statements relates to United States Accounting Principles and Reporting (U.S. GAAP))* |
| 99.4 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 |
| 99.5 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934 |
| 99.6 | Section 1350 Certification of Chief Executive Officer |
| 99.7 | Section 1350 Certification of Chief Financial Officer |
| 99.8 | Consent of Auditors |
| 99.9 | Consent of Appointed Actuary |
| 99.10 | Sections of the Proxy Circular and 2007 Annual Report entitled "Business of the Annual Meeting", "Nominees for the Board of Directors", "Statement of Corporate Governance Practices", "Risk Management", "Critical Accounting and Actuarial Policies" and "Principal Subsidiaries" (*Incorporated by reference into the Annual Information Form, dated March 27, 2008, for the fiscal year ended December 31, 2007*) |

**Exhibit 99.1**

**MANULIFE FINANCIAL CORPORATION**

**ANNUAL INFORMATION FORM**

March 27, 2008

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## GLOSSARY

For the purpose of this annual information form ("Annual Information Form"), the term "Company" or "Manulife Financial" refers, at all times prior to September 23, 1999, to The Manufacturers Life Insurance Company ("Manufacturers Life") and its subsidiaries, and at all times on or after September 23, 1999, to Manulife Financial Corporation ("MFC") and its subsidiaries, including Manufacturers Life.

The following are brief explanations of certain terms as used in this Annual Information Form.

**ACLI** (American Council of Life Insurers) — an insurance industry association for life insurance companies in the United States, which works to promote a legislative and regulatory environment favourable to its members and provides information and educational resources to the public.

**annuities** — contracts that provide income payments at regular intervals, usually for a specified period (an annuity certain) or for the lifetime of the annuitant (a life annuity). Annuity contracts are offered on both an immediate and a deferred basis. Under immediate annuities, the payment of income commences at, or very shortly after, the date of issue of the contract. Under deferred annuity contracts, the payment of income commences on some specified future date, such as five years after the contract is issued. Contracts can be fixed or variable.

**Canadian GAAP** — Canadian generally accepted accounting principles as promulgated by The Canadian Institute of Chartered Accountants.

**cash value** — the gross value for which an in-force policy can be surrendered.

**COLI** (corporate owned life insurance) — a specialized insurance product which provides tax-efficient funding vehicles for employee deferred compensation programs.

**common investment platform** — a common group of investment funds that are offered to the Company's customers across multiple variable insurance, annuity and pension product lines.

**endowment insurance** — life insurance policy which pays the face value at earlier of death or maturity date.

**Fraser Group Universe Report** — an annual report on pricing, profitability and market share in the Canadian group insurance industry, published by the Fraser Group, an independent Canadian consulting firm.

**general fund** — those assets and liabilities which a life insurance company reports on its consolidated balance sheet and for which a life insurance company bears the investment risk. Products treated as part of the general fund include participating whole life insurance, universal life insurance, term life insurance, group life and health insurance and fixed-rate insurance, annuity and pension products, as well as reinsurance.

**GIC** (guaranteed investment contracts) — certificates of deposit on which guaranteed interest is payable or compounded annually and maturity is a specified term, usually one to five years.

**group life and health insurance** — insurance which insures the lives of a group of people (group life) or provides coverage for medical and dental costs, and income replacement for disabilities (group health) to a group of people under a master contract. Typically used by employers to provide coverage for their employees.

**ICA** — the *Insurance Companies Act* (Canada), as amended, including the regulations thereunder which apply to insurance companies that are incorporated under Canadian federal law and to foreign insurance companies that operate in Canada on a branch basis.

**in-force** — an insurance or annuity contract which has not expired or otherwise been terminated.

**individual life insurance** — insurance which pays a stipulated sum in the event of the death of a named individual.

**Letters Patent of Conversion** — the letters patent issued under the ICA to effect the conversion proposal of Manufacturers Life from a mutual company to a company with common shares effective September 23, 1999.

**LIMRA** (Life Insurance Marketing Research Association) — an association which supports and enhances the marketing functions of life insurance companies through original research, products and services.

**MCCSR** (Minimum Continuing Capital and Surplus Requirements) — capital and liquidity requirements imposed by OSFI for Canadian federally regulated life insurance companies.

**Minister of Finance** — the Minister of Finance (Canada) or any Minister of State who has been delegated any of the Minister's powers, duties and functions under the ICA.

**mortality risk** — the risk arising from an insured person's death.

**NAIC** (National Association of Insurance Commissioners) — an association of the chief insurance supervisory officials of each state, territory or possession of the United States.

**OSFI** — the Office of the Superintendent of Financial Institutions (Canada), the primary regulator of federal financial institutions and federal pension plans.

**Plan of Demutualization** — the plan of demutualization of Manufacturers Life, which, for the purposes of the ICA, constituted a conversion proposal.

**policy loan** — a loan made to a policyholder based on the security of the cash value of a policy.

**policyholder** — the person who owns an insurance or annuity policy. Although the policyholder is usually the insured, in the case of group insurance the policyholder is usually the employer rather than the employee.

**producer group** — groups of agents and brokers who deal collectively with insurance companies in the areas of products, underwriting and compensation. A producer group also offers marketing and sales support to its members, as well as continuing education.

**RRIF** (registered retirement income fund) — a fund of undistributed accumulations of retirement savings, within the meaning of the *Income Tax Act* (Canada).

**RRSP** (registered retirement savings plan) — a savings plan for the purpose of providing a retirement income, within the meaning of the *Income Tax Act* (Canada).

**reinsurance** — the acceptance by one or more insurers, called reinsurers, of a portion of the risk underwritten by another insurer which has directly contracted to provide the coverage. The legal rights of the policyholder are not affected by the reinsurance transaction and the insurer issuing the insurance contract remains primarily liable to the policyholder for payment of policy benefits.

**retrocession** — a form of reinsurance that involves the assumption of risk from a reinsurer rather than the direct writer of the policy or policies.

**SEDAR** — the System for Electronic Document Analysis and Retrieval, found at www.sedar.com.

**segregated fund** — a fund, having its own portfolio of investments, kept separate from the general fund of a life insurance company in connection with one or more insurance policies or annuity contracts under which the company's liability to the policyholders varies with the performance of the fund.

**Superintendent** — the Superintendent of Financial Institutions (Canada).

**surplus** — the excess of assets over liabilities and other obligations in an insurance company's financial statements calculated in accordance with applicable accounting principles.

**term life insurance** — a life insurance policy which pays a stipulated sum on the death of the individual life insured, provided that death occurs within a specified number of years. There is usually no cash value.

**third party administrator** — a company that provides administrative support, including regulatory compliance, reporting and document processing, to sponsors of group plans.

**underwriting** — the process by which an insurance company assesses the risk inherent in an application for insurance prior to acceptance and issuance of a policy.

**universal life insurance** — a life insurance policy in which premiums, less expense charges, are credited to a policy account from which periodic charges for life insurance are deducted and to which interest and investment income are credited. Universal life insurance accumulates a cash value.

**variable product** — an insurance, annuity or pension product contract for which the reserves and/or benefits may vary in amount with the market value of a specified group of assets held in a segregated fund.

**whole life insurance** — a life insurance policy payable upon the death of the insured, with a fixed premium and accumulating cash values.

## FINANCIAL PRESENTATION AND EXCHANGE RATE INFORMATION

The Company maintains its financial books and records in Canadian dollars and presents its financial statements in accordance with Canadian GAAP as applied to life insurance enterprises in Canada and the accounting requirements of the Superintendent. None of the accounting requirements of the Superintendent is an exception to Canadian GAAP.

**Unless otherwise indicated, references in this Annual Information Form to "$," "Cdn.$" or "dollars" are to Canadian dollars.** Exchange rates used for currency conversion to Canadian dollars for financial statements in this Annual Information Form are summarized in the following table:

| | As at and for the year ended December 31 | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **U.S. dollar** | | | |
| Balance sheet | 0.9881 | 1.1653 | 1.1659 |
| Statement of operations | 1.0739 | 1.1340 | 1.2111 |
| **Japanese yen** | | | |
| Balance sheet | 0.008844 | 0.009790 | 0.009886 |
| Statement of operations | 0.009116 | 0.009752 | 0.011022 |

Notes: (1) Rates shown are the Canadian dollar price per U.S. dollar and Japanese yen. In accordance with Canadian GAAP, balance sheet amounts are converted at rates on the dates indicated, while statement of operations amounts are converted using the average rate for each quarter. The rate of exchange disclosed above for the annual Statement of Operations is based on the rates in each quarter's Statement of Operations. The annual rate is approximated as the average of the quarterly rates weighted by the number of days in each quarter.

(2) Rates are based upon noon rates of exchange published by the Bank of Canada.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the "safe harbour" provisions of Canadian provincial securities laws and the U.S. *Private Securities Litigation Reform Act of 1995* . These forward-looking statements relate to, among other things, the Company's objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as "may", "will", "could", "should", "would", "suspect", "outlook", "expect", "intend", "estimate", "anticipate", "believe", "plan", "forecast", "objective" and "continue" (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results set out under "Corporate Strategy" and "Business Operations". Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements, and actual results may differ materially from those expressed or implied in such statements. Information about material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements, may be found in this document under "Risk Factors" as well as under "Risk Management" and "Critical Accounting and Actuarial Policies" in MFC's Management's Discussion and Analysis for the year ended December 31, 2007 and elsewhere in MFC's filings with Canadian and U.S. securities regulators. The Company does not undertake any obligation to update publicly or to revise any of the forward-looking statements contained or incorporated by reference in this document, whether as a result of new information, future events or otherwise, except as required by law.

## CORPORATE STRUCTURE

### HISTORY AND INCORPORATION

Manulife Financial Corporation is a life insurance company incorporated under the ICA. MFC was incorporated under the ICA on April 26, 1999 for the purpose of becoming the holding company of Manufacturers Life following its demutualization. Manufacturers Life was incorporated on June 23, 1887, by a Special Act of Parliament of the Dominion of Canada. Pursuant to the provisions of the *Canadian and British Insurance Companies Act* (Canada), the predecessor legislation to the ICA, Manufacturers Life undertook a plan of mutualization and became a mutual life insurance company on December 19, 1968. As a mutual life insurance company, Manufacturers Life had no common shareholders and its board of directors was elected by its participating policyholders in accordance with the ICA. Pursuant to Letters Patent of Conversion, effective September 23, 1999, Manufacturers Life implemented a plan of demutualization under the ICA and converted to a life insurance company with common shares and became the wholly owned subsidiary of MFC. On April 28, 2004, MFC completed a merger transaction with John Hancock Financial Services, Inc. ("John Hancock") pursuant to which a wholly owned subsidiary of MFC merged with and into John Hancock, with the result that John Hancock became a wholly owned subsidiary of MFC. Following completion of the merger with John Hancock, Manufacturers Life and John Hancock became sister companies. MFC owns all of the outstanding common shares of Manufacturers Life and indirectly owns all of the outstanding shares of common stock of John Hancock. MFC's head office and registered office is located at 200 Bloor Street East, Toronto, Canada, M4W 1E5.

## INTERCORPORATE RELATIONSHIPS

The Company conducts its business activities through subsidiary companies in Canada, the United States, Hong Kong, Japan, the Philippines, Singapore, Indonesia, Thailand and Vietnam. The Company operates through branches in Barbados, Bermuda and Germany and through branches of subsidiaries in Taiwan and Macau. In China, the Company operates through a joint venture established with a local company. In Malaysia, the Company operates through a publicly traded corporation, which is 46% owned by the Company.

The principal subsidiaries of MFC, including direct and indirect subsidiaries, are listed in the section entitled "Principal Subsidiaries" of MFC's 2007 Annual Report filed on SEDAR, which section is incorporated herein by reference. These companies are incorporated in the jurisdiction in which their head office is located.

## CORPORATE STRATEGY

Manulife Financial's overall corporate objective is to continue its record of profitable growth by building on its position as a leading provider of financial protection and wealth management products and services in Canada, the United States and Asia. In pursuing this objective, management seeks to operate Manulife Financial in accordance with certain core values: professionalism; providing real value to its customers; integrity; maintaining financial strength; and being an employer of choice. To realize its objective, Manulife Financial pursues the following specific strategies.

### Build on Existing Business Franchises

Manulife Financial enjoys recognized financial strength and leadership positions in a number of diverse international markets ranging from developing to mature and has built strong platforms for future growth in Canada, the United States and Asia. Management intends to strengthen the Company's business franchises in its existing markets and potentially expand into new markets where management believes the Company can establish a leading market position. In 2004, Manulife Financial significantly expanded the Company's positioning in North America through its merger with John Hancock. The merger added the John Hancock operations and brand in the United States and the business of The Maritime Life Assurance Company ("Maritime Life") in Canada. In Asia, the merger increased scale and expanded Manulife Financial's presence into Malaysia and Thailand. Management believes that the Asian region's economic and demographic trends offer excellent medium and long-term growth potential. In 1996, Manulife Financial opened the first foreign joint venture life insurance company in China. During 2007, the Company was granted eleven new licenses in China, and by the end of 2007, the Company was operating in 24 cities throughout the country. In 1999, Manulife Financial became the first Canadian life insurer with operations in Japan, one of the world's largest insurance markets. The Japanese operation was expanded in 2001 with the purchase of the in-force business of Daihyaku Mutual Life Insurance Company ("Daihyaku"). The Company also expanded its Asian operations through acquisitions, most recently in the Philippines.

### Deliver Customized and Innovative Products and Services

Management believes that delivering customized and innovative financial protection and wealth management products and services, which provide sustainable value at competitive prices, will continue to be a growth driver for the Company. Accordingly, Manulife Financial focuses on understanding customer needs and on developing, maintaining and deepening long-term customer relationships. To address the changing needs of its target markets, the Company has developed the ability to quickly bring new offerings to the marketplace to complement its broad array of products. . In 2006 the Company introduced Canada's first guaranteed minimum withdrawal benefit product, thereby creating a brand new retirement product category in the Canadian marketplace, and also introduced the first long-term care insurance product in Canada, to help Canadians meet the increasing need for elder care while protecting investment savings. In the United States, the Company continued to add to its industry-leading withdrawal benefit platform by introducing its third-generation guaranteed withdrawal benefit feature. This product, designed specifically for the baby boomer generation, provides income security as well as potential benefit from investment related gains and is primarily targeted at near or current retirees that can wait a period of time before taking income. Manulife Life Insurance Company ("Manulife Japan") has been a leader in offering innovative products to Japanese consumers, being among the first insurers to offer universal life insurance and variable annuity products in Japan. Manulife Japan launched an innovative new variable annuity product in 2006 through Bank of Tokyo-Mitsubishi UFJ, Ltd. In Singapore, the Company launched the country's first variable annuity product in June 2007.

### Capitalize on Multiple Distribution Channels

Management believes that tailoring the Company's distribution channels to allow customers in each geographic and product market to purchase the Company's products and services through their preferred channel will enable Manulife Financial to further penetrate its target markets. In North America, the Company has been highly successful in expanding and diversifying its distribution capabilities while at the same time continuing to nurture traditional relationships. In 2007, the Company completed the acquisition of Berkshire-TWC Financial Group Inc. ("Berkshire"), Canada's largest independent privately-owned financial planning and wealth management

organization, adding more than 700 advisors and 237 branches from Berkshire's mutual fund and securities business to Manulife Financial's existing operations across the country. In the United States, the John Hancock merger significantly broadened the Company's distribution capabilities by adding the John Hancock Financial Network ("JHFN"). Distribution capabilities were expanded further in 2007 with several new agreements entered into, most notably with Morgan Stanley, which contributed to the record level of sales in 2007 in variable annuities in the United States. In Asia and Japan, Manulife Financial's primary distribution channel is an exclusive agency force numbering approximately 28,000 agents. In recent years, the Company has expanded and diversified its distribution reach by adding new agreements with banks and securities brokers in Asia. In 2004, Manulife Japan entered into a strategic alliance with the Mitsubishi UFJ Financial Group, Inc. ("MUFG") for individual variable annuity product development and sales. As of the end of 2007, the Company had expanded its distribution network in Japan to include 31 agreements with banks and securities brokers. By offering a diverse range of products and providing ongoing sales and marketing support, Manulife Financial strives to maintain long-term relationships with its agents, brokers and other distributors in each market. The Company expects to continue its strategy of anticipating and responding to changing customer distribution preferences.

**Leverage Technology to Enhance Customer and Producer Services**

Manulife Financial is committed to the development and leveraging of technology to provide improved service to clients and support to the Company's distribution partners. Manulife Financial has also invested in technology to realize productivity gains from improved business processes. To help the Company deliver improved customer service, realize significant expense management opportunities and provide strategic flexibility to integrate new businesses, Manulife Financial also outsources some of its information technology requirements including the management of its information technology infrastructure and operations and the provisioning and management of Internet Protocol-based infrastructure.

**Leverage Successful Strategies across Different Markets**

Manulife Financial's product and geographic diversity allows the Company to transfer products and services, technology, distribution and marketing strategies, and business knowledge from one market to another. Management believes that the ability to leverage across markets enables the Company to capitalize quickly on emerging economic and demographic trends. Manulife Financial applied the expertise it gained in the United States variable annuity market to launch similar products in Canada and Asia. In 2006, the Company transferred its successful Lifestyle Fund offerings to its JH Mutual Fund business, resulting in an expanded product offering and increased mutual fund sales. In September 2007, teams from Canada and the U.S. worked closely together in the development and launch of Canada's new long-term care insurance product.

**Implement Strategic Acquisitions**

Manulife Financial intends to continue to make strategic acquisitions in the financial services industry that strengthen and complement its core operations and that are priced to achieve target financial returns. Management believes that the Company can benefit by participating proactively in the continuing consolidation of the financial services industry, with the objective of increasing Manulife Financial's overall size and enhancing its market position in internationally diverse markets. In addition, Management believes that Manulife Financial is well-positioned to continue its acquisition program with a focus on expanding its financial protection and wealth management businesses internationally, based on the Company's experience in executing and implementing strategic acquisitions, together with its management and capital resources.

## GENERAL DEVELOPMENT OF THE BUSINESS

### THREE YEAR HISTORY

The Company has proactively participated in the continuing consolidation and globalization of the financial services industry. Through acquisitions and organic growth, the Company has increased shareholders' net income from $3,294 million in 2005 to $4,302 million for the year ended December 31, 2007.

In 2005, the Company successfully completed the integration of Manulife Financial and John Hancock. The Company is positioned as "One Company", operating primarily under the brand name John Hancock in the United States and Manulife Financial in Canada, Asia and Japan.

In 2006, Manulife Financial focused on leveraging the benefits of the integrated organization and building on its competitive strengths. The Company continued to enhance its expanded distribution platform, introduce innovative new products and leverage the John Hancock brand in the U.S. These initiatives contributed to strong organic growth with premiums and deposits increasing by six per cent (12 per cent on a constant currency basis) for the year ended December 31, 2006, compared to the year ended December 31, 2005.

In 2007, the Company's results reflected the strength and diversity of its core operating businesses and invested assets. Product innovation and the expansion of distribution capabilities contributed to exceptional sales levels and strong earnings growth across core operating businesses. Sales increased by 13 per cent (19 per cent on a constant currency basis) for the year ended December 31, 2007 compared to the year ended December 31, 2006.

## BUSINESS OPERATIONS

The Company is a leading global provider of financial protection and wealth management products and services, including individual life insurance, group life and health insurance, long-term care insurance, pension products, annuities and mutual funds. These services are provided to individual and group customers in the United States, Canada and Asia. Manulife Financial also provides investment management services with respect to the Company's general fund assets, segregated fund assets, mutual funds, and to institutional customers. The Company also offers reinsurance services, specializing in life retrocession and property and casualty reinsurance.

As at December 31, 2007, the Company had more than 22,000 employees and operated in 19 countries and territories worldwide. The Company's business is organized into four operating divisions: U.S. Division, Canadian Division, Asia and Japan Division and Reinsurance Division. In addition, asset management services are provided by the Company's Investment Division, operating as MFC Global Investment Management ("MFC Global"). Each division has profit and loss responsibility and develops products, services, distribution and marketing strategies based on the profile of its business and the needs of its market. The U.S. Division is comprised of two reporting segments: U.S. Insurance and U.S. Wealth Management. The external asset management business of the Investment Division is reported under the Corporate and Other reporting segment.

## SELECTED FINANCIAL STATISTICS BY DIVISION/REPORTING SEGMENT

The following charts provide a breakdown by operating division and reporting segment of the Company's total shareholders' net income, premiums and deposits and funds under management as at and for the year ended December 31, 2007.

| Division/Reporting Segment (as a percent of Company total) | Shareholders' Net Income | | Premiums and Deposits | | Funds Under Management | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| U.S. Insurance | 16% | 17% | 10% | 9% | 15% | 14% |
| U.S. Wealth Management | 28% | 26% | 54% | 51% | 47% | 44% |
| U.S. Division | 44% | 43% | 64% | 60% | 62% | 58% |
| Canadian Division | 25% | 26% | 21% | 23% | 19% | 22% |
| Asia and Japan Division | 18% | 20% | 13% | 15% | 9% | 11% |
| Reinsurance Division | 7% | 6% | 2% | 2% | 1% | 1% |
| Corporate and Other | 6% | 5% | 0% | 0% | 9% | 8% |

| Division/Reporting Segment ($ millions) | Shareholders' Net Income | | Premiums and Deposits | | Funds Under Management | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 |
| U.S. Insurance | 622 | 755 | 6,713 | 6,538 | 61,258 | 56,424 |
| U.S. Wealth Management | 1,136 | 1,100 | 35,267 | 35,314 | 196,672 | 175,967 |
| U.S. Division | 1,758 | 1,855 | 41,980 | 41,852 | 257,930 | 232,391 |
| Canadian Division | 981 | 1,103 | 13,537 | 16,121 | 77,398 | 86,143 |
| Asia and Japan Division | 734 | 858 | 8,361 | 10,406 | 37,536 | 43,267 |
| Reinsurance Division | 294 | 263 | 1,010 | 1,026 | 3,009 | 2,606 |
| Corporate and Other | 218 | 223 | 51 | 33 | 38,511 | 31,941 |
| **Total** | 3,985 | 4,302 | 64,939 | 69,438 | 414,384 | 396,348 |

### U.S. DIVISION

U.S. Division includes U.S. Insurance and U.S. Wealth Management reporting segments. U.S. Insurance, consisting of JH Life and JH Long Term Care businesses, offers life, wealth accumulation and long-term care health insurance solutions for individuals and families. U.S. Wealth Management, which consists of JH Retirement Plan Services, JH Variable Annuities and JH Mutual Funds and JH Fixed Products businesses, provides clients with a wide selection of wealth management solutions for their personal, family and business needs.

U.S. Division operates principally through four insurance subsidiaries: John Hancock Life Insurance Company (U.S.A.) ("John Hancock USA"), John Hancock Life Insurance Company of New York ("John Hancock New York"), John Hancock Life Insurance Company ("John Hancock Life"), and John Hancock Variable Life Insurance Company ("John Hancock Variable"). In addition, U.S. Division has a joint venture arrangement with Metropolitan Life through its Long Term Care Partners LLC ("LTC Partners") subsidiary. Small blocks of business are also maintained in two subsidiaries, Manulife Insurance Company ("MIC") and John Hancock Insurance Company of Vermont ("JHVT"). U.S. Division also operates its mutual fund business through the following subsidiaries: a wholesale distribution company, John Hancock Funds LLC ("John Hancock Funds"), two investment advisors, John Hancock Advisers, LLC ("John Hancock Advisers") and John Hancock Investment Management Services, LLC ("John Hancock IMS") and a transfer agency, John Hancock Signature Services, Inc. ("John Hancock Signature Services").

John Hancock USA offers life insurance, 401(k) group annuity pension, individual annuity products and College Saving Plans (“529 Plans”) in all states except New York, and John Hancock New York offers all of these products, except 529 Plans, in the State of New York. John Hancock Life offers life insurance, annuity, long-term care and fixed-rate products in all states and John Hancock Variable offers certain life insurance and annuity products in all states except New York.

LTC Partners holds the business related to the Federal Long Term Care Insurance program (the “Federal Program”). MIC, a wholly owned subsidiary of John Hancock Variable, maintains a block of individual insurance products sold in prior years, while JHVT offers trust-owned health insurance to third parties through Fixed Products.

John Hancock Advisers is an investment advisor, principally for mutual fund operations. John Hancock Funds, a registered broker-dealer wholly owned by John Hancock Advisers, distributes retail mutual funds and privately managed accounts. John Hancock Signature Services is a mutual fund transfer agent.

John Hancock Distributors LLC (“John Hancock Distributors”), a registered broker-dealer wholly owned by John Hancock USA, is the wholesale distributor for all of the variable life, variable annuity and 529 Plans offered in the U.S.

John Hancock IMS and John Hancock Advisers are the investment advisors for the retail mutual funds and the mutual funds known as the common investment platform which support our variable life, variable annuity and certain Retirement Plan Services products. Both companies enter into sub-advisory arrangements with both affiliated and unaffiliated sub-advisors to manage the assets.

**Investment Platforms**

U.S. Division offers products that provide customers with fixed and variable rate investments. Fixed rate products, offered by JH Retirement Plan Services, JH Life and JH Fixed Products, provide customers with a guaranteed investment return backed by the claims paying rating of John Hancock Life, John Hancock USA, John Hancock New York and John Hancock Variable, as appropriate. Variable rate products enable clients to participate in equity market growth through both segregated and mutual fund investment vehicles. The segregated account products primarily invest in the common investment platform and the mutual fund products are offered through the JH Mutual Fund platform. In addition, U.S. Division maintains certain segregated accounts offered by JH Fixed Products.

*The Common Investment Platform*

All variable annuity and variable life products and certain JH Retirement Plan Services products invest in the John Hancock Trust (“JHT”) and John Hancock Funds II Trust (“JHF II”) common investment platforms. JHT and JHF II are mutual fund complexes registered under the U.S. *Investment Company Act of 1940* (“Investment Company Act”).

The common investment platform enables customers to retain their existing investment selections when transferring between or purchasing new 401(k) group annuity pension, variable annuity or variable life insurance products. A common investment platform means that distributors and customers need only be familiar with one set of investment funds. In addition, a single platform makes it easier for customers to assemble personalized solutions across the wide array of life insurance, annuity and 401(k) products.

Management believes that clients consider investment performance a key criterion in selecting a segregated fund. The division’s common investment platform provides a broad spectrum of diversified domestic and international equity funds, domestic and global fixed income funds and specialty funds that are managed by a distinctive selection of leading investment companies. In order to ensure that the platform remains comprehensive and competitive, the division draws on a variety of internal and external experts who continually review and adjust the investment selections. These experts actively “manage the managers” in an institutional fashion across a wide spectrum of investment and risk criteria. This includes monitoring performance, evaluating the managers’ investment processes, reviewing organizational changes and assessing risk controls.

For those customers who want a simplified approach to investing, the division also provides Lifestyle and Lifecycle Portfolios, which are pre-packaged, diversified funds-of-funds. The Lifestyle Portfolios are target-risk funds that are designed to match the needs and risk tolerance of a wide range of customers, from conservative to aggressive. The Lifecycle Portfolios are target-date funds that are designed to automatically adjust to more conservative investments as a customer’s expected retirement date approaches. The Lifestyle and Lifecycle Portfolios are both constructed using a multi-step process that draws on the expertise of several groups of asset allocation professionals. The Lifestyle Portfolios are offered in JHT and JHF II, and the Lifecycle Portfolios are offered in JHF II. In the JHF II platform, both the Lifestyle and Lifecycle Portfolios are distributed by JH Retirement Plan Services and JH Mutual Funds on a retail basis.

In addition to the common investment platform, JH Retirement Plan Services also offers a retail platform. The retail fund platform is subject to the same rigorous selection and review process as the common investment platform. This retail platform enables 401(k) pension plan sponsors the option of selecting a retail mutual fund managed directly by an adviser or the sub-advised version offered through the common investment platform.

*The Mutual Fund Platform*

JH Mutual Funds offers products through the mutual fund platform known as John Hancock Funds. This platform provides clients with domestic and international equity funds, taxable and tax-exempt fixed income funds, and specialty funds managed by both affiliated and unaffiliated investment managers. The mutual fund platform includes open-end funds, closed-end funds and separately managed accounts. This platform is subject to the same rigorous selection and review process as the common investment platform. Included in the mutual fund platform are the JHF II retail Lifestyle and Lifecycle funds described above.

The JH Mutual Fund business also offers the John Hancock Freedom 529 Plan. This is a tax-advantage College Savings Plan and offers many of the same funds that are available in the common investment platform. The John Hancock Freedom 529 Plan is subject to the same selection and review process as the common investment platform.

*Other Investment Platforms*

The JH Long Term Care business of U.S. Insurance has set up a single-customer separate account for the Federal Program. This segregated fund allows the business to tailor the investment strategy specifically to the needs of the Federal Program. This platform is not available to other customers.

JH Fixed Products' institutional fee-based products offer clients a number of investment options that generally pass the investment results of invested assets through to the contract holder with no, or minimal, guarantees. Certain of these products offer equity or fixed income investment classes through separate accounts.

**Proprietary Retail Distribution Network**

In addition to a wide variety of distribution channels and networks, U.S. Division offers its products and services through a recognized and established proprietary retail network, JHFN. JHFN is a nationally recognized career agency distribution system that offers insurance and wealth management solutions to individuals, families and businesses. The network provides access to a variety of proprietary and non-proprietary products and services to facilitate the sale of wealth accumulation and insurance oriented products. Signator Investors, Inc. ("Signator Investors") distributes proprietary and non-proprietary wealth management and insurance products and is part of JHFN.

**U.S. Insurance**

U.S. Insurance provides life and long-term care insurance products and services to select markets. The JH Life business focuses on high net-worth and emerging affluent markets by providing estate, business planning and other solutions with an array of protection and accumulation oriented life insurance products. The JH Long Term Care business provides insurance to individuals and groups to cover the costs of long-term care services including nursing homes, assisted living care facilities, adult day care and at-home care. U.S. Insurance uses a multi-channel distribution network, including JHFN. In 2007, JH Life and JH Long Term Care accounted for 83% and 17% respectively, of U.S. Insurance's total funds under management, and 75% and 25% respectively of its total premiums and deposits.

In 2008, U.S. Insurance intends to enhance its market share in the life and long-term care insurance markets by executing on its core strategy of developing innovative products to meet customers' needs, strengthening distribution channels, and offering a level of client service, that sets it apart from its competition.

*JH Life*

JH Life has established a reputation for providing innovative and competitive products, offering expert underwriting and having a broad based multi-channel distribution network.

The business primarily offers its clients single and survivorship universal life and variable universal life products, as well as specialized COLI products. The rate of investment return on universal life insurance policies may change from time to time due to factors such as the investment performance of the universal life asset portfolio, but is subject to minimum guaranteed rates. Variable universal life insurance products offer clients an opportunity to participate in equity market growth by investing in segregated funds.

The business is known for expertise in underwriting mortality risk, particularly for the older age market. The underwriting area continually updates its risk assessment standards based on emerging trends and medical developments. In 2008, the business will continue to invest in internal underwriting training and development programs to ensure a consistent supply of talent. The business has capacity to place large individual insurance policies due to large retention limits of U.S.$20 million for single lives and U.S.$25 million on survivorship cases.

Products are sold through a multi-channel distribution strategy that includes JHFN as well as third-party producers. The third-party channels include independent agents, brokerage general agents, producer groups, broker-dealers and banks. The business actively develops and maintains its relationships with these distributors by providing technical support, delivery of competitive products, and advance marketing and sales support. Over the years, the business has solidified its strong shelf-space position with key distributors and broadened its distribution channels by establishing new relationships with broker-dealers, producer groups and banks. In 2008, the business will continue to focus on its core strategy of maintaining strong distribution relationships in multiple channels. The business will also look to further expand distribution through the addition of more field and account management capacity. New business service to distributors is expected to continue to improve by reducing processing times through targeted initiatives and the use of technology to streamline processes.

JH Life has a history of being able to rapidly develop and launch innovative life insurance products. Management of the Company believes it is well-positioned in the market with a streamlined product portfolio that offers a single competitive product in each market segment in which it competes. Product launches planned for early 2008 are expected to include new versions of key non-guaranteed and guaranteed universal life products as well as the continued roll-out of a new Standard Plus underwriting class to further enhance Life's competitive position.

*JH Long Term Care*

Long-term care insurance reimburses customers for the costs of care needed when an insured is no longer able to perform the ordinary activities of daily living or is cognitively impaired. The business sells individual and group long-term care insurance products. Individual policies are available for sale to people between the ages of 18 and 84. Group products are designed for employees of small to large employers.

John Hancock was one of the first companies to offer long-term care insurance and has been in the business for about 20 years. Based on June 30, 2007 year-to-date sales data published by LIMRA, John Hancock was the number one provider of overall long-term care insurance (individual and group) in the U.S. market. The business has expertise in all aspects of long-term care operations from product development to claims processing.

Long-term care products are sold within the United States through a multi-channel strategy that includes traditional independent agents, general agents, producer groups, broker-dealers and wirehouses. JHFN is a major distributor for the business. In order to further expand and deepen distribution capacity, the business remains focused on transitioning its distribution philosophy to meet the needs of the end-seller. Sales support programs are being designed to increase market presence, and to enhance support for end-sellers while promoting the Company's product and brand message directly to them.

Although the core product portfolio reflects a strong offering in every market segment, the business assesses the need for refinements on an ongoing basis in order to maintain its competitive edge. In 2008, it is expected that Leading Edge will continue to be promoted in the individual market, and Corporate Choice and Corporate Solutions in the small to mid-sized group market segments. A Guaranteed Increase Option rider has been recently added to Leading Edge in order to increase product appeal, while the enhanced sales illustration functionality for group products is aimed at simplifying plan implementation and increasing employee participation. In order to achieve service excellence during 2008, JH Long Term Care expects to direct its efforts to a selective upgrade in its technology to meet the needs of distributors and consumers.

**U.S. Wealth Management**

U.S. Wealth Management provides a variety of personal and family-oriented wealth management products and services to select individual and business markets. The JH Variable Annuities business offers products primarily to middle and upper-income individuals. The JH Retirement Plan Services business provides 401(k) solutions to small and medium-sized businesses. The JH Mutual Funds business provides a variety of mutual funds, 529 Plans and privately managed accounts to individuals and institutional investors. The JH Fixed Products business provides fixed annuities primarily to middle and upper-income individuals as well as payout annuities and a variety of fee and spread-based products to institutional clients. At December 31, 2007, JH Variable Annuities, JH Retirement Plan Services, JH Mutual Funds and JH Fixed Products accounted for 31%, 30%, 18% and 21%, respectively, of U.S. Wealth Management's total funds under management. These businesses contributed approximately U.S.$10.7 billion, U.S.$12.0 billion U.S.$7.6 billion and U.S.$2.6 billion, respectively, to U.S. Wealth Management's total premiums and deposits.

*JH Variable Annuities*

The JH Variable Annuities business offers a variety of products that help customers achieve their personal and family financial goals. The range of variable annuity products is designed to assist individuals with their retirement needs. Variable annuity products, sold mainly to middle and upper-income individuals, provide a tax-efficient way to save for retirement or preserve wealth. Earnings on these products are subject to taxation only when withdrawn.

Product offerings include the Venture, Venture III, Venture Vantage and Venture Vision products. The Venture product offers traditional variable annuity features, such as a minimum death benefit guarantee, no front-end sales loads and a gradually declining surrender charge rate. In addition to these traditional features, the Venture III product offers a shortened surrender charge period for improved investor liquidity, while the Venture Vantage product offers a deposit-driven payment enhancement. Venture Vision is a level load product with full liquidity. These products offer several optional benefits, including versions of guaranteed minimum withdrawal benefits ("GMWB"). Through periodic withdrawals, the GMWB option provides a minimum floor of guaranteed income.

Variable annuity products are principally sold through the wholesale operation, Wood Logan, and through JHFN. Distribution will continue to be a major strategic focus in 2008 as variable annuities are wholesaled to independent broker-dealer firms and banks through Wood Logan. Maintaining a competitive product design, leveraging the John Hancock brand, growing major new distribution firms and further developing the bank channel are all anticipated to successfully grow the business in 2008.

Management recognizes the need to provide strong, customer-oriented service. An internal quality program, as well as external surveys, provide important benchmarking information relative to the industry and support this service culture. The strategy is to continue to develop the technical expertise and professionalism of staff, to continually review and update key processes and to improve systems capabilities. JH Variable Annuities will continue to leverage web-based technology to enhance customers' access to information, promote the use of self-service and simplify administrative procedures. In addition, JH Variable Annuities has established, and plans to expand, operational support over four geographic sites in order to more efficiently and better service its customers.

Throughout 2007, JH Variable Annuities continued to develop its variable annuity portfolio with a clear focus on meeting the needs of customers, maintaining competitiveness within the market and managing the risk profile of the business. In the first quarter of 2007, the business launched Venture Vision, and improved the flagship Principal Plus for Life ("Principal Plus") withdrawal benefit by making guaranteed lifetime income available at a younger age. In May 2007, a new guaranteed withdrawal benefit rider was introduced called Income Plus For Life ("Income Plus"), and new funds from American Funds and Franklin Templeton Investments were added. Income Plus includes enhanced product features, higher bonuses, and more step-up opportunities than Principal Plus. In October 2007, the business launched Principal Returns, another new guaranteed withdrawal benefit rider. It represents a complementary solution to the Principal Plus and Income Plus riders and offers an "Income Now" option versus "Income Later". JH Variable Annuities ranked third in sales in the non-proprietary market, based on sales for the year ended December 31, 2007, as reported by the Morningstar Annuity Research Center.

*JH Retirement Plan Services*

The JH Retirement Plan Services business unit offers small and medium-sized businesses, consisting of companies with five to 500 employees, primarily 401(k) group annuity contracts designed for tax-qualified pension plans. Based on 2007 third quarter LIMRA International 401(k) Scorecard survey results, JH Retirement Plan Services continues to be ranked as the top seller of 401(k) plan products in this market, as measured by new sales and new cases. In addition to maintaining leadership in the micro and small plan segments (less than U.S.$3 million in assets), JH Retirement Plan Services is also focused on expanding its strong presence in the mid-sized pension segment (U.S. $3 million to U.S.$25 million in assets).

JH Retirement Plan Services' 401(k) group annuity product includes investment, communication and record-keeping services with plan administration provided through third party administrators ("TPAs"). JH Retirement Plan Services also provides a defined benefit product and has recently introduced a Guaranteed Income For Life ("Guaranteed Income") offering. Built exclusively for the 401(k) market, the Guaranteed Income product enables participants to partake in equity market upsides while protecting their investment from market downturns.

Management is committed to delivering quality investment alternatives, participant education and communications, and superior service that is responsive and flexible. Management's focus on technology and ongoing measurement of quality and satisfaction has resulted in very strong retention and high approval amongst our plan sponsor customers. In recognition of its commitment, JH Retirement Plan Services has received Best in Class rankings in many areas according to the 2007 Chatham Partners Plan Sponsor satisfaction benchmark survey, as well as various awards from such prominent organizations as Plan Sponsor Magazine and The League of American Communication Professionals.

JH Retirement Plan Services products are marketed by sales account executives mainly to TPAs, broker-dealers and independent financial planners. TPAs are important both as a distribution channel and as a provider of plan administration services to plan sponsors. The business provides support to TPAs in the form of direct data links, training, marketing, educational programs, and access to enhanced e-commerce functionality. JH Retirement Plan Services also has an established advisory council of TPAs that provides feedback on product development and marketing strategies. As part of its commitment to the growing broker-dealer and financial planner channels, JH Retirement Plan Services offers on-line marketing, educational and client/broker-dealer administrative support through its broker website.

*JH Mutual Funds*

The JH Mutual Funds business provides a broad range of investment products to the retail and institutional markets. Its focus on the non-proprietary market reflects a diverse footprint that covers the design, distribution and servicing of both open-end and closed-end mutual funds and separately managed accounts. Its growing 529 Plan product line helps clients save for post-secondary education.

Management's strategy for growth in the JH Mutual Fund business line is driven by the development of new products, maintenance and improvement of investment performance in existing products and the expansion of the distribution network. Within the non-proprietary industry, the business competes as a mid-sized mutual fund company, defined as a company ranking 11$^{th}$ through 30$^{th}$ in long-term mutual fund assets under management. Investment management is provided by external sub-advisors and affiliated sub-advisors. Its product portfolio consists of an extensive selection of open-end equity and fixed-income funds, a suite of five Lifestyle funds and nine Lifecycle funds, a number of closed-end funds and separate account strategies.

The JH Mutual Funds business is structured around four business lines covering key components of the asset management industry: Retail, Private Client Group, Investment Only and the 529 Plan market. The Retail product line markets and distributes open-end and closed-end mutual funds through wirehouses, regional brokerage firms, planners, financial institutions and insurance broker-dealers. The Private Client Group offers separately managed accounts to high net-worth individuals through broker-dealers, while the Investment Only business line markets and distributes institutional (open-end) mutual funds to pension consultants, corporate and public pension plans, Union/Taft-Hartley plans, endowments and foundations and alternative distribution organizations. Offered by the Educational Trust of Alaska and administered by T. Rowe Price Group, Inc., 529 Plans offers middle-income and high net-worth clients a multi-managed product platform with various flexible investment options. Prominent fund companies are employed to manage the 529 Plan investment fund portfolios. The 529 Plan business works with its partner, T. Rowe Price, to oversee and evaluate the performance of these investment managers.

A network of wholesalers distributes the Retail, Private Client Group and 529 Plan offerings. These wholesalers meet directly with broker-dealers and financial planners and are supported by an extensive home office-based sales and marketing staff. Investment Only funds are distributed directly to plan sponsors and are marketed to pension consultants nationwide who provide advisory services to plan sponsors. Dedicated client relationship officers who keep clients updated on portfolio performance information support marketing efforts.

*JH Fixed Products*

JH Fixed Products consists of four separate product lines: payout annuities, fixed deferred annuities, spread-based products and fee-based products.

Payout Annuities

Payout annuities are designed to meet the needs of corporate-sponsored and individual retirement plans and defined benefit pension plan terminations. These single premium annuities shift investment and longevity risk from retirees to the JH Fixed Products business. The two most common types of annuities are the straight life annuity, which makes payments for the life of a retired annuitant, and the joint and survivor annuity, which continues to make payments to a spouse after the death of the annuitant. The payout annuity product line also offers structured settlements, which provide a stream of periodic payments to individuals who receive awards or settlements in personal physical injury disputes.

Fixed Deferred Annuities

The Company's deferred annuity contract, Guaranteed Principal Annuity Plus ("GPA Plus"), is a flexible premium contract and offering interest rate guarantee periods ranging from one to six years from the date of purchase. Each deposit creates a new guarantee period. The interest rate provided in the first year of the initial guarantee period may be supplemented by an interest rate bonus, which may increase as cumulative total deposits increase. Subsequent interest rate guarantees are renewed annually and are established at the Company's sole discretion, subject to lifetime minimum interest guarantees defined in each contract. GPA Plus offers the CARESolutions Plus rider, which is designed to protect the client from the high costs of assistance required should the contract owner become unable to perform certain activities of daily living. Each deferred annuity contract may be converted to an immediate annuity at any time, at the contract owner's option.

Spread-Based Products

Spread-based products are offered opportunistically, when market conditions allow for sale at attractive rates of return on capital. They include *Signature*Notes, GICs and funding agreements. *Signature*Notes carry the subordinated guarantee of MFC. *Signature*Notes are debt securities issued directly by JH Fixed Products to retail investors via a broker-dealer network. These debt securities, available to investors in the United States in U.S.$1,000 increments, were, and may in the future be, offered weekly under a U.S. shelf registration prospectus with varying terms and maturity dates, as permitted in the prospectus. In June 2007, JH Fixed Products suspended sales of *Signature*Notes until market conditions change and more attractive rates of return may be realized. GICs and funding agreements not guaranteed by MFC, are privately offered to corporate sponsored pension plans and other large institutions, and their terms and conditions vary with the requirements of the buyer.

Fee-Based Products

Fee-based products generally pass investment results through to the contract holder with no, or minimal, guarantees. Fee-based products include the following:

1. Participating General Account Fund-Type Products and Annuity Contracts. These products are funding vehicles for pension plans that pass investment results through to the contract holder, after risk and profit charges. Annuity guarantees for these products are supported by asset adequacy requirements under which assets must be maintained at levels at least 5% above the annuity reserve. If the level of assets held under the contract falls below this threshold, the Company may liquidate assets equal to the annuity reserve and apply the assets to purchase a fully guaranteed annuity. The Company no longer actively markets these products, but does receive renewal deposits into existing contracts.
2. Structured Separate Accounts. These products pass the investment results of a separate account through to the contract holder and contain only minimal guarantees. Contract holders may select from among several investment styles offered by various investment managers. The structured separate account business leverages the strong marketing relationships developed with general account GIC customers. These contracts, like the general account GICs, are primarily marketed to sponsors of tax-qualified retirement plans such as 401(k) plans.
3. Participating Separate Account Annuities. These products are funding vehicles for pension plans that offer an insured pension-funding program in conjunction with a broad range of investment options including both equity and fixed-income. The risk associated with providing these annuities is mitigated by excess collateral maintenance requirements, which vary depending on the investment option selected. If the collateral falls below the maintenance requirements, the Company may liquidate assets equal to the annuity reserve and apply the assets to purchase a fully guaranteed annuity.
4. Separate Investment Accounts (Third Party Investment Management segment within the Investment Division). These are non-guaranteed group annuity contracts under which assets are held in a separate account. The business typically employs affiliated investment advisors to manage these assets. It may also employ non-affiliated investment managers if the customer so requires. Because these products do not provide guarantees, most new sales of separate investment accounts are reported in the Company's Investment Division. Existing agreements, however, continue to be reported in and serviced by JH Fixed Products for customer relationship reasons.

JH Fixed Products distributes its products through a variety of channels. Single premium annuities are sold through pension consultants who represent corporate retirement plan sponsors or through brokers who receive a commission for sale of the Company's products. Structured settlement annuities are offered through brokers specializing in dispute resolution. Deferred annuities are sold through JHFN and Wood Logan, similar to variable annuities. *Signature*Notes are sold through a non-affiliated broker-dealer. Other spread-based and fee-based products are usually sold directly to institutional clients through home-office based sales personnel, although independent brokers are employed in some cases.

Management believes that a combination of competitive rate offerings, attractive product features and expanded distribution are key to the Company's future. Management's strategy is to continue leveraging existing distribution outlets for fixed products, while seeking out specific market sectors that are capable of delivering suitable rates of return on capital.

**Competition**

Each of the markets in which U.S. Division operates is highly competitive.

Competitors in the U.S. life and long-term care insurance markets vary across product lines, but are primarily other large insurance companies that distribute through similar channels. Competitive advantage is based on the ability to develop flexible product features to meet individual customer needs, and to develop and service a variety of distribution channels. U.S. Insurance's competitive

strengths include product innovation, underwriting expertise, access to multiple distribution channels, and high quality customer service. Its competitive position is also enhanced by its scale as a sales leader in both the life and long-term care insurance markets.

U.S. Wealth Management's competitive strengths include innovation, multiple distribution channels, high quality customer service and wholesaling excellence. The JH Variable Annuities business environment is characterized by strong competition from both insurance and mutual fund companies, on aspects such as fund performance, investment/interest rates, product offerings, customer service, and financial strength. Competitors for JH Retirement Plan Services are insurance companies, payroll organizations, and mutual fund firms that compete on price, investment options/performance, service quality and the ability to add value for customers. Competition for the JH Mutual Funds business includes mutual fund and insurance companies that compete based on fund performance and distribution capability. JH Fixed Products operates in a variety of institutional and retail markets. Fixed deferred annuities face strong competition from insurance companies and bank-issued certificates of deposit on aspects such as investment and interest rates, product offerings, customer service and financial strength. In the institutional market for payout annuities, fee-based and spread-based fixed product, although a large number of companies offer these products, the market is concentrated because it demands issuers of high financial quality and competition has become restricted to insurance companies with superior financial ratings. While current spread levels and adherence to pricing disciplines make sales in the institutional markets difficult, JH Fixed Products will continue to concentrate on the less price-sensitive retail markets. We believe that it will be able to compete successfully in chosen markets as a result of the brand name, investment management expertise, national distribution, flexible product design and competitive pricing.

In addition, the division's strategy of offering a common investment platform across most of its businesses and the Company's financial strength and credit ratings further enhance the competitive position of its various product lines.

**CANADIAN DIVISION**

Canadian Division is one of the leading financial services organizations in Canada. It offers a diverse portfolio of products, services and distribution channels to meet the needs of a broad marketplace. Its individual wealth management product offerings include variable and fixed annuities, banking products and services, and mutual funds. Individual insurance products are aimed at middle and upper-income individuals and business owners. Insurance products are also directly marketed to members of associations and to the customers of financial institutions. Group life and health insurance and retirement products and services are marketed to Canadian employers.

Canadian Division is comprised of three main businesses: Individual Insurance, Individual Wealth Management and Group, which in 2007 accounted for 14%, 30% and 56%, respectively, of Canadian Division's premiums and deposits.

**Individual Insurance**

Individual Insurance offers a range of insurance solutions including universal life, term life, whole life and living benefits products. Individual Insurance focuses on offering a combination of superior products, the best professional advice and quality customer service to increase market share in the middle and upper-income individual, family and business-owner markets. Individual Insurance encompasses the Individual Insurance Centre and Affinity Markets, which markets products directly to consumers through associations or affinity sponsorships.

*Individual Insurance Centre*

The Company's strategy to offer a wide range of products tailored to specific markets has helped it consistently rank among the top three insurance companies in Canada in each of the past five years as measured by new premiums on life insurance policies sold in Canada, according to data published by LIMRA. Independent advisors, paid by commission are the Company's primary method of distribution, selling both the Company's products and products of other life insurance companies. Over 7,400 independent advisors, 22,900 general agency brokers and more than 17,600 stockbrokers are licensed to sell Manulife Financial's individual insurance products. A network of regional offices provides product, marketing and sales support, tax and estate planning expertise and financial planning tools to support advisors across Canada.

In addition to strong market share positions across all major individual life insurance product lines, the Company has one of the most comprehensive living benefit product portfolios in the market. Products offered include critical illness, long-term care and disability products providing a suite of industry-leading living benefit options for a growing market. Management's strategy for Individual Insurance is to continue to differentiate itself from its competition by providing superior products, after-sales service tools and programs and the best value-added advice to advisors.

*Affinity Markets*

The Company is a leading provider of life, living benefits, health and travel insurance to affinity organizations in Canada. These products are marketed to members of professional, alumni and retiree associations, financial and retail institutions and direct to consumers. Affinity Markets currently insures almost 700,000 customers. For affinity groups, customers are accessed through the endorsement of the sponsoring organization and are marketed through direct mail, response advertising and the internet. For the direct to consumer business, customers are accessed through direct mail, television advertising, response advertising, the Internet and through brokers.

Management's strategy for Affinity Markets is to maintain and enhance its strong market position by expertly servicing and cross selling to its block of long standing in-force clients and expanding its specialized products and distribution channels to build on the positive results to date, while testing the market with new ideas.

**Individual Wealth Management**

Individual Wealth Management's ("IWM") savings and retirement products and services include annuities and mutual funds, as well as bank deposit and lending solutions through Manulife Bank of Canada ("Manulife Bank").

The target market for IWM is middle and upper-income individuals in the pre-retirement and retirement years. In 2007, the Company continued to rank as the number one provider of individual fixed and immediate annuities in Canada as measured by total assets, according to a survey of major insurance companies published by LIMRA.

Under the Manulife Investments brand, IWM offers annuities and mutual funds. Annuities include fixed-rate products and variable products, which provide investments in segregated funds. The Company's segregated fund offerings allow investors to build customized portfolios to meet personal needs and financial goals through a series of flexible options such as maturity and death benefit guarantees, death benefit options, an investment line-up that includes 124 funds and the ability to hold a combination of fixed and segregated fund assets within the same contract.

Introduced in October 2006, GIF Select IncomePlus was Canada's first GMWB product and, as of October 2007, the first to offer guaranteed monthly retirement income for life. This new product category is positioned to meet the growing needs of clients entering the payout phase of retirement who are looking for predictable, sustainable and potentially increasing retirement income. At December 31, 2007, assets in GIF Select IncomePlus had surpassed $3 billion in the 14 months since its introduction.

IWM also offers immediate annuities and registered retirement income funds ("RRIFs"), including fixed-rate annuities. These products are designed to provide individuals with a regular retirement income stream from the funds that they have deposited or that have been deposited on their behalf. Annuity products are distributed through independent advisors, advisors in general agencies and licensed representatives in stock brokerage firms. The Company had relationships with 7,400 independent advisors, 22,900 general agency brokers and more than 17,600 stockbrokers with investment dealer firms as at December 31, 2007.

Manulife Investments also offers a family of 59 Manulife Financial mutual funds, with assets under management of $9.8 billion as at December 31, 2007, as reported by the Investment Funds Institute of Canada.

During 2007, IWM expanded its distribution capacity with the acquisition of Berkshire, adding over 700 licensed advisors [1] across 240 branch locations. Berkshire and Manulife Securities International Ltd. ("MSIL") distribute mutual funds for both the Company and third party mutual fund companies through approximately 1,600 MFDA-licensed independent representatives. The addition of Berkshire also provides Manulife Financial advisors with access to trade individual securities through Berkshire Securities Inc.

Banking products and services are offered through Manulife Bank, which according to information released by OSFI, is Canada's eighth largest domestic bank, based on assets, with over $10 billion in assets. Manulife Bank is a leader in banking solutions offered exclusively through financial advisors, including savings and chequing accounts, GICs, consumer loans, leverage loans, mortgages and other specialized loan programs. The Manulife One account enables customers to consolidate their personal finances into one home equity line of credit that includes chequing and borrowing accounts, giving them the potential to pay down their debts more quickly. Manulife Bank's distribution network consists of a team of highly trained banking consultants who support advisors in providing customers with access to cash flow as part of a comprehensive financial planning strategy.

[1] Advisors are licensed as sales representatives with either Berkshire Investment Group Inc. or Berkshire Securities Inc., which are subsidiaries of Berkshire regulated by the Mutual Fund Dealers Association ("MFDA") and the Investment Dealers Association of Canada ("IDA"), respectively (see "Government Regulation – Canada – Provincial/Territorial Securities Laws").

**Group Businesses**

The Group businesses, comprised of Group Benefits and Group Savings and Retirement Solutions ("Group Savings"), offer a wide range of health, life and retirement products to Canadian businesses.

*Group Benefits*

Group Benefits offers a range of group life and health insurance products and services to more than 16,000 Canadian businesses of all sizes. Group Benefits helps protect the health and well-being of more than eight million Canadians, offering traditional and flexible benefit programs that include features such as absence management solutions, short and long-term disability protection, critical illness, dental coverage, supplementary health and hospital coverage, drug plan coverage and accidental death and dismemberment protection. Group Benefits is the second largest provider of group benefits in Canada, based on data published in the 2006 Fraser Group Universe Report. In 2007, premiums and deposits generated by Group Benefits exceeded $5.7 billion and Manulife Financial led the market in sales for the year according to data published by LIMRA.

Marketing, product and distribution are focused on four market segments: large, medium-sized, small-businesses and trusteed plans. Group Benefits' products are distributed through a number of distribution channels, including a national network of regional offices that serves major centres across Canada providing local service to clients. Effective client relationship management is key to building customer satisfaction and loyalty, and the distribution model for Group Benefits is aligned to meet this objective. Account executives work with a network of consultants, brokers and advisors who have been contracted by client companies to analyze and recommend an appropriate carrier. Client managers, supported by service representatives in each regional office, facilitate the implementation of new business and are responsible for ongoing relationship management. Group Benefits' strategies to further grow market share include targeting the small and medium-sized market segments; developing regions with lower market share; expanding the Group managing general agents distribution channel and cross selling with Group Savings.

Group Benefits focuses on delivering benefit solutions to meet the needs of its customers. For many employers, this means balancing the need to manage benefit costs with the objective of providing their employees with highly valued benefits plans. This is achieved by providing flexible, customized solutions that address employer concerns while improving the health and productivity of employees. For example, in 2007 Group Benefits launched Health Service Navigator. This unique product is specifically designed to help employees and their families better understand, manage and access the increasingly complex Canadian health care environment.

In 2007, Group Benefits also launched group critical illness, further broadening its product portfolio to better access the largest possible market. This new product offers two levels of coverage, basic and optional forms, and, coverage for both employees and their dependents.

*Group Savings and Retirement Solutions*

Group Savings offers a broad variety of flexible retirement savings products for Canadian employers and organizations, including defined contribution pension plans, deferred profit sharing plans, non-registered savings plans, employee share ownership plans, and investment only services for defined benefit plans. Group Savings provides a comprehensive range of services to support these offerings, including a well-diversified choice of investment managers and funds that includes multi-manager mandates; an array of reports and automated tools targeted at helping plan sponsors manage their programs easily while fulfilling governance requirements; and robust education, information and reporting tools for individual members. In 2007, Group Savings generated more than $3 billion of premiums and deposits from activity across the small, mid-sized, large and jumbo case markets.

Group Savings works with a network of market sources – typically brokers and consultants – to meet the needs of clients across the marketplace. Brokers concentrate on small and mid-sized enterprises, but occasionally present to larger customers, while consultants focus on large and jumbo client companies almost exclusively.

For brokers, the combination of a diverse fund line-up along with internet resources and strong governance support makes Group Savings a competitive presence in a growing market. Strong support and education helps position advisors to address customers' needs effectively. Information delivered to these advisors through the broker website facilitates smooth management of their overall business portfolio. For consultants, flexible plan design, supported by a growing number of automated services and a proven implementation approach with custom education programs, distinguishes Group Savings from its competitors.

As the Canadian economy expands, particularly within the small business segment, and retirement savings continues to be a focal point for employers, legislators and individuals, Group Savings offers a competitive product that suits wide ranging needs. In addition, with changing demographics in the Canadian marketplace and the aging of the baby boomer generation, retiring plan members are an increasingly attractive target market. The business is focused on the development and enhancement of payout products to serve this growing market and maintain relationships with customers as they transition to retirement.

**Competition**

The Canadian life and health insurance industry is dominated by the larger insurance companies. Smaller competitors and niche players keep pressure on prices in the more commodity-like products as they attempt to gain market share. Some of the products offered by Canadian Division, such as variable annuities, contain an investment component that places them in competition with the products offered not only by other life insurance companies but also by banks, mutual fund companies and investment dealers. The wealth market continues to be dominated by larger companies, with nearly 70% of the mutual fund market controlled by the top ten companies, according to information released by Investor Economics. Similarly, the top five companies in the segregated fund market control over 90% of assets, according to information released by LIMRA.

Individual Insurance's primary competitors include Canadian insurance companies and branches of non-Canadian insurance companies, with growing competition from banks. In the group benefits marketplace, the major competitors are large insurance companies. Regional carriers are also extremely competitive in some parts of the country, and small carriers that specialize in a particular niche product or segment have also become an increasingly competitive element of the marketplace. Key competitors for wealth management products and services include other Canadian insurance companies, as well as mutual fund companies and banks.

In this competitive environment, management believes Canadian Division will sustain its leadership in the marketplace over the long term by leveraging Manulife Financial's strong brand and financial ratings in continuing to focus on its core strengths of independent multi-channel distribution, product innovation and service excellence to meet the needs of its customers. The Company also intends to increase its focus on working collaboratively across the business units to leverage its large customer base; strong advisor/broker relationships and diverse insurance, wealth management and banking product offerings to respond to the developing needs of an aging, and increasingly affluent market.

**ASIA AND JAPAN DIVISION**

Manulife Financial has operated in Asia since 1897, beginning in Hong Kong and the Philippines, and expanding into Singapore, Indonesia, Taiwan, Macau, China, Japan, Vietnam, Malaysia and Thailand. The division provides protection and wealth management products throughout the region. Protection products include life insurance, group life and health insurance and hospital coverage. Wealth management products include mutual funds, pensions, variable annuities and segregated funds.

The Company operates through wholly owned subsidiaries, majority-owned subsidiaries and branches of subsidiaries in Hong Kong, the Philippines, Singapore, Indonesia, Taiwan, Macau, Japan, Vietnam and Thailand. In China, the Company operates through a joint venture. In Malaysia, the Company operates through a publicly traded corporation in which the Company is the largest shareholder.

An exclusive agency force, consisting of approximately 28,000 agents, serves nearly five million customers.

**Hong Kong**

In Hong Kong, the division markets individual life and health insurance, group life and health insurance, group pension products and wealth management products, as well as Company-sponsored mutual funds.

*Individual Operations*

Hong Kong's Individual Insurance line provides a full range of life insurance products denominated in both Hong Kong and U.S. dollars, including whole life insurance, universal variable life insurance, term life insurance and endowment insurance. Products have been sold primarily in the middle and upper-income markets, with the goal of broadening this target segment to improve the market share in the high income group by offering products with greater benefit features. Based on new annualized premiums during 2007, the Company was the eighth largest provider of individual life and health insurance products in Hong Kong as at September 30, 2007, according to the Hong Kong Office of the Commissioner of Insurance.

Insurance products are primarily marketed through agents who sell the Company's products exclusively. These agents develop and manage a client base with the objective of creating long-term relationships with customers. As at December 31, 2007, the Company had approximately 3,300 active agents in Hong Kong. In this market, an exclusive agency force continues to be the primary distribution channel for the Company to serve its target markets. However, in response to increasing competition, management intends to continue to expand its distribution through other distribution channels such as brokers and bank retail outlets, as it did by entering into distribution relationships with Citi Ka Wah Bank and United Overseas Bank in 2005 and 2008, respectively, to sell its life insurance products.

*Group Operations*

Hong Kong's Group Operations provide life and health insurance and pension products to small and medium-sized businesses. Group insurance products include group term life insurance, major medical and outpatient plans, disability income plans and defined contribution pension plans. Group products are distributed through the Company's exclusive agents as well as through brokers.

Hong Kong's Group Pension business launched the Mandatory Provident Fund ("MPF") business line in 2000 and the Company continued to expand its MPF customer base, at both group (in terms of employer case) and individual (preserved accounts) levels. With an asset growth rate of 60% over 2006, in 2007 the Company reaffirmed its position as the second largest MPF service provider (measured by assets under management) in the market, overtaking the number one player in terms of net case flow. Group Pension's business is built primarily on service rendered by its tied agency force and fund spectrum built on a multi-manager platform. Group Pension's comprehensive E-admin service suite has also helped secure and maintain the support of small to medium-size employers; and its marketing effort to individual MPF accounts has contributed to asset growth year over year.

*Wealth Management Operations*

Hong Kong's Wealth Management business is the fastest growth business of the Hong Kong operation and it provides an investment-linked insurance plan, variable annuity products and mutual funds. Our investment-linked insurance plan, Manulife Investment Solutions, experienced a continuation of strong growth in 2007. The Company, operating through Manulife Asset Management (Hong Kong) Limited ("MAM"), markets a range of mutual funds to individuals through direct solicitation and the exclusive agency force, and to institutional clients through direct solicitation. As at December 31, 2007, MAM had U.S.$1,247 million (CDN$1,232 million) of mutual funds under management. Management believes that MAM is well positioned to capitalize on the anticipated growth in the developing retail mutual fund market in Hong Kong, as the market becomes more sophisticated in its need for wealth management products.

**Japan**

The market for traditional death protection products is expected to continue to shrink in Japan due to the aging of the Japanese population. In 2003, Manulife Japan closed its traditional product line to new business in keeping with its strategic focus on universal life insurance and variable annuity products. In May 2007, the Company launched a new rider to support sales of universal life products. This new rider allows our PlanRight advisors ("PAs") to conduct sales on a needs-based approach, with the ability to tailor universal life products to customer requirements. During 2007, the Company continued to focus on driving sales of the strategically important corporate life insurance product called Prosperity Increasing Term Life Insurance, which was launched in September 2006. The product was developed to meet a broad range of corporate needs from financial protection to the securing of business funds. While sales have been impacted by industry uncertainty surrounding the tax treatment of this type of product, increasing term growth was still significant, accounting for 15% of Manulife Japan's total sales in 2007.

Manulife Japan is one of a few companies to introduce universal life insurance products in Japan. Over the last 25 years, these products have become an important feature of all other advanced life insurance markets around the world. ManuMed, a medical product offered on the Universal Life product platform, remains a significant part of the business, contributing about one-third of Manulife Japan's regular insurance sales in both 2007 and 2006.

Effective April 1, 2004, Manulife Japan significantly enhanced its position in the variable annuity market with the establishment of a strategic alliance with Mitsubishi Tokyo Financial Group ("MTFG"), one of Japan's top four banks. In October 2005, MTFG merged with UFJ Holdings, Inc., the parent company of UFJ Bank and formed MUFG, thereby expanding the distribution network further. In June 2007, the Company launched an innovative guaranteed minimum accumulation benefit ("GMAB") variable annuity product for MUFG and subsequently other existing distributors. This new product has highly advanced features that fulfill a variety of customers' needs and has been very successful in once again repositioning Manulife Japan as a significant player in the variable annuity business. Sales in 2007 were significantly higher than results in 2006, which were impacted by a voluntary product withdrawal resulting from tax treatment uncertainties.

Throughout 2007, Manulife Japan continued to focus on building new relationships and strengthening existing relationships with our financial institution partners. This was achieved by leveraging the success of the new GMAB product and securing bank distribution of insurance through the new innovative product expected to launch in early 2008.

Funds under management increased by U.S.$3.0 billion (CDN$0.9 billion) to U.S.$15.4 billion (CDN$15.3 billion) as at December 31, 2007, from U.S.$12.4 billion (CDN$14.4 billion) as at December 31, 2006. Positive net policyholder cash flows from sales of variable annuity and universal life insurance products were partially offset by maturities and lapses on the block of policies acquired from Daihyaku.

In 2007, Manulife Japan undertook various initiatives to strengthen our PAs channel. Specifically, Manulife Japan developed a program to reinforce training of new agents, which is expected to enhance productivity and retention of newly recruited advisors. It also implemented new programs to support and streamline the sales offices. In addition, to strengthen management in sales offices, Manulife Japan introduced a new compensation system in which the variable portion was enlarged, reflecting the idea of pay for performance. As of December 31, 2007, MLJ had approximately 3,750 PAs in 120 sales offices across Japan. In 2007, Manulife Japan commenced sales through a new managing general agents channel in Japan to complement our existing PlanRight advisor network. The sales results in the first year have been very positive and this channel is expected to grow significantly in 2008 through larger investments and introduction of new products.

**Other Markets**

In the Philippines, Singapore, Indonesia, Taiwan, Macau, China, Vietnam, Malaysia and Thailand, the Company distributes a range of individual life and health insurance and wealth management products to the middle and upper-income markets. Group life and health insurance and pension products are also sold in some territories. Universal variable life insurance is sold in most markets while mutual funds are sold in Indonesia, Thailand and Vietnam. Products are primarily marketed through exclusive agents. However, bank distribution represents a material portion of sales in Indonesia, Singapore, Malaysia and the Philippines.

Singapore, Indonesia and Malaysia currently represent the division's largest businesses outside of Hong Kong and Japan in terms of funds under management, and together contributed approximately 19% (19% in terms of CDN$) of the division's premiums and deposits as at December 2007. In Singapore, strong growth has continued across the business, mainly driven by increases in regular premium sales and single premium sales through both the agency distribution and bancassurance channels, and the variable annuity product launched in 2007. As at December 31, 2007, total Singapore assets under management increased 37% (16% in terms of CDN$) year over year. Sales in Indonesia were above prior year levels, mainly due to strong bancassurance business, increase in agent productivity and continued recovery of the mutual fund market. In Malaysia, insurance sales were above prior year levels, with strong sales from both agency and alternative distribution channels.

In China, Manulife-Sinochem Life Insurance Co. Ltd. ("MSL") now operates in a total of 24 cities and has received approval to open three sales offices and one branch office in the cities of Fuzhou, Yantai, Zigong and Qingdao. It markets personal accident insurance, whole life insurance, term and endowment insurance and annuities in Shanghai, Guangzhou, Beijing, Zhejiang, Jiangsu, Sichuan, Shandong and Fujian, with over 800 staff and agents serving more than 300,000 customers. With a growing economy and a low penetration rate for insurance products, management believes that the Chinese market offers significant long-term potential. In Taiwan, business growth in 2007 was driven by high single premium sales in variable products and sales of new variable annuity products through bancassurance channels. For China and Taiwan combined, funds under management grew by 39% (18% in terms of CDN$) from the prior year. In the Philippines, premiums and deposits continue to grow and assets under management grew by 65% (40% in terms of CDN$) from the prior year. In Vietnam, funds under management increased by 52% (29% in terms of CDN$), driven by product initiatives, a commitment to service and a focus on continuous improvement of the agency force, as well as a successful mutual fund launch in late 2007. In Thailand regular premium sales continue to show strong growth as a result of the launch of a mutual fund, a continued focus on quality, professionalism and a full time approach to the agency career.

Management believes that its businesses in these Asian markets will contribute to the Company through future growth prospects given the growing middle class, rapid economic growth over recent years and the relatively under-penetrated state of the insurance markets. Management believes that its strategy of being an early entrant in Asian markets, together with distribution through an exclusive agency force, will support the Company's anticipated growth in each territory.

**Competition**

The life insurance market in Hong Kong is highly competitive. Major competitors include both insurance companies and large banks. This is also the case in the Hong Kong group pension market. In China and Taiwan, competition is mainly from large domestic insurers. In other Asian markets, Manulife Financial primarily competes with other foreign insurance companies. In recent years, some small foreign operations in Asia exited the market, resulting in opportunities for the Company to expand its business in various territories through acquisitions. This trend may continue and the Company will continue to look for these opportunities. In Asia, competition is based on distribution capacity and customer service. Management believes that its large exclusive agency force, its customer focus and its long-term presence in Asia are competitive advantages.

The Japanese life insurance market is extremely competitive. The household penetration rate of life insurance is approximately 90% and, as a result, a large percentage of new life insurance sales are replacements of existing policies. Of those households with life insurance, the average number of policies held was approximately four, making Japan one of the world's largest insurance markets.

The aging population has had a considerable impact on customer preferences. The Japanese market for sickness and medical insurance and variable annuity products continues to grow as the market orients to affordability concerns. Competition among foreign and domestic insurers in these product segments is intensifying, pointing to the importance of offering these products in capturing market share.

One of the fastest growing segments of the life insurance market in Japan is the sale of variable annuities, particularly through bank branches. Partly as a result of strong variable sales through MUFG since April 2004, Manulife Japan placed sixth among its competitors with a more than 5% market share.

In April 2004, the Japanese Financial Services Agency ("FSA") announced that by the end of 2007 banks will be able to sell a full range of insurance products including whole life, medical and automobile insurance. Manulife Japan is well-positioned for this new channel, with the expected launch in early 2008 of a new innovative long-term care product designed for this market.

Another competitor that continues to operate with important advantages is Japan Post. The privatization of Japan Post was approved by the government of Japan in October 2005 and the privatization process commenced in October 2007. Under the plan, the savings bank and insurance company operations of Japan Post will become public companies by 2011 and will be completely privatized by September 30, 2017. During this privatization process, business expansion of the companies will be restricted so as not to be given an unfair advantage over private-sector rivals. Japan Post's units have the potential to become attractive distribution partners for private-sector insurers, who aim to tap the vast network of post offices to market their own products.

**REINSURANCE DIVISION**

Established in 1984, Reinsurance Division has grown to be one of North America's leading providers of risk management solutions, specializing in retrocession. Simply put, reinsurance is the transfer of some or all of the risks related to policies issued by an insurance company to a reinsurer. Retrocession is a form of reinsurance whereby a reinsurer assumes risks from other reinsurers.

Through offices in Canada, the United States, Germany, Belgium, Singapore, Japan and Barbados, Reinsurance Division provides customer-focused solutions in the following business lines:

- Life—offering retrocession of traditional life mortality risk and specialized non-traditional solutions;
- Property and Casualty—offering retrocession of traditional property, catastrophe and aviation risks for Property and Casualty reinsurers; and
- International Group Program ("IGP")—offering international group employee benefits management to multinational corporations and their affiliates through a global network of participating life insurance companies.

Reinsurance Division continues to pursue opportunities to expand relationships both with key business partners and promising sources of new business. Reinsurance Division's key priority is risk management, with emphasis on sound pricing of new business and effective performance monitoring and management of in-force business. Reinsurance Division continues to leverage its technical expertise in providing innovative solutions to meet customer needs.

**Life**

The Life reinsurance business line markets directly to leading life reinsurance companies, primarily in North America and Europe, leveraging long standing relationships with many of these companies.

In recent years, clients have experienced declining business volumes resulting in the pursuit of options to improve volumes, including increasing their level of risk retention. These life reinsurance market changes will ultimately negatively impact our level of new business volumes. Our life retrocession market position is very strong and our capacity is the largest in the industry. We are confident these strengths can be leveraged in prospecting attractive new life retrocession opportunities, including potential inforce opportunities and other options that we are well-positioned to pursue.

**Property and Casualty**

The Property and Casualty reinsurance business line has established itself as a leader in providing traditional retrocession coverages to a very select clientele in the property and aviation reinsurance markets.

With the absence of a major insured loss in the property catastrophe market in 2007, traditional retrocession coverage terms and rates are expected to continue to soften in the short term. With excellent, long standing client relationships and superior financial ratings we are well-positioned to find and act on profitable market opportunities. We expect to continue writing business at the same levels as in 2007.

**International Group Program**

IGP reinsures employee group insurance and pension coverages provided to multinational corporations by a global network of participating life insurance companies. IGP expects to maintain its leading position through continued leadership in North America while growing in Europe and Asia.

**Competition**

Only a few well-capitalized insurance companies specialize in life retrocession, non-traditional life retrocession or the property and casualty retrocession solutions written by Reinsurance Division. Reinsurance Division is a niche competitor in these markets. IGP's main competitors are three other large multinational benefit networks.

**INVESTMENT DIVISION**

The Company's Investment Division, operating as MFC Global, manages assets for the Company's general fund and for external third party retail and institutional clients through a variety of products and distribution channels. MFC Global manages a range of investments including equities, government and corporate bonds, debt private placements ("private placements"), real estate, mortgages, oil and gas, timber and farmland. MFC Global has a physical presence in key financial centres around the world, including the United States, Canada, the United Kingdom, Japan, Australia, Hong Kong and throughout Southeast Asia.

**General Fund Assets**

MFC Global manages the Company's general fund assets with an emphasis on high credit quality and diversification across asset classes and individual investment risks. The general fund assets of the Company are invested primarily in investment grade bonds and commercial mortgages. The following table summarizes the Company's consolidated general fund invested assets by asset category.

**Consolidated General Fund Invested Assets**

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| ($ millions) | Carrying Value | % of Total | Carrying Value | % of Total |
| Cash and short term investments | 12,354 | 8 | 10,901 | 6 |
| Bonds | 72,831 | 45 | 78,085 | 46 |
| Stocks | 11,134 | 7 | 11,272 | 7 |
| Mortgages | | | | |
| Commercial [1] | 19,213 | 12 | 21,808 | 13 |
| Residential | 4,712 | 3 | 3,549 | 2 |
| Agricultural | 2,136 | 1 | 2,774 | 1 |
| Private Placements | 21,591 | 13 | 25,074 | 15 |
| Policy Loans | 5,823 | 4 | 6,413 | 4 |
| Bank Loans | 2,182 | 1 | 2,009 | 1 |
| Real Estate | 5,727 | 4 | 5,905 | 3 |
| Other investments | 3,597 | 2 | 3,530 | 2 |
| Total invested assets [2] | 161,300 | 100.0 | 171,320 | 100.0 |

(1) Including multi-unit residential.

(2) For additional information on invested assets, see note 5(a) to MFC's Audited Annual Financial Statements for the year ended December 31, 2007 filed on SEDAR.

The consolidated general fund invested assets were denominated 60% in U.S. dollars, 32% in Canadian dollars, 3% in Japanese yen and 5% in other currencies as at December 31, 2007. The Company has various policies and procedures, each subject to periodic review and approval by the Board of Directors, designed to measure and control risk in the management of the Company's general fund assets. These include policies and procedures relating to asset liability mismatch, market, liquidity, currency, credit and derivatives. These policies and procedures are also designed to ensure compliance with the various Canadian and U.S. regulatory requirements to which the Company is subject.

*Bonds and Private Placements*

As at December 31, 2007, the Company held $72.8 billion of bonds and $21.6 billion of private placements, representing in total 58% of the carrying value of consolidated general fund invested assets, with 73% of the bond portfolio rated "A" or higher and 96% rated "BBB" (investment grade) or higher. Investment grade bonds and private placements include the securities of more than 3,000 different issuers, with no corporate issuer representing more than 0.6% of such holdings. Below investment grade bonds and private placements include the securities of more than 200 different issuers, with no issuer representing more than 6% of such holdings. Net impaired bonds and private placements had a carrying value of $101 million. The following table summarizes the Company's bond and private placement portfolio credit quality.

**Bond and Private Placement Portfolio Credit Quality**

| ($ millions) NAIC Designation [1] | Rating Agency Designation [2] | December 31, 2007 Carrying Value | December 31, 2007 % of Total | December 31, 2006 Carrying Value | December 31, 2006 % of Total |
|---|---|---|---|---|---|
| 1 | AAA | 20,536 | 21.8 | 22,656 | 22.0 |
| 1 | AA | 20,690 | 21.9 | 20,586 | 20.0 |
| 1 | A | 27,128 | 28.8 | 29,350 | 28.4 |
| 2 | BBB | 21,882 | 23.1 | 26,095 | 25.3 |
| 3 & below | BB & lower and unrated | 4,186 | 4.4 | 4,472 | 4.3 |
| Total | | 94,422 | 100.0 | 103,159 | 100.0 |

(1) NAIC designations are assigned no less frequently than annually.
(2) Sources: Dominion Bond Rating Service Ltd.; Standard & Poor's Ratings Services; Moody's Investors Service, Inc.; Fitch IBCA; Thomson Financial Bankwatch, Inc.; Rating & Investment Information, Inc.; Japan Credit Rating Agency, Ltd. and internal ratings. Rating designation includes all gradations within the relevant category.

Of the bond and private placement portfolio, 27% was invested in government-related securities as at December 31, 2007. The remainder was primarily composed of corporate bonds. As at December 31, 2007, the bond and private placement portfolio was 65% denominated in U.S. dollars, 26% in Canadian dollars, 3% in Japanese yen and 6% in other currencies.

The Company invests in private placements because of the generally higher yield, more restrictive financial and business covenants and stronger prepayment protection available on such investments compared to similarly rated public bonds. To the extent that its private placement holdings are not rated by nationally-recognized rating agencies, the Company assigns a rating for internal monitoring purposes using methodologies that management believes generally track methodologies employed by these rating agencies. The following table summarizes the scheduled maturities of the Company's bond and private placement portfolio.

**Bond and Private Placement Portfolio Scheduled Maturities**

| ($ millions) | December 31, 2007 Carrying Value | December 31, 2007 Fair Value | December 31, 2006 Carrying Value | December 31, 2006 Fair Value |
|---|---|---|---|---|
| Due in one year or less | 4,483 | 4,482 | 4,109 | 4,122 |
| Due after one year through five years | 20,163 | 20,156 | 23,556 | 23,506 |
| Due after five years through ten years | 22,609 | 22,598 | 25,860 | 25,976 |
| Due after ten years | 47,167 | 47,168 | 49,634 | 51,980 |
| Total | 94,422 | 94,404 | 103,159 | 105,584 |

*Mortgages*

As at December 31, 2007, mortgage investments represented 16% of general fund invested assets. The mortgage portfolio is diversified by location, property type and mortgagor. First mortgages represented 99% of total mortgages. All mortgages are secured by real properties with 55% located in Canada and 45% located in the United States. Commercial mortgages constituted 74% of total mortgages. The Company has an insignificant amount of development lending within the commercial mortgage portfolio. The following table summarizes the Company's mortgage portfolio by property type.

**Mortgage Portfolio—Property Type**

| ($ millions) | December 31, 2007 Carrying Value | December 31, 2007 % of Total | December 31, 2006 Carrying Value | December 31, 2006 % of Total |
|---|---|---|---|---|
| Consolidated Company | | | | |
| Multi-unit residential [1] | 4,126 | 16 | 4,471 | 16 |
| Retail | 5,586 | 22 | 6,688 | 24 |
| Office | 3,883 | 15 | 4,788 | 17 |
| Industrial | 3,225 | 12 | 3,574 | 13 |
| Other Commercial | 2,393 | 9 | 2,287 | 8 |
| Other Residential | 4,712 | 18 | 3,549 | 12 |
| Agricultural | 2,136 | 8 | 2,774 | 10 |
| Total | 26,061 | 100 | 28,131 | 100 |
| Canada | | | | |
| Multi-unit residential [1] | 2,484 | 10 | 2,427 | 9 |
| Retail | 2,377 | 10 | 2,634 | 10 |
| Office | 1,486 | 6 | 1,712 | 6 |
| Industrial | 1,692 | 6 | 1,786 | 6 |
| Other Commercial | 1,504 | 5 | 1,104 | 4 |
| Other Residential | 4,710 | 18 | 3,547 | 12 |
| Agricultural | 99 | 0 | 0 | 0 |
| Total | 14,352 | 55 | 13,210 | 47 |
| United States | | | | |
| Multi-unit residential [1] | 1,639 | 6 | 2,044 | 7 |
| Retail | 3,142 | 12 | 4,054 | 14 |
| Office | 2,397 | 9 | 3,066 | 11 |
| Industrial | 1,533 | 6 | 1,788 | 7 |
| Other Commercial | 889 | 4 | 1,176 | 4 |
| Other Residential | 0 | 0 | 0 | 0 |
| Agricultural | 2,037 | 8 | 2,774 | 10 |
| Total | 11,637 | 45 | 14,902 | 53 |
| Other Countries | | | | |
| Multi-unit residential [1] | 3 | 0 | 0 | 0 |
| Retail | 67 | 0 | 0 | 0 |
| Office | 0 | 0 | 10 | 0 |
| Other Commercial | 0 | 0 | 7 | 0 |
| Other Residential | 2 | 0 | 2 | 0 |
| Total | 72 | 0 | 19 | 0 |

(1) Includes multi-unit residential properties, such as condominiums.

The following table summarizes the Company's mortgage portfolio by regional distribution.

**Mortgage Portfolio—Regional Distribution**

| ($ millions) | December 31, 2007 Carrying Value | December 31, 2007 % of Total | December 31, 2006 Carrying Value | December 31, 2006 % of Total |
|---|---|---|---|---|
| Canada | | | | |
| Ontario | 6,947 | 27 | 6,662 | 24 |
| Western Canada | 5,095 | 19 | 4,614 | 16 |
| Quebec | 1,317 | 5 | 1,087 | 4 |
| Other Canada | 993 | 4 | 847 | 3 |
| | 14,352 | 55 | 13,210 | 47 |
| United States | | | | |
| Pacific | 3,269 | 13 | 3,847 | 14 |
| Mid-Atlantic | 1,810 | 7 | 2,082 | 7 |
| New England | 864 | 3 | 1,187 | 4 |
| Central Northeast | 1,092 | 4 | 1,642 | 6 |
| South Atlantic | 2,127 | 8 | 2,767 | 10 |
| Other | 2,475 | 10 | 3,377 | 12 |
| | 11,637 | 45 | 14,902 | 53 |
| Other Countries | 72 | 0 | 19 | 0 |
| Total | 26,061 | 100 | 28,131 | 100 |

Mortgages are originated through a network of 16 branches across Canada and the United States. In 2007, the Company originated approximately 60% of its business directly, with mortgage broker referrals representing the balance. While the Company does not have any exclusive arrangements with brokers, there are non-exclusive origination and servicing arrangements with certain mortgage bankers in the United States. The Company requires external appraisals on all new and renewal mortgages over $5 million. Approval of new mortgages and renewals or any amendments to mortgages must be made in accordance with the Company's mortgage lending policy guidelines, which are reviewed by the Board of Directors at least annually.

The value of government-insured loans was 21% of the total mortgage portfolio as at December 31, 2007. The Company also had privately insured mortgages representing 1.5% of the total mortgage portfolio as at December 31, 2007. For conventional loans in both Canada and the United States, the Company's maximum loan-to-value ratio on new origination is 75% at the time the mortgage is underwritten. As at December 31, 2007, 0.04% of the Company's Canadian mortgage portfolio and none of the U.S. mortgage portfolio were considered delinquent.

*Stocks*

As at December 31, 2007, stocks represented 7% of the consolidated general fund invested assets. The Company's stock portfolio is diversified by industry sector and issuer, and is 99% comprised of publicly listed common shares. The stock portfolio was invested 40% in Canadian issuers, 31% in U.S. issuers, 21% in Asian issuers and 8% in other issuers. The largest single issuer in the stock portfolio represented 5% of the portfolio.

*Real Estate*

Real estate represented 4% of the consolidated general fund invested assets as at December 31, 2007. As at December 31, 2007, the real estate carrying value was $5.7 billion, with 59% located in the United States, 34% in Canada and 7% in Japan and other Asian countries.

The real estate portfolio is diversified by property types, with 86% in commercial properties and 14% in timber and agriculture. The commercial portfolio focuses on major urban centres. Office properties are the largest component, representing 83% of the portfolio as at December 31, 2007, with the remainder split among residential, retail, industrial and other property types. The overall occupancy rate for all commercial real estate investments as at December 31, 2007 was over 95%.

The real estate portfolio, as at December 31, 2007, had a market value surplus of $1,988 million over carrying value including deferred realized net gains. Real estate market values are determined by a combination of independent appraisals and values established by professional accredited appraisers who are employees of the Company. The Company's commercial real estate properties with a carrying value of $30 million or greater are appraised annually with the remainder appraised at least once every three years. In 2007, approximately 80% of the commercial real estate portfolio was appraised, the majority of which were performed by independent appraisers. An environmental site assessment, prepared by an independent third party, must be conducted for all new real estate properties. If any environmental concerns are identified, a more detailed environmental assessment must be obtained. Additionally, the Company's environmental compliance officer must approve the purchase of any such commercial properties.

*Policy Loans*

Policy loans represented 4% of invested assets as at December 31, 2007. Most individual life insurance policies, excluding term insurance, provide the policyholder with the right to obtain a policy loan from the Company. Such loans are made in accordance with the terms of the respective policies and are carried at the outstanding balance.

Policy loans are fully secured by the cash value of the policies on which the respective loans are made. If a policyholder surrenders the policy, the cash value paid by the Company will be the cash value less the amount of the outstanding policy loan. Similarly, upon the death of the policyholder, the death benefit paid by the Company will be the death benefit less the amount of the outstanding policy loan. Consequently, the Company has no exposure to default risk on policy loans.

*Other Investments*

Other investments include $2.9 billion of unconsolidated joint ventures, partnerships, funds, limited liability corporations, leases, subordinated debt of life insurance companies and $524 million of oil and gas producing properties. Oil and gas assets are located in Alberta, Saskatchewan and Ontario, Canada.

*Impaired Assets*

As at December 31, 2007, net impaired assets were $240 million, representing 0.2% of consolidated general fund invested assets. Allowances for losses on loans are 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 the asset and related investment income. Bonds and stocks are written down to market value if an impairment in their value is considered to be other than temporary. Real estate 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 and losses, is considered to be other than temporary. Assets are reviewed quarterly to identify whether any provisions should be taken. The carrying value of an impaired asset is reduced to the net realizable value of the asset in the period of impairment and a corresponding provision or impairment is charged to income. Once established, an allowance is only reversed, in the case of loans, if the conditions that caused the impairment no longer exist. For all other assets, the impairment loss is permanent. The Company had established allowances for impairment of $76 million as at December 31, 2007.

**Third Party Assets**

MFC Global also manages a significant book of third party assets on behalf of clients of the Company's operating divisions and institutional clients. Assets managed for third parties decreased by $3 billion to $91 billion; however, on a constant currency basis, assets managed for third parties increased by $10 billion or 10.6%, driven by growth from both retail and institutional mandates.

**Third Party Assets**

| As at December 31 ($ in millions) | 2007 | 2006 | Change $ | Change % |
|---|---|---|---|---|
| Managed on behalf of | | | | |
| Operating Division clients | 64,728 | 64,519 | 209 | 0 |
| Institutional clients | 26,247 | 29,335 | (3,088) | (11) |
| Total third party assets | 90,975 | 93,854 | (2,879) | (3) |

## RISK FACTORS

Manulife Financial is in the business of taking risk to generate profitable growth. The Company's risk exposures may result in a combination of direct financial loss, damage to reputation, or inability to conduct business or service customers, all of which can impact shareholder value. Manulife Financial's goal in managing risk is to strategically optimize risk taking and risk management to support long term revenue and earnings growth and shareholder value growth. The Company seeks to achieve this by capitalizing on business opportunities that are aligned with its risk taking philosophy, risk appetite and return expectations, by identifying, monitoring and measuring all key risks taken and by proactively executing effective risk control and mitigation programs.

Manulife Financial will only assume risks that are prudent in relation to its capital strength and earnings capacity, that are aligned with its operational capabilities, that meet its corporate ethical standards, that allow it to remain diversified across risk categories, businesses and geographies, and for which the Company expects to be appropriately compensated. The Company must manage risk effectively to safeguard its reputation and capital, and to meet the expectations of its shareholders, customers and regulators.

Manulife Financial employs an enterprise-wide approach to all risk taking and risk management activities globally. The Company's enterprise risk management framework sets out comprehensive policies and rigorous standards of practice related to risk governance, risk identification and monitoring, risk measurement, and risk control and mitigation.

Further explanation of Manulife Financial's risk management approach and the risks relating to Manulife Financial and its business, and the accounting and actuarial assumptions and estimates used by Manulife Financial in the preparation of its financial statements, can be found in the sections under "Risk Management" and "Critical Accounting and Actuarial Policies" in MFC's Management's Discussion and Analysis for the year ended December 31, 2007, available on SEDAR at www.sedar.com, which sections are incorporated herein by reference.

As noted under "Caution Regarding Forward-Looking Statements", forward-looking statements involve risks and uncertainties and actual results may differ materially from those expressed or implied in such statements. Strategic risk, market and liquidity risk, credit risk, insurance risk and operational risk are the major categories of risk described in the sections of MFC's Management's Discussion and Analysis referred to above. Management has identified the following as risk factors that could cause actual performance and results to differ materially from expectations: level of competition and consolidation; changes in laws and regulations; the ability to complete acquisitions and execute strategic plans; general business and economic conditions including market price volatility, interest rate changes and currency rates; Company liquidity; accuracy of information received from counterparties and the ability of counterparties to meet their obligations; accuracy of accounting policies and actuarial methods used by the Company; the ability to adapt products and services to the changing market; the ability to maintain the Company's reputation; legal and regulatory proceedings; the disruption of or changes to key elements of the Company's or to public infrastructure systems; the ability to attract and retain key executives and environmental concerns. These risk factors should be considered in conjunction with the other information in this Annual Information Form and the documents incorporated by reference herein. The Company cautions that the preceding discussion of risks is not exhaustive.

## GOVERNMENT REGULATION

As an insurance company, Manulife Financial is subject to regulation and supervision by governmental authorities in the jurisdictions in which it does business. In Canada, the Company is subject to both federal and provincial regulation. In the United States, the Company is primarily regulated by each of the states in which it conducts business and by federal securities laws. The Company's Asian operations are similarly subject to a variety of regulatory and supervisory regimes in each of the Asian jurisdictions in which the Company operates, which vary in degree of regulation and supervision.

### CANADA

Manulife Financial is governed by the ICA. The ICA is administered, and activities of the Company are supervised, by OSFI. The ICA permits insurance companies to offer, through subsidiaries and networking arrangements, a broad range of financial services, including banking, investment counseling and portfolio management, mutual funds, trust services, real property brokerage and appraisal, information processing and merchant banking services. The ICA and the regulations thereunder contain restrictions on the purchase or other acquisition, issue, transfer and voting rights of the shares of an insurance company.

The ICA requires the filing of annual and other reports on the financial condition of the Company, provides for periodic examinations of the Company's affairs, imposes restrictions on transactions with related parties, and sets forth requirements governing reserves for actuarial liabilities and the safekeeping of assets and other matters. OSFI supervises Manulife Financial on a consolidated basis (including capital adequacy) to ensure that OSFI has an overview of the group's activities. This includes the ability to review both insurance and non-insurance activities conducted by subsidiaries of Manulife Financial with supervisory power to bring about corrective action. The most recently completed periodic examination of Manulife Financial, conducted in February 2008, did not raise any issues which were found to be material.

#### Investment Powers

Under the ICA, Manulife Financial must maintain a prudent portfolio of investments and loans, subject to certain overall limitations on the amount it may invest in certain classes of investments, such as commercial loans. Additional restrictions (and in some cases, the need for regulatory approvals) limit the type of investment that the Company can make in excess of 10% of the voting rights or 25% of the equity of any entity.

#### Capital Requirements

The ICA requires Canadian non-operating insurance companies, such as MFC, to maintain, at all times, adequate levels of capital which is assessed by comparing capital available to a risk metric in accordance with the Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies. There are no minimum or target requirements; however, OSFI expects holding companies to manage their capital in a manner commensurate with the group risk profile and control environment. MFC must also maintain minimum levels of capital for its subsidiaries. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The most significant of these are MCCSR for MFC's Canadian life insurance subsidiaries and the Risk Based

Capital (“RBC”) requirements for MFC’s U.S. life insurance subsidiaries. The Company maintains capital well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

**Restrictions on Shareholder Dividends and Capital Transactions**

The ICA prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing a company is, or the payment of the dividend would cause the company to be, in contravention of any regulation made under the ICA respecting the maintenance of adequate capital and adequate and appropriate forms of liquidity, or any direction made to the company by the Superintendent. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 15 days prior to the date fixed for its payment. Similarly, the ICA prohibits the purchase for cancellation of any shares issued by an insurance company or the redemption of any redeemable shares or other similar capital transactions, if there are reasonable grounds for believing that the company is, or the payment would cause the company to be, in contravention of any regulation made under the ICA respecting the maintenance of adequate capital and adequate and appropriate forms of liquidity, or any direction made to the company by the Superintendent. These latter transactions would require the prior approval of the Superintendent. There is currently no direction against MFC or Manufacturers Life paying a dividend or redeeming or purchasing their shares for cancellation.

**Appointed Actuary**

In accordance with the ICA, the Board of Directors of the Company has appointed a Fellow of the Canadian Institute of Actuaries as the Appointed Actuary. The Appointed Actuary is required to value the policy liabilities of Manulife Financial as at the end of each financial year in accordance with accepted actuarial practices, including selection of appropriate assumptions and methods, and provide an opinion as to whether the amount of policy liabilities makes appropriate provision for all policyholder obligations and whether the valuation of policy liabilities is fairly presented in the consolidated financial statements. At least once in each financial year, the Appointed Actuary must meet with the Board of Directors, or the Audit and Risk Management Committee, to report, in accordance with accepted actuarial practice, on the current and expected future financial condition of the Company. The Appointed Actuary is also required to report to the President and Chief Executive Officer and the Chief Financial Officer of the Company if the Appointed Actuary identifies any matters that, in the Appointed Actuary’s opinion, have material adverse effects on the financial condition of the Company.

**Provincial Insurance Regulation**

The Company is also subject to provincial regulation and supervision in each province and territory of Canada in which it carries on business. Provincial insurance regulation is concerned primarily with the form of insurance contracts and the sale and marketing of insurance and annuity products, including the licensing and supervision of insurance producers. Individual variable insurance and annuity products and the underlying segregated funds to which they relate are subject to guidelines adopted by the Canadian Council of Insurance Regulators and are generally incorporated by reference into provincial insurance regulations. These guidelines govern a number of matters relating to the sale of these products and the administration of the underlying segregated funds. The Company is licensed to transact business in all provinces and territories of Canada.

**Provincial/Territorial Securities Laws**

The Company’s Canadian mutual fund and investment management businesses are subject to Canadian provincial and territorial securities laws. Elliott & Page Limited is registered as an investment counsel and portfolio manager with the securities commissions in most provinces across Canada and is subject to regulation by the applicable provincial securities regulators. MSIL and Berkshire Investment Group Inc. (“BIG”) are registered under provincial and territorial securities laws to sell mutual funds across Canada and are subject to regulation by the applicable provincial and territorial securities regulators as well as the Mutual Fund Dealers Association of Canada, a self-regulatory organization. Berkshire Securities Inc. (“BSI”) is registered under provincial and territorial securities laws to sell investments across Canada and is subject to regulation by the provincial and territorial securities regulators as well as the Investment Dealers Association of Canada, a self-regulatory organization.

**Consumer Protection for Financial Institution Failure**

Assuris (formerly called CompCorp) was created by the life and health insurance industry in Canada in 1990 to provide Canadian policyholders with protection in the event of the insolvency of their insurance company. Assuris is funded by its member insurance companies, including Manufacturers Life. Member companies of Assuris are assessed to build and maintain a liquidity fund at a minimum level of $100 million. Members are then primarily subject to assessment on an “as needed” basis. Assessments are calculated based on each member’s MCCSR, subject to adjustments where the member operates in foreign jurisdictions.

The Canadian Investor Protection Fund ("CIPF") has been created to provide clients with protection, within defined limits, in the event of the insolvency of their investment dealer. The CIPF is funded by its member investment dealers, including BSI.

The MFDA Investor Protection Corporation ("IPC") has been created to provide clients with protection, within defined limits, in the event of the insolvency of their mutual fund dealer. The IPC is funded by its member mutual fund dealers, including MSIL and BIG.

**UNITED STATES**

**General Regulation at the State Level**

The various states in the United States have laws regulating transactions between insurers and other members of insurance holding company systems. Transactions between the Company's U.S. insurers and their affiliates are subject to regulation by the states in which such insurance subsidiaries are domiciled and for certain limited matters, states in which they transact business. Most states have enacted legislation that requires each insurance holding company and each insurance subsidiary in an insurance holding company system to register with, and be subject to regulation by, the insurance regulatory authority of the insurance subsidiary's state of domicile. The Company's principal U.S. life insurance subsidiaries are John Hancock Life and John Hancock USA. They are domiciled in Massachusetts and Michigan, respectively. Under such laws, the insurance subsidiaries are required to furnish annually their financial and other information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of insurers within the system. These reports are also filed with other insurance departments on request. In addition, such laws provide that all transactions within an insurance holding company system must be fair and equitable, and following any such transactions, each insurer's policyholder surplus must be both reasonable in relation to its outstanding liabilities and adequate for its needs.

The laws of the various states also establish regulatory agencies with broad administrative powers, such as the power to approve policy forms, grant and revoke licenses to transact business, regulate trade practices, license agents, require financial statements and prescribe the type and amount of investment permitted. State insurance regulatory authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to an insurer's compliance with applicable insurance laws and regulations.

Insurance companies are required to file detailed annual statements with state insurance regulators in each of the states in which they do business and their business and accounts are subject to examination by such regulators at any time. Quarterly statements must also be filed with the state insurance regulator in the insurer's state of domicile and with the insurance departments of many of the states in which the insurer does business. Insurance regulators may periodically examine an insurer's financial condition, adherence to statutory accounting practices and compliance with insurance department rules and regulations.

State insurance departments, as part of their routine oversight process, conduct detailed examinations of the books, records and accounts of insurance companies domiciled in their states. These examinations are generally conducted in accordance with the examining state's laws and the guidelines promulgated by the NAIC. Each of the Company's principal U.S. domiciled insurance subsidiaries is subject to periodic examinations by its respective domiciliary state insurance regulators. The latest published examination reports issued by each such insurance department did not raise any material issues or adjustments.

In addition, state regulatory authorities, industry groups and rating agencies have developed several initiatives regarding market conduct. For example, the NAIC has adopted the NAIC Life Insurance Illustrations Model Regulation, which applies to group and individual life insurance policies and certificates (other than variable policies and certificates), and the Market Conduct Handbook. More than 35 states have adopted all or major segments of the model. However, the Market Conduct Handbook can be used by all state regulators in conducting market conduct examinations.

Also, the Insurance Marketplace Standards Association ("IMSA") was established in the mid-1990's to strengthen consumer trust and confidence in the marketplace for individually sold life insurance, long-term care insurance and annuities. IMSA is a voluntary membership organization which strives to be the premier market conduct and compliance standard-setting organization serving the life insurance marketplace. Membership is voluntary but companies may only be admitted following the successful conclusion of a third party assessment procedure. John Hancock USA was originally admitted to membership in IMSA in April 1998. Its most recent re-certification was effective on November 28, 2004. John Hancock Life was initially certified by IMSA on March 31, 1998. Its most recent re-certification was effective on March 31, 2005.

**Investment Powers**

The Company's U.S. insurance subsidiaries are subject to laws and regulations that require diversification of their investment portfolios and limit the amount of investment in certain investment categories such as below investment grade bonds and real estate. Failure to comply with these laws and regulations may cause investments exceeding regulatory limitations to be treated as non-admitted assets for the purposes of measuring statutory surplus and in some circumstances would require divestiture of the non-qualifying assets.

**Minimum Statutory Surplus and Capital**

U.S. domiciled life insurance subsidiaries of the Company are required to have minimum statutory surplus and capital of various amounts, depending on the state in which they are licensed and the types of business they transact.

**NAIC IRIS Ratios**

In the 1970s, the NAIC developed a set of financial relationships or "tests," known as the Insurance Regulatory Information System ("IRIS"), which were designed for the early identification of insurance companies which might warrant special attention by insurance regulatory authorities. Insurance companies submit data annually to the NAIC, which in turn analyzes the data utilizing 13 ratios, each with defined "usual ranges." Having ratios that fall outside the usual range does not necessarily indicate that a company experienced unfavourable results. An insurance company may fall out of the usual range for one or more ratios because of transactions that are favourable (such as large increases in surplus) or are immaterial or eliminated at the consolidated level. Each company's ratios are reviewed annually and are assigned a ranking by a team of examiners and financial analysts at the NAIC for the purpose of identifying companies that require immediate regulatory attention. The rankings are not reported to the companies and are only available to regulators.

**Risk-Based Capital Requirements**

In order to enhance the regulation of insurer solvency, state regulators have adopted the NAIC model law implementing RBC requirements for life insurance companies. The requirements are designed to monitor capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. The model law measures four major areas of risk facing life insurers: (i) the risk of loss from asset defaults and asset fluctuation; (ii) the risk of loss from adverse mortality and morbidity experience; (iii) the risk of loss from mismatching of asset and liability cash flows due to changing interest rates; and (iv) general business risk. Insurers having less statutory surplus than required by the RBC model formula are subject to varying degrees of regulatory action depending on the level of capital inadequacy. Based on the formula adopted by the NAIC, each of the Company's U.S. insurance company subsidiaries exceeded the RBC capital requirements as at December 31, 2007.

**Regulation of Shareholder Dividends and Other Payments from Insurance Subsidiaries**

Manulife Financial's ability to meet any debt service obligations and pay operating expenses and shareholder dividends depends on the receipt of sufficient funds from its operating subsidiaries. The payment of dividends by John Hancock USA is subject to restrictions set forth in the insurance laws of Michigan, its domiciliary state. Similarly, the payment of dividends by John Hancock Life is regulated by Massachusetts insurance laws. In both Michigan and Massachusetts regulatory approval is required if a shareholder dividend distribution is made from any source other than earned surplus or unassigned funds. Regulatory approval is also required in both Michigan and Massachusetts if the dividend (together with other distributions made during the preceding 12 months) exceeds the greater of an insurer's prior year's net gain from operations or 10% of its surplus, measured at the end of the previous calendar year. The determination must be made in accordance with statutory accounting principles. In both states, approval is deemed to have occurred if notice of the dividend is filed with the regulator and it has not been disapproved during the 30-day notice period.

**Securities Law**

Certain of the Company's subsidiaries and certain investment funds, policies and contracts offered by them are subject to regulation under federal securities laws administered by the Securities Exchange Commission ("SEC") and under certain state securities laws. Certain segregated funds of the Company's insurance subsidiaries are registered as investment companies under the *Investment Company Act of 1940* , as are certain other funds managed by subsidiaries of the Company. Interests in segregated funds under certain variable annuity contracts and variable insurance policies issued by the Company's insurance subsidiaries are also registered under the U.S. *Securities Act of 1933*. Each of John Hancock Distributors, Signator Investors and John Hancock Funds is registered as a broker-dealer under the U.S. *Securities Exchange Act of 1934* and each is a member of, and subject to regulation by, the Financial Industry Regulatory Authority.

Each of John Hancock Life, John Hancock Advisers, MFC Global (U.S.), Hancock Natural Resource Group, Inc., Hancock Venture Partners, Inc., Signator Investors, Declaration Management & Research LLC, John Hancock Distributors, John Hancock Investment Management Services, LLC and MFC Global Investment Management (U.S.A.) Limited is an investment adviser registered under the U.S. *Investment Advisers Act of 1940*. Certain investment companies advised or managed by these subsidiaries are registered with the

SEC under the *Investment Company Act of 1940* and the shares of certain of these entities are qualified for sale in certain states in the United States and the District of Columbia. All aspects of the investment advisory activities of the Company's subsidiaries are subject to various federal and state laws and regulations in jurisdictions in which they conduct business. These laws and regulations are primarily intended to benefit investment advisory clients and investment company shareholders and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws and regulations. In such event, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the activities in which the investment advisor may engage, suspension or revocation of the investment advisor's registration as an advisor, censure and fines.

**State Guaranty Funds**

All states of the United States have insurance guaranty fund laws requiring life insurance companies doing business in the state to participate in a guaranty association which, like Assuris in Canada, is organized to protect policyholders against loss of benefits in the event of an insolvency or wind-up of a member insurer. These associations levy assessments (up to prescribed limits) on the basis of the proportionate share of premiums written by member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Assessments levied against the Company in each of the past five years have not been material. While the amount of any future assessments by guaranty funds cannot be predicted with certainty, the Company believes, based upon a review of the current significant insolvency proceedings of insurers located in states where the Company conducts business, that future guaranty association assessments for insurer insolvencies will not have a material adverse effect on the Company's liquidity and capital resources.

**Employee Retirement Income Security Act of 1974 ("ERISA") Considerations**

Fiduciaries of employee benefit plans that are governed by ERISA are subject to regulation by the U.S. Department of Labor. ERISA regulates the activities of a fiduciary of an employee benefit plan covered by that law, including an investment manager or advisor with respect to the plan's assets. Severe penalties are imposed by ERISA on fiduciaries that breach their duties to ERISA covered plans. The Company's subsidiaries issue insurance and annuity contracts for investment of employee benefit plans and provide a variety of other services to such plans. The provision of such services may cause the Company and its subsidiaries to be a "party in interest," as such term is defined in ERISA and the Internal Revenue Code of 1986, as amended (the "Code"), with respect to such plans. Unless a statutory or administrative exemption is available, certain transactions between parties in interest and those plans are prohibited by ERISA and the Code.

**ASIA AND JAPAN**

In Asia, local insurance authorities supervise and monitor the Company's business and financial condition in each of the countries in which the Company operates. The Company is also required to meet specific minimum working and regulatory capital requirements and is subject to regulations governing the investment of such capital in each of these jurisdictions. Hong Kong and Japan are the regulatory jurisdictions governing Manulife Financial's most significant operations in Asia.

**Hong Kong**

In Hong Kong, the authority and responsibility for supervision of the insurance industry is vested in the Insurance Authority under the *Insurance Companies Ordinance, Cap. 41* (the "Insurance Companies Ordinance"). The Chief Executive of the Government of the Hong Kong Special Administrative Region has appointed the Commissioner of Insurance to be the Insurance Authority for the purposes of the Insurance Companies Ordinance. The Insurance Companies Ordinance provides that no person shall carry on any insurance business in or from Hong Kong except a company authorized to do so by the Insurance Authority, Lloyd's of the United Kingdom or an association of underwriters approved by the Insurance Authority. The Insurance Companies Ordinance stipulates certain requirements for authorized insurers, including with regard to the "fit and proper person" requirement for directors and controllers, minimum capital and solvency margin requirements, adequate reinsurance arrangement requirements and statutory reporting requirements. The Insurance Companies Ordinance also confers powers of investigation and intervention on the Insurance Authority for the protection of policyholders.

The Insurance Authority has residual power to appoint an advisor or a manager to any authorized insurer if the Insurance Authority considers such appointment to be desirable for the protection of policyholders or potential policyholders against the risk that the insurer may be unable to meet its liabilities or to fulfill the reasonable expectations of policyholders or potential policyholders and that, in the Insurance Authority's opinion, the exercise of other interventionary powers conferred by the Insurance Companies Ordinance would not be appropriate to safeguard the interests of policyholders or potential policyholders. In such circumstances, the advisor or manager appointed by the Insurance Authority will have management control of the insurer.

In Hong Kong, the Company's life insurance business is conducted through a wholly owned subsidiary, Manulife (International) Limited, which is licensed to carry on the business of "long-term" insurance. Long-term insurance companies are required under the Insurance Companies Ordinance to maintain certain solvency margins. The required solvency margin is the aggregate of two components — a percentage of the mathematical reserves and a percentage of the capital at risk as prescribed under the Insurance Companies (Margin of Solvency) Regulation (Cap.41F), enacted pursuant to the Insurance Companies Ordinance. For a long-term insurance company, the value of its assets must not be less than the amount of its liabilities by the required solvency margin, subject to a minimum of Hong Kong $2 million. Compliance with the solvency margin requirements is reported annually to the Insurance Authority. Currently, all solvency margin requirements are being met.

The sale of mutual funds and investment-linked assurance products are subject to Hong Kong securities laws administered by the Securities and Futures Commission. The sale of provident (pension) fund products is subject to provident fund laws administered by the Mandatory Provident Fund Schemes Authority.

**Japan**

Life insurance companies in Japan, including Manulife Japan, are governed by the *Insurance Business Law* (Japan) and the regulations issued thereunder (the "IB Law"). The IB Law sets out a comprehensive regulatory regime for Japanese life insurers, including such matters as capital and solvency requirements, powers of regulatory intervention, new insurance products, premium levels and restrictions on shareholder dividends and distributions. The administration and application of the IB Law is supervised by the Financial Services Agency. The IB Law provides for certain rules with respect to the approval of new insurance products and the setting of premium levels. Deregulation of sales of insurance products through bank channels became effective on December 23, 2007 and all life insurance products are now able to be sold through the bank channel.

**Restrictions on Shareholder Dividends**

In Asia, insurance laws in the jurisdictions in which the Company operates provide for specific restrictions on the payment of shareholder dividends and other distributions by the Company's subsidiaries, or impose solvency or other financial tests, which could affect the ability of these subsidiaries to pay dividends in certain circumstances.

## GENERAL DESCRIPTION OF CAPITAL STRUCTURE

MFC has authorized share capital consisting of an unlimited number of common shares ("Common Shares"), an unlimited number of Class A Shares ("Class A Shares") and an unlimited number of Class B Shares ("Class B Shares"). As of December 31, 2007, MFC had approximately 1,501 million Common Shares, 14 million Class A Shares Series 1, 14 million Class A Shares Series 2 and 12 million Class A Shares Series 3 issued and outstanding.

**Certain Provisions Of The Class A Shares As A Class**

The following is a summary of certain provisions attaching to the Class A Shares as a class.

*Priority*

Each series of Class A Shares ranks on a parity with every other series of Class A Shares with respect to dividends and return of capital. The Class A Shares shall be entitled to a preference over the Class B Shares, the Common Shares and any other shares ranking junior to the Class A Shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of MFC, whether voluntary or involuntary, or any other distribution of the assets of MFC among its shareholders for the specific purpose of winding up its affairs.

**Certain Provisions Of The Class B Shares As A Class**

The following is a summary of certain provisions attaching to the Class B Shares as a class.

*Priority*

Each series of Class B Shares ranks on a parity with every other series of Class B Shares with respect to dividends and return of capital. The Class B Shares shall rank junior to the Class A Shares with respect to priority in payment of dividends and in distribution of assets in the event of the liquidation, dissolution or winding up of MFC, whether voluntary or involuntary, or any other distribution of assets of MFC among its shareholders for the specific purpose of winding up its affairs, but the Class B Shares shall be entitled to a preference over the Common Shares and any other shares ranking junior to the Class B Shares with respect to priority in payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of MFC, whether voluntary or involuntary, or any other distribution of the assets of MFC among its shareholders for the specific purpose of winding up its affairs.

**Certain Provisions Common To Both Class A Shares And Class B Shares**

The following is a summary of certain provisions attaching to both the Class A Shares as a class and to the Class B Shares as a class.

*Directors' Right to Issue in One or More Series*

Both the Class A Shares and the Class B Shares may be issued at any time and from time to time in one or more series. Before any shares of a series are issued, the Board of Directors of MFC shall fix the number of shares that will form such series, if any, and shall, subject to any limitations set out in the by-laws of MFC or in the ICA, determine the designation, rights, privileges, restrictions and conditions to be attached to the Class A Shares or the Class B Shares, as the case may be, of such series, the whole subject to the filing with the Superintendent of the particulars of such series, including the rights, privileges, restrictions and conditions determined by the Board of Directors of MFC. A summary of the terms of the Class A Shares Series 1, Class A Shares Series 2 and Class A Shares Series 3 can be found at Notes 11 and 13 of MFC's Audited Annual Financial Statements for the year ended December 31, 2007 filed on SEDAR, which Notes are incorporated herein by reference.

*Voting Rights of Class A Shares and Class B Shares*

Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of Class A Shares or Class B Shares, the holders of such Class A Shares or Class B Shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of MFC.

*Amendment with Approval of Holders of Class A Shares and Class B Shares*

The rights, privileges, restrictions and conditions attached to each of the Class A Shares and the Class B Shares as a class may be added to, changed or removed but only with the approval of the holders of such class of Class A Shares or Class B Shares given as hereinafter specified.

*Approval of Holders of Class A Shares and Class B Shares*

The approval of the holders of Class A Shares or Class B Shares to add to, change or remove any right, privilege, restriction or condition attaching to such Class A Shares or Class B Shares as a class or in respect of any other matter requiring the consent of the holders of such Class A Shares or Class B Shares may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of Class A Shares or Class B Shares or passed by the affirmative vote of at least two-thirds (2/3) of the votes cast at a meeting of the holders of Class A Shares or Class B Shares duly called for that purpose.

Notwithstanding any other condition or provision of either Class A Shares or Class B Shares, the approval of the holders of either class, voting separately as a class or series, is not required on a proposal to amend the by-laws of MFC to:

I. increase or decrease the maximum number of authorized Class A Shares or Class B Shares, as the case may be, or increase the maximum number of authorized shares of a class of shares having rights or privileges equal or superior to such Class A Shares or Class B Shares;

II. effect the exchange, reclassification or cancellation of all or any part of the Class A Shares or the Class B Shares, as the case may be; or

III. create a new class of shares equal to or superior to the Class A Shares or the Class B Shares, as the case may be.

On every poll taken at every meeting of the holders of Class A Shares or Class B Shares as a class, or at any joint meeting of the holders of two or more series of Class A Shares or Class B Shares, each holder of such Class A Shares or Class B Shares entitled to vote thereat shall have one vote in respect of each relevant Class A Share or Class B Share held.

**Certain Provisions Of The Common Shares As A Class**

The authorized common share capital of MFC consists of an unlimited number of Common Shares without nominal or par value. Each holder of Common Shares is entitled to receive notice of and to attend all meetings of the shareholders of MFC and is entitled to one vote for each share held except meetings at which only holders of a specified class or series of shares of MFC are entitled to vote separately as a class or series. The holders of Common Shares are entitled to receive dividends as and when declared by the Board of Directors of MFC, subject to the preference of the holders of Class A Shares, Class B Shares and any other shares ranking senior to the Common Shares with respect to priority in payment of dividends. After payment to the holders of Class A Shares, Class B Shares and any other shares ranking senior to Common Shares with respect to priority in the distribution of assets in the event of the liquidation, dissolution or winding up of MFC, the holders of Common Shares shall be entitled to receive prorated the net assets of MFC remaining, after the payment of all creditors and liquidation preferences, if any, that pertains to shareholders.

## DIVIDENDS

The declaration and payment of dividends and the amount thereof is subject to the discretion of the Board of Directors and is dependent upon the results of operations, financial condition, cash requirements and future prospects of, and regulatory restrictions on the payment of dividends by, the Company and other factors deemed relevant by the Board of Directors.

Since MFC is a holding company that conducts all of its operations through regulated insurance subsidiaries (or companies owned directly or indirectly by these subsidiaries), its ability to pay future dividends will depend on the receipt of sufficient funds from its regulated insurance subsidiaries. These subsidiaries are also subject to certain regulatory restrictions under laws in Canada, the United States and certain other countries that may limit their ability to pay dividends or make other upstream distributions.

Pursuant to agreements made between MFC, Manufacturers Life, The Canada Trust Company and Manulife Financial Capital Trust (a subsidiary of Manufacturers Life) (the "Trust"), MFC and Manufacturers Life have covenanted with the holders of the outstanding Trust Capital Securities of the Trust (the "MaCS") that, if the Trust fails to pay in full a required distribution on any series of MaCS, Manufacturers Life will not pay dividends of any kind on its MLI Public Preferred Shares (as defined below), if any are outstanding, and if no MLI Public Preferred Shares are outstanding, MFC will not pay dividends on the Class A Shares, Class B Shares and Common Shares, in each case, until the 12th month following the Trust's failure to pay the required distribution in full, unless the Trust first pays the required distribution (or the unpaid portion thereof) to the respective holders of MaCS. "MLI Public Preferred Shares" means, at any time, preferred shares of Manufacturers Life which at that time: (a) have been issued to the public (excluding any preferred shares of Manufacturers Life held beneficially by affiliates of Manufacturers Life); (b) are listed on a recognized stock exchange; and (c) have an aggregate liquidation entitlement of at least $200 million, provided however, if at any time, there is more than one class of MLI Public Preferred Shares outstanding, then the most senior class or classes of outstanding MLI Public Preferred Shares shall, for all purposes, be the MLI Public Preferred Shares.

MFC has paid the following cash dividends in the period from January 1, 2005 to December 31, 2007:

I. On the Common Shares, (i) a dividend of $0.26 per share was paid on March 21, 2005, (ii) a dividend of $0.30 per share was paid on June 20, 2005, September 19, 2005 and December 19, 2005, (iii) a dividend of $0.35 per share was paid on March 20, 2006 and June 19, 2006, (iv) a dividend of one Common Share per each issued and outstanding Common Share was paid on June 2, 2006, (v) a dividend of $0.175 per share was paid on September 19, 2006, (vi) a dividend of $0.20 per share was paid on December 19, 2006 and March 19, 2007, (vii) a dividend of $0.22 per share was paid on June 19, 2007 and September 19, 2007, and (viii) a dividend of $0.24 per share was paid on December 19, 2007;

II. On the Class A Shares, Series 1, a dividend of $0.25625 per share was paid on the 19th day, or the first business day thereafter, of March, June, September and December in each year;

III. On the Class A Shares, Series 2, (i) a dividend of $0.09365 per share was paid on March 21, 2005, and (ii) a dividend of $0.29063 per share was paid on the 19th day, or the first business day thereafter, of March, June, September and December in each year starting on June 20, 2005; and

IV. On the Class A Shares, Series 3, (i) a dividend of $0.23438 per share was paid on March 19, 2006, and (ii) a dividend of $0.28125 per share was paid on the 19th day, or the first business day thereafter, of March, June, September and December in each year starting on June 19, 2006.

In the period from January 1, 2005 to December 31, 2007, Manufacturers Life paid a cash dividend of $0.38125 per share on the Class A Shares, Series 6, of Manufacturers Life on the last day, or the first business day thereafter, of March, June, September and December of each year.

## CONSTRAINTS ON OWNERSHIP OF SHARES

The ICA contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of MFC. Pursuant to these restrictions, no person is permitted to acquire any shares of MFC without the approval of the Minister of Finance if the acquisition would cause the person to have a "significant interest" in any class of shares of MFC. The restrictions also prohibit any person from becoming a "major shareholder" of MFC. In addition, MFC is not permitted to record any transfer or issue of shares of MFC if the transfer or issue would cause the person to breach the ownership restrictions. For these purposes, a person has a significant interest in a class of shares of MFC where the aggregate of any shares of that class beneficially owned by that person, any entity controlled by that person and by any person associated or acting jointly or in concert with that person exceeds 10% of all the outstanding shares of

that class of shares of MFC. A person is a major shareholder if the aggregate of any shares in a class of voting shares held by that person and by any entity controlled by that person exceeds 20% of the outstanding shares of that class, or, for a class of non-voting shares, a holding exceeding 30% of that class. If a person contravenes any of these restrictions, the Minister of Finance may, by order, direct such person to dispose of all or any portion of those shares. In addition, the ICA prohibits life insurance companies, including MFC, from transferring or issuing shares of any class to Her Majesty in right of Canada or of a province, an agent of Her Majesty, a foreign government or an agent of a foreign government.

Under applicable insurance laws and regulations in Michigan, New York, Massachusetts, Delaware and Vermont, no person may acquire control of any of the Company's insurance company subsidiaries domiciled in any such state without obtaining prior approval of such state's insurance regulatory authority. Under applicable laws and regulations, any person acquiring, directly or indirectly, 10% or more of the voting securities of any other person is presumed to have acquired "control" of such person. Thus, any person seeking to acquire 10% or more of the voting securities of MFC must obtain the prior approval of the insurance regulatory authorities in certain states including Michigan, Massachusetts, Delaware, Vermont and New York, or must demonstrate to the relevant insurance commissioner's satisfaction that the acquisition of such securities will not give them control of MFC. Under U.S. law, the failure to obtain such prior approval would entitle MFC or the insurance regulatory authorities to seek injunctive relief, including enjoining any proposed acquisition, the voting of such securities at any meeting of the holders of Common Shares, or seizing shares owned by such person, and such shares may not be entitled to be voted at any meeting of the holders of Common Shares.

## RATINGS

The following table summarizes the security ratings that MFC has received from approved rating agencies on its outstanding securities as at the date of this Annual Information Form. Approved rating agencies are defined by Canadian securities laws to mean DBRS Limited ("DBRS"), Fitch Ratings Ltd. ("Fitch") and Standard & Poor's ("S&P").

| | DBRS | Fitch | S&P |
|---|---|---|---|
| **Class A Series 1** | Pfd-1(low) Stable | A+ / Stable | P1 / A+ Stable |
| **Class A Series 2** | Pfd-1(low) Stable | A+ / Stable | P1 / A+ Stable |
| **Class A Series 3** | Pfd-1(low) Stable | A+ / Stable | P1 / A+ Stable |
| **Medium Term Notes** | AA (low) Stable | AA- / Stable | AA Stable |

The security ratings accorded by the rating agencies are not a recommendation to purchase, hold or sell these securities, in as much as such ratings do not comment as to market price or suitability for a particular investor. Security ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The Company provides certain rating agencies with confidential, in-depth information in support of the rating process.

### DBRS Ratings

DBRS's ratings for preferred shares range from Pfd-1 to D. These ratings are meant to give an indication of the risk that an issuer will not fulfill its full obligations in a timely manner. Every DBRS rating is based on quantitative and qualitative considerations relevant to the issuing entity. Each rating category is denoted by the subcategories "high" and "low". The absence of either a "high" or "low" designation indicates the rating is in the middle of the category. These ratings are appended with one of three rating trends – "Positive", "Stable", or "Negative". The ratings trend helps to give investors an understanding of DBRS's opinion regarding the outlook for the rating in question.

MFC's Class A Shares, Series 1, Series 2 and Series 3 have been assigned a Pfd-1(low) rating, first out of six on the rating scale, as they are considered to be of superior credit quality and are supported by entities with strong earnings and balance sheet characteristics. The Stable outlook assigned by DBRS indicates that the rating is not likely to change.

Medium term debt rated AA is of superior credit quality, and protection of interest and principal is considered very high. In many cases such debt differs from medium term debt rated AAA only to a small degree. Entities rated AA are also considered to be strong credits, typically exemplifying above-average strength in key areas of consideration and unlikely to be significantly affected by reasonably foreseeable events.

### Fitch Ratings

Fitch's ratings for preferred shares range from "AAA" to "D" and provide an opinion on the ability of a securities issuer to meet financial commitments such as interest, preferred dividends, or repayment of principal, on a timely basis. These ratings are used as indications of the likelihood of repayment in accordance with the terms of the security and imply no specific prediction of default probability. These ratings do not directly address any risk other than credit risk. A "+" or "-" may be appended to a rating to denote its relative status within major rating categories. A rating outlook indicates the direction a rating is likely to move over a one to two-year period. Rating outlooks may be positive, stable, or negative.

MFC's Class A Shares, Series 1, Series 2 and Series 3 have been assigned an A+ rating, fifth out of 22 on the rating scale, denoting a low expectation of credit risk. The Company's capacity for timely payment of financial commitments is considered to be strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. The Stable outlook assigned by Fitch indicates that the rating is not likely to change.

MFC's Medium Term Notes have been assigned an AA- rating, reflecting a very high credit quality. The AA- rating denotes expectations of very low credit risk and indicate a strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

**S&P's Ratings**

S&P's ratings for Canadian preferred shares range from "P-1" to "D" and are a current assessment of the creditworthiness of an obligor with respect to a specific preferred share obligation issued in the Canadian market, relative to preferred shares issued by other issuers in the Canadian market. There is a direct correspondence between the specific ratings assigned on the Canadian preferred share scale and the various rating levels on the global debt rating scale of S&P. It is the practice of S&P to present an issuer's preferred share ratings on both the global rating scale and on the Canadian national scale when listing the ratings for a particular issuer.

MFC's Class A Shares, Series 1, Series 2 and Series 3 have been assigned a P-1 rating on the Canadian scale, which corresponds to an A+ rating on the global scale. The ratings rank third out of 20 on the respective ratings scale. The A+ rating denotes that the specific obligation is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than other obligations in higher rated categories. However, MFC's capacity to meet its financial commitment on the A+ rated obligation is considered to remain very strong.

S&P issue credit ratings are based, on the likelihood of payment, the nature of and provisions of the obligation, and the protections afforded by, and relative position of the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. An obligation rated "AA" differs from the highest rated obligations only in small degree and demonstrates that the obligor's capacity to meet its financial commitment on the obligation is considered very strong.

S&P's analytical approach to medium-term term notes is virtually identical to the one followed in assigning a long-term rating, and a strong link exists between the short-term and long-term rating systems. Medium term debt rated AA is considered of superior credit quality, and protection of interest and principal is considered very high.

## MARKET FOR SECURITIES

MFC's Common Shares are listed for trading under the symbol "MFC" on the Toronto Stock Exchange ("TSX"), the New York Stock Exchange ("NYSE"), and the Philippine Stock Exchange and under "0945" on The Stock Exchange of Hong Kong. The Class A Shares Series 1, Class A Shares Series 2 and Class A Shares Series 3 are listed for trading on the TSX under the symbol "MFC.PR.A", "MFC.PR.B" and "MFC.PR.C" respectively.

**TRADING PRICE AND VOLUME**

The following table sets out the closing price range and trading volume of the Common Shares on the TSX and the NYSE for the period indicated.

| | TSX | | | NYSE | | |
|---|---|---|---|---|---|---|
| 2007 | High (C$) | Low (C$) | Volume (000s) | High (U.S.$) | Low (U.S.$) | Volume (000s) |
| January | $ 40.22 | $ 38.83 | 42,252 | $ 34.14 | $ 32.96 | 13,165 |
| February | $ 41.49 | $ 38.73 | 48,362 | $ 35.45 | $ 33.10 | 12,808 |
| March | $ 40.48 | $ 38.05 | 53,904 | $ 34.94 | $ 32.43 | 13,136 |
| April | $ 41.10 | $ 39.75 | 38,754 | $ 36.64 | $ 34.37 | 10,363 |
| May | $ 40.52 | $ 39.02 | 60,199 | $ 37.79 | $ 35.11 | 13,239 |
| June | $ 40.10 | $ 38.08 | 68,035 | $ 37.76 | $ 35.92 | 12,229 |
| July | $ 40.66 | $ 38.55 | 51,610 | $ 38.96 | $ 36.21 | 15,989 |
| August | $ 41.28 | $ 36.37 | 73,239 | $ 39.08 | $ 33.69 | 24,452 |
| September | $ 41.50 | $ 40.02 | 52,672 | $ 41.35 | $ 38.08 | 11,408 |
| October | $ 44.23 | $ 40.70 | 52,853 | $ 46.56 | $ 41.04 | 16,923 |
| November | $ 44.03 | $ 38.67 | 59,935 | $ 46.93 | $ 39.11 | 27,073 |
| December | $ 42.14 | $ 38.75 | 50,158 | $ 41.95 | $ 39.40 | 19,561 |

The following table sets out the closing price range and trading volume of the Class A Shares, Series 1, Series 2 and Series 3 on the TSX for the period indicated.

| | TSX – Series 1 | | | TSX – Series 2 | | |
|---|---|---|---|---|---|---|
| 2007 | High (C$) | Low (C$) | Volume (000s) | High (C$) | Low (C$) | Volume (000s) |
| January | $ 27.25 | $ 26.50 | 160 | $ 25.90 | $ 25.02 | 250 |
| February | $ 27.24 | $ 26.24 | 113 | $ 26.09 | $ 25.35 | 209 |
| March | $ 26.92 | $ 26.31 | 541 | $ 25.90 | $ 25.50 | 142 |
| April | $ 26.74 | $ 26.45 | 145 | $ 25.90 | $ 25.18 | 174 |
| May | $ 26.64 | $ 25.76 | 182 | $ 25.50 | $ 24.26 | 456 |
| June | $ 26.23 | $ 24.82 | 144 | $ 24.89 | $ 22.76 | 710 |
| July | $ 25.40 | $ 24.75 | 162 | $ 24.25 | $ 23.40 | 158 |
| August | $ 26.54 | $ 25.13 | 103 | $ 24.03 | $ 23.35 | 156 |
| September | $ 26.99 | $ 25.17 | 173 | $ 24.00 | $ 22.71 | 165 |
| October | $ 25.80 | $ 25.00 | 189 | $ 22.80 | $ 21.50 | 1,575 |
| November | $ 26.05 | $ 25.25 | 110 | $ 22.00 | $ 21.50 | 404 |
| December | $ 26.17 | $ 25.55 | 223 | $ 22.61 | $ 21.65 | 482 |

| | TSX – Series 3 | | |
|---|---|---|---|
| 2007 | High (C$) | Low (C$) | Volume (000s) |
| January | $ 25.30 | $ 24.80 | 759 |
| February | $ 25.65 | $ 24.81 | 305 |
| March | $ 25.25 | $ 24.97 | 274 |
| April | $ 25.16 | $ 24.70 | 169 |
| May | $ 24.95 | $ 23.25 | 430 |
| June | $ 23.98 | $ 22.10 | 665 |
| July | $ 23.60 | $ 22.65 | 220 |
| August | $ 23.64 | $ 22.70 | 200 |
| September | $ 23.59 | $ 21.94 | 179 |
| October | $ 22.55 | $ 21.00 | 1,713 |
| November | $ 21.99 | $ 20.90 | 916 |
| December | $ 22.45 | $ 21.00 | 517 |

## LEGAL PROCEEDINGS

The Company is regularly involved in litigation, both as a defendant and as a plaintiff. The litigation naming the Company as a defendant ordinarily involves its activities as a provider of insurance protection and wealth management products, and as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States and Asia, including provincial and state regulatory bodies, state attorneys general, the SEC, the Financial Industry Regulatory Authority and Canadian securities commissions, regularly make inquiries and, from time to time, require the production of information or conduct examinations concerning the Company's compliance with, among other things, insurance laws, securities laws, and laws governing the activities of broker-dealers. The Company intends to continue to cooperate fully with government and regulatory authorities in connection with their respective inquiries. Management does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

## DIRECTORS AND EXECUTIVE OFFICERS

### DIRECTORS

The by-laws of MFC provide that the Board of Directors shall consist of a minimum of seven and a maximum of 30 Directors, with the exact number of Directors to be elected at any annual meeting of MFC to be fixed by the Directors prior to such annual meeting.

The following table sets forth for each of the Directors of MFC, their province or state and country of residence, position with Manulife Financial and their principal occupation as at March 27, 2008. Additional information on each Director can be found at the section entitled "Board of Directors" in MFC's Proxy Circular dated March 18, 2008 filed on SEDAR, which section is incorporated herein by reference.

Each director is elected for a term of one year, expiring at the next annual meeting of the Company. The next annual meeting will occur on May 8, 2008.

| Name and Residence | Position with Manulife Financial | Principal Occupation |
|---|---|---|
| Arthur R. Sawchuk<br>Ontario, Canada | Chairman of the Board | Chairman of the Board,<br>Manulife Financial |
| Dominic D'Alessandro<br>Ontario, Canada | President and Chief Executive Officer, Director | President and Chief Executive Officer, Manulife Financial |
| John M. Cassaday<br>Ontario, Canada | Director | President and Chief Executive Officer, Corus Entertainment Inc. (broadcasting company) |
| Lino J. Celeste<br>New Brunswick, Canada | Director | Corporate Director |
| Dr. Gail C.A. Cook-Bennett<br>Ontario, Canada | Vice Chair of the Board (1) | Chair, Canada Pension Plan<br>Investment Board (Canada Pension Plan funds management) |
| Thomas P. d'Aquino<br>Ontario, Canada | Director | Chief Executive and President, Canadian Council of Chief Executives (research and advocacy group) |
| Richard B. DeWolfe<br>Massachusetts, United States | Director | Managing Partner, DeWolfe & Company LLC (consulting firm) |
| Robert E. Dineen, Jr.<br>New York, United States | Director | Of Counsel, Shearman & Sterling LLP (law firm) |
| Pierre Y. Ducros<br>Quebec, Canada | Director | President, P. Ducros & Associates, Inc.<br>(investment firm) |
| Allister P. Graham<br>Ontario, Canada | Director | Corporate Director (2) |
| Scott M. Hand<br>Ontario, Canada | Director | Retired Chairman and Chief Executive Officer, Inco Limited (mining company) (3) |
| Luther S. Helms<br>Arizona, United States | Director | Managing Director, Sonata Capital Group (investment advice firm) |
| Thomas E. Kierans<br>Ontario, Canada | Director | Chair of Council and Vice President, Social Sciences and Humanities Research Council (agency for university-based research and student training) (4) |
| Dr. Lorna R. Marsden<br>Ontario, Canada | Director | President Emerita and Professor,<br>York University (5) |
| Hugh W. Sloan, Jr.<br>Michigan, United States | Director | Deputy Chairman, Woodbridge Foam Corporation (manufacturer of automobile parts) |
| Gordon G. Thiessen<br>Ontario, Canada | Director | Corporate Director (6) |

(1) Dr. Cook-Bennett was appointed Vice Chair of the Board effective December 6, 2007.
(2) Prior to May 2007, Allister Graham was Chairman Emeritus, Nash Finch Company. Prior to June 2006, Mr. Graham was Chairman and Interim Chief Executive Officer of Nash Finch Company. Prior to February 2006, Mr. Graham was Chairman of Nash Finch Company.
(3) Prior to January 2007, Scott Hand was CEO of Inco Limited. Prior to October 2006, Mr. Hand was Chairman and CEO of Inco Limited.
(4) Prior to July 2007, Thomas Kierans was Chair, the Canadian Journalism Foundation. Prior to December 2005, Mr. Kierans was Chairman, CSI Global Education Inc., and prior to November 2004, Mr. Kierans was Chairman, The Canadian Institute for Advanced Research.
(5) Prior to July 2007, Lorna Marsden was President and Vice Chancellor, York University.
(6) Prior to December 2007, Gordon Thiessen was Chair, Canadian Public Accountability Board.

## EXECUTIVE OFFICERS

The name, province or state and country of residence, and position of each of the executive officers of Manulife Financial are set forth in the following table as of March 27, 2008.

| Name and Residence | Position with Manulife Financial |
|---|---|
| Dominic D'Alessandro<br>Ontario, Canada | President and Chief Executive Officer |
| Diane M. Bean<br>Ontario, Canada | Executive Vice President Corporate Affairs and Human Resources (1) |
| Jean-Paul Bisnaire<br>Ontario, Canada | Senior Executive Vice President, Business Development and General Counsel (2) |
| James R. Boyle<br>Massachusetts, United States | Executive Vice President, U.S. Insurance (3) |
| Robert A. Cook<br>Hong Kong, Special Administrative Region of China | Senior Executive Vice President and General Manager, Asia and Japan (4) |
| Joseph M. Cooper<br>Ontario, Canada | Executive Vice President and Chief Information Officer (5) |
| Simon R. Curtis<br>Ontario, Canada | Executive Vice President and Chief Actuary (6) |
| John D. DesPrez III<br>Massachusetts, United States | Senior Executive Vice President, John Hancock Financial Services |
| J. Roy Firth<br>Ontario, Canada | Executive Vice President, Individual Wealth Management (7) |
| Donald A. Guloien<br>Ontario, Canada | Senior Executive Vice President and Chief Investment Officer |
| Beverly S. Margolian<br>Ontario, Canada | Executive Vice President and Chief Risk Officer (8) |
| Hugh McHaffie<br>Massachusetts, United States | Executive Vice President, U.S. Wealth Management (9) |
| Paul L. Rooney<br>Ontario, Canada | Senior Executive Vice President and General Manager, Canadian Division (10) |
| Peter H. Rubenovitch<br>Ontario, Canada | Senior Executive Vice President and Chief Financial Officer |
| Warren A. Thomson<br>Massachusetts, United States | Executive Vice President, U.S. Investments and Global Investment Management (11) |

(1) Prior to April 2004, Diane Bean was Senior Vice President, Corporate Human Resources and Communications.
(2) Prior to October 2004, Jean-Paul Bisnaire was Executive Vice President, Business Development and General Counsel. Prior to July 2004, Mr. Bisnaire was a partner at Davies Ward Phillips & Vineberg LLP, a law firm with offices in Toronto, Montreal and New York.
(3) Prior to April 2004, James Boyle was Senior Vice President, U.S. Annuities.
(4) Prior to January 2007, Robert Cook was Executive Vice President, Life Insurance, John Hancock. Prior to April 2004, Mr. Cook was Senior Vice President, U.S. Insurance.
(5) Prior to April 2007, Joseph Cooper was Vice President, Strategic Outsourcing with IBM. Prior to May 2006, Mr. Cooper was Director, Strategic Outsourcing with IBM. Prior to August 2004 Mr. Cooper was an Account Director with IBM.
(6) Prior to April 2004, Simon Curtis was Senior Vice President and Chief Actuary.
(7) Prior to April 2004, Roy Firth was Senior Vice President, Individual Wealth Management Canadian Operations.
(8) Prior to April 2004, Beverly Margolian was Senior Vice President and Chief Risk Officer.
(9) Prior to January 2007, Hugh McHaffie was Senior Vice President, Variable Annuities. Prior to May 2006, Mr. McHaffie was Senior Vice President, Individual Business Product Management at Metlife. Prior to November 2003, Mr. McHaffie was Senior Vice President, Individual Annuity Product Management at Metlife.
(10) Prior to March 2006, Paul Rooney was Executive Vice President, Canadian Individual Insurance. Prior to April 2004, Mr. Rooney was Senior Vice President, Individual Insurance, Canadian Operations.
(11) Prior to September 2006, Warren Thomson was Executive Vice President, U.S. Investments. Prior to April 2004, Mr. Thomson was Senior Vice President, Investments.

## SHARE OWNERSHIP

The number of Common Shares held by Directors and Executive Officers of MFC as at December 31, 2007 was 1,197,246, which represented less than one per cent of the outstanding Common Shares.

## TRANSFER AGENT AND REGISTRAR

The transfer agents for MFC's Common Shares are as follows:

| | | | |
|---|---|---|---|
| In Canada: | CIBC Mellon Trust Company<br>P.O. Box 7010, Adelaide Street Postal Station<br>Toronto, Ontario, Canada, M5C 2W9<br>Toll Free: 1-800-783-9495 | In the United States: | BNY Mellon Shareowner Services<br>P.O. Box 358015, Pittsburgh<br>Pennsylvania, U.S.A. 15252<br>Toll Free: 1-800-249-7702 |

The transfer agent for MFC's Class A Shares, Series 1, Series 2 and Series 3 is CIBC Mellon Trust Company.

## MATERIAL CONTRACTS

MFC entered into a trust indenture dated May 19, 2005 with CIBC Mellon (as amended, the "Trust Indenture") setting out the terms of debentures that may be issued by MFC under a prospectus supplement to a short form base shelf prospectus, as filed with applicable securities regulators from time to time. MFC entered into a supplemental indenture to the Trust Indenture dated May 19, 2005 with CIBC Mellon (the "Supplemental Indenture") and a second supplemental indenture to the Trust Indenture dated March 28, 2006 with CIBC Mellon (the "Second Supplemental Indenture") setting out the terms of Medium Term Notes that may be issued by MFC under a Medium Term Note Program Prospectus Supplement, as filed with applicable securities regulators from time to time. Under the terms of the Trust Indenture, an aggregate maximum of $1.5 billion of Medium Term Notes are currently issuable. As at December 31, 2007, an aggregate principal amount of $350 million in Medium Term Notes are issued and outstanding.

On July 8, 2005, the SEC declared effective a joint registration statement filed in the United States by MFC and John Hancock Life relating to medium term notes sold by John Hancock Life to retail investors under the *Signature*Notes program on or after June 29, 2005, the payment of which is fully and unconditionally guaranteed by MFC. MFC has also fully and unconditionally guaranteed the *Signature*Notes sold by John Hancock Life prior to July 8, 2005. MFC's guarantees of the *Signature*Notes are unsecured obligations of MFC, and are subordinated in right of payment to the prior payment in full of all other obligations of MFC, except for other guarantees or obligations of MFC which by their terms are designated as ranking equally in right of payment with or subordinate to MFC's guarantees of the *Signature*Notes. John Hancock Life had approximately U.S. $2.17 billion principal amount of SignatureNotes outstanding as at December 31, 2007, with capacity to issue a further U.S. $1.96 billion principal amount under the terms of issuance program governing the *Signature*Notes as at that date. More information about MFC's guarantee of the *Signature*Notes can be found at Note 23(e) of MFC's Audited Annual Financial Statements for the year ended December 31, 2007 filed on SEDAR.

MFC entered into a trust indenture dated December 14, 2006 (the "MFLP Indenture") with CIBC Mellon and Manulife Finance (Delaware), L.P. ("MFLP") as a guarantor of the debentures of MFLP issued under the MFLP Indenture. Under the terms of the MFLP Indenture, MFC unconditionally and irrevocably guaranteed on a senior basis the payment of principal, premium, if any, interest and redemption price in respect of $550,000,000 principal amount of 4.448% fixed/floating senior debentures of MFLP due December 15, 2026. MFC also unconditionally and irrevocably guaranteed on a subordinated basis the payment of principal, premium, if any, interest and redemption price in respect of $650,000,000 principal amount of 5.059% fixed/floating subordinated debentures of MFLP due December 15, 2042. More information about MFC's guarantee of the debentures issued by MFLP can be found at Note 19(e) of MFC's Audited Annual Financial Statements for the year ended December 31, 2007 filed on SEDAR.

MFC entered into a full and unconditional subordinated guarantee dated January 29, 2007 of Manufacturers Life's $550 million of outstanding 6.24% subordinated debentures due February 16, 2016 and a subordinated guarantee dated January 29, 2007 of Class A and Class B preferred shares of Manufacturers Life. MFC also provided a full and unconditional guarantee dated January 29, 2007 of Manufacturers Life's obligations under the annuities which provide the cash flows to service the $200 million of outstanding 4.551% annuity-backed notes due November 12, 2008 issued by Maritime Life Canadian Funding and has assumed certain other covenants of Manufacturers Life in connection with such annuities pursuant to an undertaking and notice of assumption. As a result of these guarantees, Manufacturers Life has received an exemption from the requirements to file certain continuous disclosure materials with the Canadian securities regulatory authorities.

## INTERESTS OF EXPERTS

Ernst & Young LLP, Chartered Accountants, Licensed Public Accountants, Toronto, Ontario, is the external auditor who prepared the Independent Auditors' Report to Shareholders and the Independent Auditors' Report on Internal Controls under Standards of the Public Company Accounting Oversight Board (United States). Ernst & Young LLP is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario, United States federal securities laws and the rules and regulations thereunder, including the independence rules adopted by the Securities and Exchange

Commission pursuant to the Sarbanes-Oxley Act of 2002 and Rule 3600T of the Public Company Accounting Oversight Board, which designates as interim independence standards Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct and Standards Nos. 1, 2 and 3 of the Independence Standards Board.

## AUDIT & RISK MANAGEMENT COMMITTEE

### Audit Committee Charter

The Audit Committee has adopted a formal Charter that describes the Audit Committee's role and responsibilities. The Charter is set out in the attached Schedule 1.

### Composition Of The Audit Committee

Messrs. Richard B. DeWolfe, Lino J. Celeste, Robert E. Dineen Jr., Allister P. Graham, Scott M. Hand, Luther S. Helms and Thomas E. Kierans are the members of MFC's Audit and Risk Management Committee ("Audit Committee"). Mr. DeWolfe became the Chair of the Audit Committee effective January 1, 2007 and was previously Co-Chair of the Audit Committee with Mr. Kierans from May 4, 2006 to December 31, 2006. Mr. Kierans had held the post of Chair of the Audit Committee from May 1999 to May 4, 2006. The Board of Directors of MFC has determined that each member of the Audit Committee is independent, financially literate and that each of Messrs. DeWolfe, Celeste, Dineen, Graham, Hand, Helms and Kierans is a financial expert, as those terms are defined by the applicable regulators.

### Relevant Education And Experience

In addition to the general business experience of each member of the Audit Committee, the relevant education and experience of each member is as follows: Mr. DeWolfe holds a bachelor's degree from Boston University in marketing and finance and is the former Chairman and Chief Executive Officer of The DeWolfe Companies, Inc., a publicly listed home ownership organization prior to being acquired by Cendant Corp. Mr. Celeste is an electrical engineer, is the past Chairman of Aliant Inc. and was the President and Chief Executive Officer of New Brunswick Telephone Company Limited. Mr. Dineen holds a law degree from Syracuse University, and is a member of the board of directors of Nova Chemicals Corporation. Mr. Graham was formerly the Chairman Emeritus of Nash Finch Company and was formerly the Chairman and Chief Executive Officer of The Oshawa Group Limited. Mr. Hand is Retired Chairman and Chief Executive Officer of Inco Limited. Mr. Helms was formerly Vice Chairman of KeyBank West and Vice Chairman of Bank of America Corporation. Mr. Kierans holds a Master of Business Administration from the University of Chicago, was formerly the Chairman of Moore Corporation Limited and Petro-Canada, was formerly the President and Chief Executive Officer of the C.D. Howe Institute, and is a former member of the board of directors of BCE Inc. (now Bell Canada Inc.), TransCanada Pipelines and Inmet Mining Corporation.

### Pre-Approval Policies And Procedures

A description of the pre-approval policies and procedures of the Audit Committee can be found in the Company's Statement of Corporate Governance Practices, located at Schedule A of MFC's Proxy Circular dated March 18, 2008 filed on SEDAR, which Schedule is incorporated herein by reference, and on the Company's web site at www.manulife.com.

### External Auditor Service Fees

A description of the fees billed by the external auditor to the Company can be found at the section entitled "Business of the Annual Meeting" in MFC's Proxy Circular dated March 18, 2008 filed on SEDAR, which section is incorporated herein by reference.

## ADDITIONAL INFORMATION

Additional information with respect to the Company, including Directors' and Officers' remuneration and indebtedness, principal holders of securities, and securities authorized for issuance under the Company's equity compensation plans, where applicable, is contained in MFC's Proxy Circular dated March 18, 2008 filed on SEDAR. Additional financial information is provided in the Company's comparative financial statements and the Company's management discussion and analysis for the most recently completed financial year. Additional information relating to the Company may be found on SEDAR at www.sedar.com and is accessible at the Company's website, www.manulife.com. Requests for materials may be sent to the Investor Relations Department of Manulife Financial at 200 Bloor Street East, NT-7, Toronto, Canada M4W 1E5.

**SCHEDULE 1 – AUDIT & RISK MANAGEMENT COMMITTEE CHARTER**

**Manulife Financial Corporation (the "Company")**

**Audit & Risk Management Committee Charter (2007)**

**1. Overall Role and Responsibility**

**1.1** The Audit & Risk Management Committee ("Committee") shall:

(a) assist the Board of Directors in its oversight role with respect to:

(i) the quality and integrity of financial information;

(ii) the effectiveness of the Company's risk management and compliance practices;

(iii) the independent auditor's performance, qualifications and independence;

(iv) the performance of the Company's internal audit function; and

(v) the Company's compliance with legal and regulatory requirements; and

(b) prepare such reports of the Committee required to be included in the Proxy Circular in accordance with applicable laws or the rules of applicable securities regulatory authorities.

**2. Structure and Composition**

**2.1** The Committee shall consist of three or more Directors appointed by the Board of Directors on the recommendation of the Corporate Governance and Nominating Committee.

**2.2** No member of the Committee shall be an officer or employee of the Company, its subsidiaries or affiliates. Members of the Committee will not be affiliated with the Company as such term is defined in the *Insurance Companies Act* (Canada).

**2.3** Each member of the Committee shall satisfy the applicable independence and experience requirements of the laws governing the Company, the applicable stock exchanges on which the Company's securities are listed and applicable securities regulatory authorities.

**2.4** The Board of Directors shall designate one member of the Committee as the Committee Chair.

**2.5** Members of the Committee shall serve at the pleasure of the Board of Directors for such term or terms as the Board of Directors may determine.

**2.6** Each member of the Committee shall be financially literate as such qualification is defined by applicable law and interpreted by the Board of Directors in its business judgment.

**2.7** The Board of Directors shall determine whether and how many members of the Committee qualify as a financial expert as defined by applicable law.

**2.8** The Committee shall annually determine whether any of its members serve on the audit committee of more than three other public companies (including the Committee). If any of the Committee members fall into this category, the Committee shall consider the ability of such members to effectively serve on the Committee and, if it is determined that such members are able to continue serving, the Committee shall record the reasons for such a decision.

**3. Structure, Operations and Assessment**

**3.1** The Committee shall meet quarterly or more frequently as the Committee may determine. The Committee shall report to the Board of Directors on its activities after each of its meetings.

**3.2** The affirmative vote of a majority of the members of the Committee participating in any meeting of the Committee is necessary for the adoption of any resolution.

**3.3** The Committee may create one or more subcommittees and may delegate, in its discretion, all or a portion of its duties and responsibilities to such subcommittees.

**3.4** The Committee shall, on an annual basis:

(a) review and assess the adequacy of this Charter and, where necessary, recommend changes to the Board of Directors for its approval;

(b) undertake a performance evaluation of the Committee comparing the performance of the Committee with the requirements of this Charter; and

(c) report the results of the performance evaluation to the Board of Directors.

The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate. The report to the Board of Directors may take the form of an oral report by the chair of the Committee or any other member of the Committee designated by the Committee to make this report.

**3.5** The Committee is expected to establish and maintain free and open communication with management, the independent auditor, the internal auditor and the Appointed Actuary and shall periodically meet separately with each of them.

## 4. Specific Duties

The Committee will carry out the following specific duties:

### 4.1 Oversight of the Independent Auditor

(a) Recommend to the Board that the independent auditor be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest serviced for the issuer (subject to shareholder ratification).

(b) Recommend to the Board the compensation of the independent auditor.

(c) Provide the oversight of the work of the independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services (including resolution of disagreements between management and the independent auditor regarding financial reporting). The independent auditor shall report directly to the Committee.

(d) Preapprove all audit services and permitted non-audit services (including the fees, terms and conditions for the performance of such services) to be provided by the independent auditor.

(e) When appropriate, the Committee may delegate to one or more members the authority to grant preapprovals of audit and permitted non-audit services and the full Committee shall be informed of each non-audit service.

(f) Annually review any delegation of authority to grant preapprovals of audit and permitted non-audit services.

(g) Review the decisions of such delegates under subsection (e) above, which shall be presented to the full Committee at its next scheduled meeting.

(h) Evaluate the qualifications, performance and independence of the independent auditor, including:

(i) reviewing and evaluating the lead partner on the independent auditor's engagement with the Company; and

(ii) considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services are compatible with maintaining the auditor's independence.

(i) Present its conclusions with respect to the independent auditor to the Board of Directors and, if so determined by the Committee, recommend that the Board of Directors take additional action to satisfy itself of the qualifications, performance and independence of the independent auditor.

(j) Obtain and review a report from the independent auditor at least annually regarding:

(i) the independent auditor's internal quality-control procedures;

(ii) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm;

(iii) any steps taken to deal with any such issues; and

(iv) all relationships between the independent auditor and the Company.

(k) Review and discuss with management and the independent auditor prior to the annual audit the scope, planning and staffing of the annual audit.

(l) Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

(m) Review and approve policies for the Company's hiring of partners and employees or former partners and employees of the independent auditor.

**4.2 Financial Reporting**

(a) Review and discuss with management and the independent auditor the annual audited financial statements and any other returns or transactions required to be reviewed by the Committee and report to the Board of Directors prior to approval by the Board of Directors and the publication of earnings.

(b) Review such returns of the Company as the Superintendent of Financial Institutions may specify.

(c) Review the Company's annual and quarterly disclosures made in management's discussion and analysis. The Committee shall approve any reports for inclusion in the Company's Annual Report, as required by applicable legislation and make a recommendation thereon to the Board.

(d) Require management to implement and maintain appropriate internal control procedures.

(e) Review and discuss with management and the independent auditor management's report on its assessment of internal controls over financial reporting.

(f) Review, evaluate and approve the procedures established under s. 4.2(d).

(g) Review such investments and transactions that could adversely affect the well-being of the Company as the auditor or any officer of the Company may bring to the attention of the Committee.

(h) Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the publication of earnings, including:

(i) the results of the independent auditor's review of the quarterly financial statements; and

(ii) any matters required to be communicated by the independent auditor under applicable review standards.

(i) Review and discuss with management and the independent auditor at least annually significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including:

(i) any significant changes in the Company's selection or application of accounting principles;

(ii) any major issues as to the adequacy of the Company's internal controls; and

(iii) any special steps adopted in light of material control deficiencies.

(j) Review and discuss with management and the independent auditor at least annually reports from the independent auditor on:

(i) critical accounting policies and practices to be used;

(ii) significant financial reporting issues, estimates and judgments made in connection with the preparation of the financial statements;

(iii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and

(iv) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

(k) Meet with the independent auditor to discuss the annual financial statements and any investments or transactions that may adversely affect the well-being of the Company.

(l) Discuss with the independent auditor at least annually any "management" or "internal control" letters issued or proposed to be issued by the independent auditor to the Company.

(m) Review and discuss with management and the independent auditor at least annually any significant changes to the Company's accounting principles and practices suggested by the independent auditor, internal audit personnel or management.

(n) Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance (if any) provided to analysts and rating agencies.

(o) Review and discuss with management and the independent auditor at least annually the effect of regulatory and accounting initiatives as well as off-balance-sheet structures on the Company's financial statements.

(p) Discuss with the independent auditor matters required to be discussed by American Institute of Certified Public Accountants Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information and any significant disagreements with management.

(q) Review and discuss with the Chief Executive Officer and the Chief Financial Officer the procedures undertaken in connection with the Chief Executive Officer and Chief Financial Officer certifications for the annual and interim filings with applicable securities regulatory authorities.

(r) Review disclosures made by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the annual and interim filing with applicable securities regulatory authorities about any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data or any material weaknesses in the internal controls, and any fraud involving management or other employees who have a significant role in the Company's internal controls.

(s) Meet with the Appointed Actuary of the Company at least annually to receive and review reports, opinions and recommendations prepared by the Appointed Actuary in accordance with the *Insurance Companies Act* (Canada), including the parts of the annual financial statement and the annual return filed under s. 665 of the Act, prepared by the actuary, and such other matters as the Committee may direct.

(t) Discuss with the Company's General Counsel at least annually any legal matters that may have a material impact on the financial statements, operations, assets or compliance policies and any material reports or inquiries received by the Company or any of its subsidiaries from regulators or governmental agencies.

(u) Meet with the Chief Internal Auditor and with Management to discuss the effectiveness of the internal control procedure established pursuant to s.4.2(d).

**4.3 Oversight of the Company's Internal Audit Function**

(a) Review with the internal auditor, the independent auditor and management at least annually the mandate, independence, qualifications, staffing and budget of the internal audit department and its annual work plan.

(b) Review the periodic reports of the internal audit department on internal audit activities and the results of its audits.

**4.4 Oversight of Risk Management**

(a) Review and approve periodically:

(i) management's risk philosophy; and

(ii) risk management policies.

(b) Review with management at least annually reports demonstrating compliance with risk management policies.

(c) Review reports at least annually relating to the adequacy of the Company's risk management practices together with management's responses from the:

(i) independent auditor; and

(ii) the internal auditor.

(d) Discuss with management at least annually the Company's major risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

**4.5 Oversight of Regulatory Compliance**

(a) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

(b) Discuss with management and the independent auditor at least annually any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting.

(c) Review at least annually with the Global Compliance Chief the Company's compliance with applicable laws and regulations, and correspondence from regulators.

(d) Meet with the Company's regulators, according to applicable law.

(e) Exercise such other powers and perform such other duties and responsibilities as are incidental to the purposes, duties and responsibilities specified herein and as may from time to time be delegated to the Committee by the Board of Directors.

**4.6 Proxy Circular**

(a) The Committee shall prepare a report on its activities on an annual basis to be included in the Proxy Circular, as may be required by applicable laws or rules of applicable securities regulatory authorities.

**5. Funding for the Independent Auditor and Retention of Independent Advisors**

The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of issuing an audit report and to any advisors retained by the Committee. The Committee shall have the authority to retain such independent advisors as it may from time to time deem necessary or advisable for its purposes and to set the terms of the retainer. The expenses related to any such engagement shall also be funded by the Company.

# Management's Discussion and Analysis
# Financial Performance

**Manulife Financial Corporation is the largest insurance company in Canada, the second largest in North America and the sixth largest in the world based on market capitalization. We provide financial protection and wealth management products and services, to both individual and group customers in Canada, the United States and Asia. These products and services include individual life insurance, group life and health insurance, long-term care services, pension products, annuities and mutual funds. We offer reinsurance services, specializing in life retrocession and property and casualty reinsurance. We also provide investment management services with respect to the Company's general fund and segregated fund assets and to mutual funds and institutional customers.**

**The Company operates in Canada and Asia through the brand name "Manulife Financial" and in the United States primarily through the brand name "John Hancock".**

**In this document, the terms "Company", "Manulife Financial" and "we" mean Manulife Financial Corporation ("MFC") and its subsidiaries.**

### Net Income

The Company's shareholders' net income for 2007 was $4,302 million, up eight per cent from $3,985 million reported in 2006. The increase in earnings was a result of business growth including higher fee income related to the growth in funds under management across all wealth management businesses and strong investment performance. In 2007, the changes in actuarial methods and assumptions contributed $33 million to shareholders' net income compared to $24 million in 2006. These increases were partially offset by a charge for asset repositioning at the beginning of 2007 as a result of moving to the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 "Financial Instruments – Recognition and Measurement"; less favourable credit experience compared to a very strong 2006; and the non-recurrence of unusually strong investment results in the John Hancock Fixed Products business in 2006. The strengthened Canadian dollar reduced earnings by $227 million.

### Summary Statements of Operations

| **For the years ended December 31** | | | |
|---|---|---|---|
| (Canadian $ in millions, unless otherwise stated) | **2007** | 2006 | 2005 |
| Revenue | | | |
| Premium income | **$19,744** | $19,104 | $18,587 |
| Investment income | | | |
| Investment income | **9,531** | 10,193 | 9,849 |
| Realized and unrealized gains on assets supporting policy liabilities and consumer notes | **810** | 240 | 87 |
| Other revenue | **5,448** | 4,657 | 4,166 |
| Total revenue | **$35,533** | $34,194 | $32,689 |
| Policy benefits | **$20,211** | $19,912 | $19,871 |
| General expenses | **3,387** | 3,352 | 3,404 |
| Investment expenses | **983** | 841 | 746 |
| Commissions | **4,008** | 3,546 | 3,338 |
| Interest expense | **1,032** | 932 | 762 |
| Premium taxes | **248** | 270 | 244 |
| Non-controlling interest in subsidiaries | **58** | 5 | 2 |
| Total policy benefits and expenses | **$29,927** | $28,858 | $28,367 |
| Income before income taxes | **$ 5,606** | $ 5,336 | $ 4,322 |
| Income taxes | **(1,377)** | (1,366) | (1,031) |
| Net income | **$ 4,229** | $ 3,970 | $ 3,291 |
| Loss attributed to participating policyholders | **73** | 15 | 3 |
| Net income attributed to shareholders | **$ 4,302** | $ 3,985 | $ 3,294 |
| Preferred share dividends | **(30)** | (30) | (14) |
| **Net income available to common shareholders** | **$ 4,272** | $ 3,955 | $ 3,280 |
| **Diluted earnings per share** | **$ 2.78** | $ 2.51 | $ 2.03 |
| **Dividends per common share** | **$ 0.88** | $ 0.73 | $ 0.58 |

### Earnings per Common Share and Return on Common Shareholders' Equity

Diluted earnings per common share for 2007 were $2.78, up 11 per cent from $2.51 in 2006. The return on common shareholders' equity for 2007 was 18.4 per cent, up from 16.8 per cent for 2006. Return on common shareholders' equity is calculated excluding Accumulated Other Comprehensive Income ("AOCI") on available-for-sale ("AFS") securities and cash flow hedges.

### Premiums and Deposits

Premiums and deposits for 2007 were $69.4 billion, up seven per cent compared to $64.9 billion in 2006. The strengthened Canadian dollar dampened the growth in premiums and deposits. On a constant currency basis, premiums and deposits increased by 12 per cent.

General fund premiums were $19.7 billion in 2007, up three per cent from $19.1 billion in 2006, driven primarily by increased utilization of John Hancock Variable Annuity's Dollar Cost Averaging Program, which enables customers to purchase Variable Annuities over time by means of monthly payments. On a constant currency basis, premiums in our life businesses increased as a result of both sales and in-force business growth.

Segregated fund deposits were $37.2 billion in 2007, up 12 per cent from $33.3 billion in 2006. This growth was driven by strong sales of guaranteed minimum withdrawal benefit products and higher recurring deposits from the growing block of in-force participants in our wealth management businesses.

Mutual fund deposits were $9.4 billion, up one per cent from $9.3 billion in 2006. The growth was a result of expansion of our fund offerings in Hong Kong and the Other Asia Territories. ASO premium equivalents were $2.4 billion in 2007, up seven per cent from $2.2 billion in 2006 and relate to administrative services in Canadian Group Benefits. Other fund deposits of $0.7 billion declined from $1.1 billion in 2006 due to the suspension of *Signature*Notes sales resulting from the current low inflation environment, which makes these inflation-indexed products less competitive. Other funds include College Savings products, *Signature*Notes and Private Managed Accounts within U.S. Wealth Management.

### Premiums and Deposits

**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| General fund premiums | **$19,744** | $19,104 | $18,587 |
| Segregated fund deposits | **37,227** | 33,287 | 31,786 |
| Mutual fund deposits | **9,368** | 9,270 | 7,408 |
| ASO premium equivalents | **2,373** | 2,225 | 2,150 |
| Other fund deposits | **726** | 1,053 | 1,375 |
| **Total premiums and deposits** | **$69,438** | $64,939 | $61,306 |

### Investment Income

Investment income was $10.3 billion for 2007, down one per cent from $10.4 billion reported in 2006 due to the impact of the strengthened Canadian dollar and less favourable credit experience compared to a very strong 2006. This was largely offset by an increase in general fund net assets and appreciation of real estate and timber holdings.

### Investment Income

**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Interest income | **$ 8,212** | $ 8,281 | $8,084 |
| Dividend, rental and other income | **900** | 809 | 687 |
| Provision for impairment, net | **(44)** | (1) | (140) |
| Realized gains on assets backing surplus[1] | **463** | 1,104 | 1,218 |
| Realized and unrealized gains on assets supporting policy liabilities and consumer notes | **810** | 240 | 87 |
| **Total investment income** | **$10,341** | $10,433 | $9,936 |
| **Yield** | **6.4%** | 6.7% | 6.2% |

1 Amounts in 2006 and 2005 include amortization of deferred net realized gains and move to market adjustments for stock securities.

### Other Revenue

Other revenue was $5.4 billion for 2007, up 17 per cent from $4.7 billion in 2006. Fee income in the wealth management businesses increased due to higher average assets under management.

### Policy Benefits

Policy benefits were $20.2 billion for 2007, up two per cent from $19.9 billion in 2006. Maturity and surrender benefits declined, down 17 per cent from 2006 due to lower scheduled maturities in John Hancock Fixed Products institutional products. Policy benefits expense increased by $1.5 billion related to the change in actuarial liabilities. The increase is due to growth in premiums; changes in maturities and surrenders; and business growth.

### Policy Benefits
**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Death, disability and other claims | **$ 6,104** | $ 5,949 | $ 6,449 |
| Maturity and surrender benefits | **8,111** | 9,814 | 10,398 |
| Annuity payments | **3,098** | 3,316 | 3,366 |
| Policyholder dividends and experience rating refunds | **1,556** | 1,528 | 1,569 |
| Net transfers to segregated funds | **952** | 432 | 465 |
| Change in actuarial liabilities | **390** | (1,127) | (2,376) |
| **Total policy benefits** | **$20,211** | $19,912 | $19,871 |

### General Expenses
General expenses were $3.4 billion in both 2007 and 2006. On a constant currency basis, expenses were up four per cent due to increased personnel expense from higher staff levels to support business growth and normal compensation increases.

### Investment Expenses
Investment expenses were $983 million, up 17 per cent from $841 million in 2006. The increase is primarily due to higher sub-advisory fees from growth in segregated fund assets.

### Investment Expenses
**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Related to invested assets | **$376** | $336 | $313 |
| Related to segregated, mutual and other funds [1] | **607** | 505 | 433 |
| **Total investment expenses** | **$983** | $841 | $746 |

1 Incurred by providing portfolio management services where the Company holds or has invested assets on behalf of individuals and financial institutions.

### Commissions
Commissions were $4.0 billion in 2007, up 13 per cent from $3.5 billion in 2006. The increase was driven by strong sales, particularly within John Hancock Variable Annuities and Canadian Individual Wealth Management where sales increased 18 per cent and 27 per cent respectively.

### Interest Expense
Interest expense was $1,032 million in 2007, up 11 per cent from $932 million in 2006. The increase was primarily due to an increase in bank deposit volumes in the Canadian banking operations.

### Income Taxes
Income taxes were $1,377 million in 2007, up one per cent from $1,366 million in 2006. The effective tax rate in 2007 was 24.6 per cent and in 2006 was 25.6 per cent. The reduction in effective tax rate in 2007 was primarily due to the higher impact of international operations in 2007.

### Funds Under Management
Funds under management were $396.3 billion as at December 31, 2007, $18.1 billion lower than $414.4 billion reported a year ago. The decrease was attributable to the $53 billion negative impact of the strengthened Canadian dollar and $2.2 billion of scheduled maturities of John Hancock Fixed Products institutional products, partially offset by strong net policyholder cash flows and favourable equity market performance.

### Funds Under Management
**As at December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| General fund | **$161,300** | $171,320 | $166,548 |
| Segregated funds held by policyholders [1] | **174,981** | 172,259 | 139,855 |
| Mutual and other funds [1] | **60,067** | 70,805 | 65,345 |
| **Total funds under management** | **$396,348** | $414,384 | $371,748 |

1 Segregated fund assets, mutual fund assets and other funds are not available to satisfy the liabilities of the Company's general fund. Other funds represent pension funds, pooled funds, endowment funds and other institutional funds managed by the Company on behalf of others.

## Fourth Quarter Results

### Net Income

The Company's shareholders' net income for the fourth quarter of 2007 was $1,144 million, four per cent higher than $1,100 million reported a year earlier. The increase in earnings was a result of higher fee income related to the growth in funds under management in the wealth management businesses and strong investment performance, partially offset by the unfavourable impact of equity markets on segregated fund guarantee reserves and the decline in interest rates. The strengthened Canadian dollar reduced earnings by $163 million.

### Premiums and Deposits

Premiums and deposits for the quarter were $17.4 billion, up 10 per cent from $15.8 billion reported in the fourth quarter of 2006. This increase reflects growth across all of our divisions, including record sales for John Hancock Life, Canadian Individual Life and Canadian Individual Wealth Management. On a constant currency basis, premiums and deposits grew by 23 per cent.

### Financial Highlights

**For the quarter ended December 31**

| (Canadian $ in millions) | **2007** | 2006 |
|---|---|---|
| Shareholders' net income | **$ 1,144** | $ 1,100 |
| Premiums and deposits | **$17,414** | $15,819 |

### Moving Forward

We are well positioned in each of the markets in which we operate and our global diversity provides us with one of the best growth platforms in the industry. Our more than 22,000 employees and thousands of distribution partners serve millions of customers in 19 countries and territories around the world. Our diverse international operations allow us to leverage our people, products, technology and expertise quickly and effectively in new markets.

# U.S. Insurance

**Our U.S. Insurance operation provides life and long-term care insurance products and services to select markets. Our John Hancock Life business focuses on high net-worth and emerging affluent markets by providing estate, business planning and other solutions, with an array of protection and accumulation-oriented life insurance products. Our John Hancock Long Term Care business provides insurance to individuals and groups to cover the costs of long-term care services including nursing homes, assisted living care facilities, adult day care and at home care. We distribute our products through a multi-channel network, including John Hancock Financial Network ("JHFN"), a national network of independent career agencies offering innovative insurance and wealth management solutions to individuals, families and businesses.**

In 2007, U.S. Insurance contributed 17 per cent of the Company's shareholders' net income, nine per cent of total premiums and deposits and as at December 31, 2007, accounted for 14 per cent of the Company's funds under management.

### Financial Performance

U.S. Insurance's shareholders' net income for 2007 was $755 million, an increase of 21 per cent from $622 million reported in 2006. On a U.S. dollar basis, earnings increased 31 per cent driven by business growth and strong investment results. This increase was partially offset by unfavourable claims experience in John Hancock Long Term Care, lower mortality gains in John Hancock Life compared to the strong results in 2006 and increased losses on new business as a result of record sales during the year from both businesses.

### Summary Statements of Operations

| For the years ended December 31 | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| (in $ millions) | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Revenue | | | | | | |
| Premium income | **$ 5,279** | $ 5,488 | $ 5,382 | **$ 4,942** | $ 4,839 | $ 4,450 |
| Investment income | | | | | | |
| Investment income | **2,884** | 2,982 | 2,868 | **2,691** | 2,630 | 2,369 |
| Realized and unrealized gains on assets supporting policy liabilities | **413** | – | – | **462** | – | – |
| Other revenue | **627** | 614 | 620 | **585** | 542 | 512 |
| Total revenue | **$ 9,203** | $ 9,084 | $ 8,870 | **$ 8,680** | $ 8,011 | $ 7,331 |
| Policyholder benefits | **$ 5,927** | $ 6,051 | $ 6,091 | **$ 5,587** | $ 5,336 | $ 5,030 |
| General expenses | **615** | 610 | 574 | **575** | 538 | 474 |
| Investment expenses | **133** | 124 | 98 | **125** | 109 | 83 |
| Commissions | **1,253** | 1,196 | 1,042 | **1,183** | 1,055 | 863 |
| Other | **140** | 168 | 138 | **131** | 148 | 114 |
| Total policy benefits and expenses | **$ 8,068** | $ 8,149 | $ 7,943 | **$ 7,601** | $ 7,186 | $ 6,564 |
| Income before income taxes | **$ 1,135** | $ 935 | $ 927 | **$ 1,079** | $ 825 | $ 767 |
| Income taxes | **(380)** | (313) | (313) | **(361)** | (276) | (259) |
| **Net income attributed to shareholders** | **$ 755** | $ 622 | $ 614 | **$ 718** | $ 549 | $ 508 |

### Premiums and Deposits

Premiums and deposits were $6.5 billion, down three per cent from $6.7 billion reported in 2006. On a U.S. dollar basis, premiums and deposits increased by three per cent due to higher renewal premiums and deposits resulting from John Hancock Life's in-force business growth as well as increased sales and in-force business growth in John Hancock Long Term Care.

### Premiums and Deposits

| For the years ended December 31 | Canadian $ | | | U .S. $ | | |
|---|---|---|---|---|---|---|
| (in $ millions) | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Premium income | **$ 5,279** | $ 5,488 | $ 5,382 | **$ 4,942** | $ 4,839 | $ 4,450 |
| Segregated fund deposits | **1,259** | 1,225 | 1,284 | **1,177** | 1,080 | 1,060 |
| **Total premiums and deposits** | **$ 6,538** | $ 6,713 | $ 6,666 | **$ 6,119** | $ 5,919 | $ 5,510 |

### Funds Under Management

Funds under management decreased eight per cent, or $4.9 billion, to $56.4 billion at December 31, 2007 as a result of the strengthened Canadian dollar. On a U.S. dollar basis, funds under management grew by nine per cent primarily as a result of business growth in both John Hancock Life and John Hancock Long Term Care.

## Funds Under Management

| As at December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| General fund | **$ 45,037** | $ 48,675 | $ 46,507 | **$ 45,578** | $ 41,770 | $ 39,889 |
| Segregated funds | **11,387** | 12,583 | 11,374 | **11,525** | 10,798 | 9,755 |
| **Total funds under management** | **$ 56,424** | $ 61,258 | $ 57,881 | **$ 57,103** | $ 52,568 | $ 49,644 |

### Moving Forward

Our goal in U.S. Insurance is to profitably grow the industry leading positions we hold in both the John Hancock Life and John Hancock Long Term Care insurance markets, while expanding the JHFN national network of independent career agencies.

The anticipated transfer of generational wealth by the baby boomer population segment is expected to provide a favorable environment as John Hancock Life seeks to build on its record as one of its industry's top sellers, particularly within the affluent market. To that end, John Hancock Life will continue to pursue its core strategy of product innovation, strong distribution through multiple channels, solid new business services, and sophisticated underwriting expertise. This includes delivery of a continuous stream of new products to meet market demand while achieving a high internal rate of return. Product launches planned for early 2008 include new versions of key non-guaranteed and guaranteed universal life products, as well as the continued roll-out of our new Standard Plus underwriting class, which will further enhance our competitive position. John Hancock Life's distribution strategy focuses on fuller development of existing distribution relationships and the establishment of new ones along all points of the sales chain. The addition of more wholesalers to reach more producers is a priority. Improving new business service levels is another goal, one that we expect will become a competitive advantage. This will be accomplished by reducing processing times through targeted initiatives and the use of technology. Our competitive underwriting advantage will be maintained by investing in internal training and development programs to ensure a consistent supply of talent as the business grows.

Demographic trends are also favorable for the John Hancock Long Term Care business as it aims to establish a #1 market share position in Retail, up from #2, and to maintain and grow its #1 position in Group. Product leadership, distribution depth and service excellence will be the key means to achieve these goals. Leading Edge continues to be promoted in the individual market, and CorporateChoice and Corporate Solutions in the small-to-mid size group market segments. A Guaranteed Increase Option rider has been recently added to Leading Edge, enhancing product appeal and flexibility for consumers. Distribution initiatives in 2008 will focus on the end seller as the primary customer, and include establishing a national network of third party wholesalers to support under-served producers. The distributor experience with John Hancock will be enhanced by a streamlined new business process, improved response time and increased accuracy, whereas consumers are expected to benefit from ongoing improvements to the claims management systems and processes.

JHFN is the leading distributor of our life and long-term care insurance products, and also continues to be a significant seller of John Hancock's wealth management products. We expect to drive sales growth in the coming year through further development and expansion of both career agents and agencies. We have established strong relationships with our agencies and are developing programs that will continue to attract new financial representatives to our organization.

# U.S. Wealth Management

**Our U.S. Wealth Management operation provides a variety of personal and family oriented wealth management products and services to select individual and business markets, and also provides institutional oriented products for employee benefit plan funding solutions. U.S. Wealth Management has four core business lines.**

- **John Hancock Retirement Plan Services provides 401(k) plans to small and medium-sized businesses.**
- **John Hancock Variable Annuities offers products primarily to middle and upper-income individuals.**
- **John Hancock Mutual Funds offers a variety of mutual funds, privately managed accounts and 529 College Savings plans.**
- **John Hancock Fixed Products offers fixed deferred and immediate annuities to individuals, and payout annuities and a variety of fee- and spread-based products to institutional clients.**

In 2007, U.S. Wealth Management contributed 26 per cent of the Company's shareholders' net income, 51 per cent of total premiums and deposits, and as at December 31, 2007, accounted for 44 per cent of the Company's funds under management.

### Financial Performance

U.S. Wealth Management's shareholders' net income for 2007 was $1,100 million, a decrease of three per cent from $1,136 million reported in 2006. On a U.S. dollar basis, earnings increased two per cent, led by higher fee income on higher average assets in John Hancock Variable Annuities and John Hancock Retirement Plan Services and the favourable impact of updating acquisition cost amortization schedules in Variable Annuities. Offsetting this earnings growth was the non-recurrence of unusually strong investment results in the John Hancock Fixed Products business in 2006.

### Summary Statements of Operations

| For the years ended December 31 | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| (in $ millions) | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Revenue | | | | | | |
| Premium income | **$ 4,285** | $ 3,741 | $ 3,265 | **$ 4,046** | $ 3,298 | $ 2,704 |
| Investment income | | | | | | |
| Investment income | **2,422** | 2,858 | 3,020 | **2,258** | 2,520 | 2,494 |
| Realized and unrealized gains on assets supporting policy liabilities and consumer notes | **62** | – | – | **71** | – | – |
| Other revenue | **2,733** | 2,412 | 2,052 | **2,552** | 2,127 | 1,697 |
| Total revenue | **$ 9,502** | $ 9,011 | $ 8,337 | **$ 8,927** | $ 7,945 | $ 6,895 |
| Policyholder benefits | **$ 5,380** | $ 5,031 | $ 4,866 | **$ 5,082** | $ 4,434 | $ 4,025 |
| General expenses | **794** | 784 | 790 | **740** | 692 | 653 |
| Investment expenses | **503** | 455 | 371 | **471** | 400 | 309 |
| Commissions | **1,154** | 1,003 | 923 | **1,080** | 886 | 763 |
| Other | **166** | 158 | 176 | **157** | 139 | 146 |
| Total policy benefits and expenses | **$ 7,997** | $ 7,431 | $ 7,126 | **$ 7,530** | $ 6,551 | $ 5,896 |
| Income before income taxes | **$ 1,505** | $ 1,580 | $ 1,211 | **$ 1,397** | $ 1,394 | $ 999 |
| Income taxes | **(405)** | (444) | (343) | **(373)** | (392) | (283) |
| **Net income attributed to shareholders** | **$ 1,100** | $ 1,136 | $ 868 | **$ 1,024** | $ 1,002 | $ 716 |

### Premiums and Deposits

Premiums and deposits were $35.3 billion, unchanged from $35.3 billion reported in 2006. On a U.S. dollar basis, premiums and deposits increased by six per cent over 2006 due to growth in the Variable Annuities and Retirement Plan Services businesses. General fund premiums represented 12 per cent of total premiums and deposits and were primarily attributable to our Fixed Products business. These premiums also include the fixed rate investment option on Retirement Plan Services and Variable Annuities products. General fund premium growth of 23 per cent was primarily due to increased utilization of Variable Annuities' Dollar Cost Averaging program partially offset by lower fixed deferred annuity sales.

Segregated fund deposits represented 65 per cent of total premiums and deposits in 2007 and are attributable to our Variable Annuities and Retirement Plan Services businesses. Variable Annuities segregated fund deposits of U.S. $9.2 billion grew eight per cent on record 2007 sales from the strength of the guaranteed minimum withdrawal benefit rider products, including Income Plus For Life (IPFL) launched in the second quarter of 2007 and Principal Plus For Life (PPFL). Retirement Plan Services segregated fund deposits of U.S. $11.8 billion increased four per cent due to higher recurring deposits from the growing block of in-force participants partially offset by the non-recurrence of the U.S. $0.6 billion deposit in 2006 for the John Hancock staff 401(k) pension plan.

Mutual fund deposits of U.S. $7.0 billion were one per cent higher than the prior year. Mutual fund deposits benefited from expanded distribution and the higher sales of Lifestyle funds and other funds managed by MFC affiliated sub-advisors**.** However, market demand for mutual funds in general was negatively impacted by turmoil in the equity markets. Included in other fund deposits are deposits from Private Client Group and College Savings products and deposits received on Fixed Products' *Signature*Notes. Other

fund deposits of U.S. $0.7 billion declined 28 per cent from the prior year due to the suspension of *Signature*Notes sales resulting from the current low inflation environment, which makes these inflation-indexed products less competitive.

### Premiums and Deposits

| For the years ended December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Premium income | **$ 4,285** | $ 3,741 | $ 3,265 | **$ 4,046** | $ 3,298 | $ 2,704 |
| Segregated fund deposits | **22,831** | 22,645 | 20,208 | **21,233** | 19,962 | 16,715 |
| Mutual fund deposits | **7,472** | 7,828 | 5,384 | **6,958** | 6,903 | 4,449 |
| Other fund deposits | **726** | 1,053 | 1,375 | **669** | 927 | 1,135 |
| **Total premiums and deposits** | **$ 35,314** | $ 35,267 | $ 30,232 | **$ 32,906** | $ 31,090 | $ 25,003 |

### Funds Under Management

Funds under management declined by 11 per cent, or $20.7 billion, to $176.0 billion at December 31, 2007, as the impact of the strengthened Canadian dollar more than offset strong business growth. On a U.S. dollar basis, however, funds under management increased by six per cent. This growth was principally within segregated funds due to both continued strong net policyholder cash flows and the cumulative effect of favourable equity market performance over the twelve month period in Retirement Plan Services and Variable Annuities. Other funds increased 11 per cent due to positive cash flows into 529 College Savings plans. Mutual Funds declined eight per cent largely due to redemptions from one underperforming fund. General funds under management declined six per cent primarily due to the excess of scheduled maturities over new sales within Fixed Products.

### Funds Under Management

| As at December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| General fund | **$ 35,791** | $ 44,947 | $ 52,051 | **$ 36,221** | $ 38,570 | $ 44,644 |
| Segregated funds | **108,878** | 112,269 | 89,996 | **110,189** | 96,344 | 77,191 |
| Mutual funds | **27,585** | 35,499 | 30,248 | **27,917** | 30,464 | 25,944 |
| Other funds | **3,713** | 3,957 | 3,438 | **3,759** | 3,396 | 2,949 |
| **Total funds under management** | **$ 175,967** | $ 196,672 | $ 175,733 | **$ 178,086** | $ 168,774 | $ 150,728 |

### Moving Forward

With businesses positioned to meet growing demand among baby boomers for retirement products, expansion of market share is a key goal for U.S. Wealth Management in 2008. John Hancock Variable Annuities is aiming for a #1 market share position, while John Hancock Mutual Funds is striving to become a top tier firm in the non-proprietary market. John Hancock Retirement Plan Services, already the leader in its principal market, is moving into new ones while growing its in-force block. John Hancock Fixed Products is repositioning itself, focusing on expanding fixed retirement income, fee based, structured settlement, and retail fixed deferred products, while strategically slowing its presence in institutional investment based products. Our U.S. Wealth Management businesses are working continually to ensure that growth is profitable and that operating efficiencies improve. Strategically, we are focused on expanding our distribution footprint, developing innovative products, and providing exceptional service.

Deepening distribution is a top priority amongst all our businesses for 2008. Variable Annuities will focus on wholesaler expansion to reach more producers in a given territory. Expansion of selling agreements with large firms, notably the early 2008 launch with Edward D. Jones, will be a major initiative. Capturing market share in banks is a priority for Variable Annuities, continuing to build on the strong growth in this channel in 2007. Retirement Plan Services will seek to leverage existing relationships within the U.S. Wealth Management organization to gain access to firms like Morgan Stanley, Edward D. Jones and Bank of America. Within Mutual Funds, an expanded sales team is ensuring increased breadth and penetration, including inroads onto key platforms.

Regarding products, in 2008, Retirement Plan Services is introducing its Guaranteed Income For Life product, providing an income guarantee for both the accumulation and income phases of retirement. Built exclusively for the 401(k) market, Guaranteed Income For Life not only enables investors to participate in equity markets while protecting their investments from market downturns, it also ensures that participants will never outlive their income.

Coming off a record-setting year in 2007, Variable Annuities will continue its efforts in the “Income Now” market with its Principal Returns rider, and will continue to address its principal “Income Later” market with refinements to its popular Income Plus For Life withdrawal benefit rider.

Fixed Products’ new product strategy focuses on development of an innovative deferred fixed retirement product while continuing to grow its Payout Annuities and Fee-based products. Mutual Funds will continue to opportunistically launch new innovative funds designed to provide a steady stream of retirement income to our customers. In addition, the adoption of the Rainier Large Cap Growth Equity Portfolio in early 2008 marks the continuation of a series of strategic fund adoptions or acquisitions for JH Mutual Funds, intended to fill out its product line.

Across U.S. Wealth Management, service improvements are in the works for 2008, including the build-out of infrastructure to support new capabilities through automation and web-based initiatives. Notably, a new unit within U.S. Wealth Management, known as Retirement Income and Rollover Solutions, is creating “cross-sell” opportunities among our various business units with the aim of helping advisors capture wealth assets for the lifetime of a client.

# Canadian Division

**Our Canadian Division is one of the leading life insurance based financial services organizations in Canada. We offer a diverse portfolio of products, services and distribution channels to meet the needs of a broad marketplace. Our individual wealth management product offerings include segregated funds and fixed annuities, individual investment and banking products and mutual funds. Our individual insurance products are aimed at middle and upper-income individuals and business owners. Group life, health, disability and retirement products and services are marketed to Canadian employers. We also market life, health and specialty products to members of affinity organizations, such as professional associations, and to the customers of financial institutions.**

In 2007, Canadian Division contributed 26 per cent of the Company's shareholders' net income, 23 per cent of total premiums and deposits and, as at December 31, 2007, accounted for 22 per cent of the Company's funds under management.

### Financial Performance

Canadian Division's shareholders' net income for 2007 was $1,103 million, an increase of 12 per cent from $981 million reported in 2006. The increase in earnings was attributable to business growth, primarily in segregated fund assets under management and Manulife Bank, and strong investment gains. In Individual Insurance, claims experience was even more favourable than the strong results of a year ago. In both 2007 and 2006 the federal government enacted reductions in future corporate tax rates, and in 2006 there were changes in the Ontario tax rules with respect to investment income tax. While these changes contributed positively to earnings in both years, the 2007 impact was less favourable than in 2006, dampening the year over year earnings growth.

Net income attributable to participating policyholders was $3 million, as compared to a loss of $61 million in 2006. The loss in 2006 was primarily attributable to changes in actuarial assumptions related to a previously acquired block of participating business; a special dividend declared to policyholders of Manulife Canada Limited, formerly Zurich Life Insurance Company of Canada; and the impact of new business.

### Summary Statements of Operations

**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Revenue | | | |
| Premium income | **$6,208** | $5,932 | $5,761 |
| Investment income | | | |
| Investment income | **2,803** | 2,924 | 2,684 |
| Realized and unrealized (losses) gains on assets supporting policy liabilities | **(210)** | 240 | 87 |
| Other revenue | **996** | 798 | 734 |
| Total revenue | **$9,797** | $9,894 | $9,266 |
| Policyholder benefits | **$5,656** | $6,402 | $6,126 |
| General expenses | **976** | 926 | 882 |
| Investment expenses | **268** | 214 | 200 |
| Commissions | **952** | 771 | 726 |
| Other | **513** | 411 | 287 |
| Total policy benefits and expenses | **$8,365** | $8,724 | $8,221 |
| Income before income taxes | **$1,432** | $1,170 | $1,045 |
| Income taxes | **(326)** | (250) | (248) |
| Net income | **$1,106** | $ 920 | $ 797 |
| Less net income (loss) attributed to participating policyholders | **3** | (61) | (12) |
| **Net income attributed to shareholders** | **$1,103** | $ 981 | $ 809 |

### Premiums and Deposits

Premiums and deposits for the year ended December 31, 2007 were $16.1 billion, up 19 per cent from $13.5 billion reported in 2006, led by record segregated fund deposits in our wealth management businesses. Strong growth in Group Savings and Retirement Solutions reflected new sales, driven by several large cases including one of the largest defined contribution pension plans in Canada, and recurring deposit activity from a growing block of in-force participants. Individual Wealth Management's deposits reflected the continued sales success of the IncomePlus guaranteed minimum withdrawal benefit product introduced to the Canadian market late last year. The year over year increase in general fund premiums and ASO premium equivalents was primarily attributable to business growth in Group Benefits.

### Premiums and Deposits

**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Premiums | **$ 6,208** | $ 5,932 | $ 5,761 |
| Segregated fund deposits | **6,982** | 4,619 | 4,514 |
| Mutual fund deposits | **558** | 761 | 1,107 |
| ASO premium equivalents | **2,373** | 2,225 | 2,150 |
| **Total premiums and deposits** | **$16,121** | $13,537 | $13,532 |

**Funds Under Management**

Funds under management of $86.1 billion at December 31, 2007 increased by 11 per cent from $77.4 billion at December 31, 2006 primarily due to growth in segregated fund assets and Manulife Bank. Strong net sales drove the increase in segregated funds, reflecting the impact of record sales combined with improved retention experience in our wealth management businesses. Manulife Bank assets exceeded $10 billion, an increase of 26 per cent from a year ago due to the continued success of its loan and mortgage products.

**Funds Under Management**

**As at December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| General fund | **$51,466** | $46,509 | $42,424 |
| Segregated funds | **31,391** | 27,448 | 23,443 |
| Mutual and other funds | **3,286** | 3,441 | 3,152 |
| **Total funds under management** | **$86,143** | $77,398 | $69,019 |

**Moving Forward**

Our vision is to be the premier life insurance based financial services organization in Canada with a reputation for innovative products, excellent service, and professional value-added advice to meet the needs of our customers. Our focus on distribution expansion, product innovation, cross-business unit collaboration opportunities and service excellence leverages the strong Manulife brand to achieve these goals.

Enhancing our strong multi-channel distribution capabilities is critical to the success of all of our businesses. Our distribution success in Individual Insurance and Individual Wealth Management has been built on a diversified, independent distribution platform, and this will continue for the foreseeable future. The key to success in individual distribution is to become an advisor's number one supplier and with this in mind, we have built a diverse portfolio of superior products and services to support advisors in meeting the needs of their customers. In 2007, through the acquisition of Berkshire-TWC Financial Group ("Berkshire"), we doubled our dealer advisor base, provided all of our advisors with access to securities sales through Berkshire's Investment Dealer Association ("IDA") licensed organization, and substantially increased our assets under management. Going forward, we will continue to focus on developing relationships with these new advisors to expand their knowledge and sales of Manulife's proprietary products and services. In addition, we will continue to expand and enhance our other individual distributor relationships. Manulife Bank plans to capitalize on its sales momentum through further distribution expansion, doubling its number of banking consultants by 2010. On the group side, we will focus on improving market penetration in targeted areas and have several initiatives underway to expand our reach in the MGA and independent advisor channels. We are also increasing the focus on working across all our business units to capitalize on existing advisor and customer relationships as an opportunistic approach for organic growth.

Service excellence and product innovation are key for all our businesses, underlying both sales growth and customer retention. We continually strive to improve service to advisors and customers and be known as the preferred carrier with which to do business, providing integrated solutions to meet customers' needs. Our individual businesses are working to implement a retail service strategy to improve the service experience for shared advisors and customers.

Changing demographics and health care reform present evolving opportunities for growth as aging baby boomers approach retirement. To address this, Individual Insurance has established a product team tasked with developing product and marketing ideas to respond to the needs of the changing demographic in the marketplace over the next five years. In 2007, we introduced a new long-term care product and going forward will focus on developing awareness of both long-term care and critical illness coverage in the marketplace. Product launches planned for early 2008 include a revised whole life insurance product – Performax Gold – which, along with our universal life product offerings, enhances our portfolio of permanent life insurance products available to customers. Individual Wealth Management continues to focus on products which support wealth accumulation and preservation throughout retirement. We recently launched the second generation of our guaranteed minimum withdrawal benefit product, IncomePlus, now providing a lifetime guarantee, and enhancements to this and other product offerings to support pre-retirement and retirement planning are ongoing. In addition, Manulife Bank supports advisors in providing clients with access to cash flow as part of a comprehensive financial planning strategy.

Group Benefits' focus is on the development of new products and services in response to the changing legislative and demographic landscape in Canada, as well as maintaining a strong presence in the mature Canadian marketplace. Group Savings and Retirement Solutions' goal is to continue to expand its share in the mid to large case market while creating innovative, value-added solutions to assist with asset rollovers.

We selectively invest in technology and infrastructure improvements to increase customer satisfaction while driving productivity gains and expense efficiencies. Our primary objectives are to support new product development and make ourselves "easier to do business with" by improving functionality and the service experience for customers and advisors. We continue to rationalize multiple administration systems, a legacy from previous merger and acquisition activity, as well as implement new technology across our businesses. In addition, we are expanding services offered over the internet, examples of which include the ongoing development of end-to-end processing for transactions with Manulife Bank and Affinity Markets.

# Asia and Japan Division

**Manulife Financial has operated in Asia since 1897, beginning in Hong Kong and the Philippines, expanding into Singapore, Indonesia, Taiwan, China, Japan, Vietnam, Malaysia and Thailand. We provide protection and wealth management products in select markets throughout the region. Protection products include life insurance, group life and health, and hospital coverage. Wealth management products include mutual funds, pensions, variable annuities and segregated funds.**

In 2007, Asia and Japan Division contributed 20 per cent of the Company's shareholders' net income, 15 per cent of total premiums and deposits and as at December 31, 2007, accounted for 11 per cent of the Company's funds under management.

### Financial Performance

Asia and Japan Division's shareholders' net income for 2007 was $858 million, an increase of 17 per cent from $734 million reported in 2006 . On a U.S. dollar basis earnings increased 23 per cent driven by the impact of rising equity markets on investment income in Hong Kong and in the Other Asia Territories and by increased fee income from the growth in funds under management across the pension and wealth management businesses. Growth in Indonesia's earnings on in-force business, new product launches and the repricing of medical riders in Taiwan also contributed to the increase. These increases were partially offset by the unfavourable impact of the strengthened Canadian dollar and the impact of turbulent equity markets in Japan.

Net loss attributable to the participating policyholders was $31 million as compared to income of $46 million in 2006. The major contributor to the loss in 2007 was changes in actuarial assumptions related to the par segment's portion of increased future policyholder benefits.

### Summary Statements of Operations

| For the years ended December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Revenue | | | | | | |
| Premium income | **$ 2,946** | $ 2,933 | $ 2,962 | **$ 2,753** | $ 2,588 | $ 2,448 |
| Investment income | | | | | | |
| Investment income | **747** | 863 | 716 | **689** | 761 | 592 |
| Realized and unrealized gains on assets supporting policy liabilities | **516** | – | – | **497** | – | – |
| Other revenue | **767** | 515 | 354 | **723** | 454 | 294 |
| Total revenue | **$ 4,976** | $ 4,311 | $ 4,032 | **$ 4,662** | $ 3,803 | $ 3,334 |
| Policyholder benefits | **$ 2,583** | $ 2,083 | $ 1,908 | **$ 2,432** | $ 1,839 | $ 1,575 |
| General expenses | **598** | 564 | 574 | **560** | 498 | 474 |
| Investment expenses | **58** | 44 | 35 | **54** | 39 | 29 |
| Commissions | **645** | 566 | 624 | **604** | 498 | 517 |
| Other | **93** | 84 | 81 | **87** | 73 | 67 |
| Total policy benefits and expenses | **$ 3,977** | $ 3,341 | $ 3,222 | **$ 3,737** | $ 2,947 | $ 2,662 |
| Income before income taxes | **$ 999** | $ 970 | $ 810 | **$ 925** | $ 856 | $ 672 |
| Income taxes | **(172)** | (190) | (69) | **(159)** | (168) | (57) |
| Net income | **$ 827** | $ 780 | $ 741 | **$ 766** | $ 688 | $ 615 |
| Less net (loss) income attributed to participating policyholders | **(31)** | 46 | 9 | **(32)** | 41 | 7 |
| **Net income attributed to shareholders** | **$ 858** | $ 734 | $ 732 | **$ 798** | $ 647 | $ 608 |

### Premiums and Deposits

Premiums and deposits were $10.4 billion, up 24 per cent from $8.4 billion reported in 2006. On a U.S. dollar basis, premiums and deposits grew 33 per cent. The primary driver of the growth was Hong Kong's wealth management and pension business, together with strong sales of the new variable annuity product in Japan. This was partially offset by the unfavourable impact of the strengthened Canadian dollar.

Premium income was consistent with last year. On a U.S. dollar basis, premium income grew by six per cent reflecting improved individual insurance sales in Indonesia and the continued growth in our China expansion. These increases were largely offset by the decline in universal life premiums in Japan and the adverse impact of the strengthened Canadian dollar.

Segregated funds grew 38 per cent driven by strong sales of unit-linked products and higher pension contributions in Hong Kong; strong sales of the new variable annuity product launched in June of this year in Japan; and sales of both our investment linked product and our new variable annuity product in Singapore. Offsetting these increases was the unfavourable impact of the strengthened Canadian dollar.

Mutual fund deposits grew by 112 per cent over 2006. Deposits in Indonesia increased by 183 per cent as a result of the continued recovery in mutual fund sales since late 2006 and the expansion of our fund offerings together with a strengthened bancassurance distribution channel. Increased deposits in Hong Kong were driven by favourable market returns and the expansion of our fund offerings. These increases were partially offset by the unfavourable impact of the strengthened Canadian dollar.

### Premiums and Deposits

| For the years ended December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Premium income | **$ 2,946** | $ 2,933 | $ 2,962 | **$ 2,753** | $ 2,588 | $ 2,448 |
| Segregated fund deposits | **6,122** | 4,747 | 5,226 | **5,774** | 4,177 | 4,323 |
| Mutual fund deposits | **1,338** | 681 | 917 | **1,270** | 598 | 751 |
| **Total premiums and deposits** | **$ 10,406** | $ 8,361 | $ 9,105 | **$ 9,797** | $ 7,363 | $ 7,522 |

### Funds Under Management

Funds under management grew by 15 per cent, or $5.7 billion, to $43.3 billion at December 31, 2007. On a U.S. dollar basis funds under management increased 36 per cent. Growth was fuelled by the strong net policyholder cash flows from variable annuity sales in Japan; increased business volumes in pension and wealth management products in Hong Kong and the positive impact of rising equity markets. These increases were partially offset by the unfavourable impact of the strengthened Canadian dollar.

### Funds Under Management

| As at December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| General fund | **$ 16,761** | $ 16,560 | $ 16,111 | **$ 16,963** | $ 14,212 | $ 13,819 |
| Segregated funds | **20,727** | 17,232 | 12,282 | **20,977** | 14,787 | 10,533 |
| Mutual and other funds | **5,779** | 3,744 | 3,303 | **5,848** | 3,213 | 2,834 |
| **Total funds under management** | **$ 43,267** | $ 37,536 | $ 31,696 | **$ 43,788** | $ 32,212 | $ 27,186 |

### Moving Forward

Our vision within the Asia and Japan Division is to leverage our core strengths, including our professional agency distribution and commitment to customer service excellence, while expanding distribution through banks, financial advisors and other alternative channels and expanding our product offerings with a particular emphasis on wealth management across the region to fuel future growth.

In Hong Kong, our brand recognition has been bolstered by 1.3 million customers, our AAA rating and a professionally trained agency force of 3,500. Going forward, we will continue to diversify our distribution as we expand the bancassurance and independent financial advisory channels through the development of channel specific products, strengthening our wholesaling and account management capabilities as well as building a service platform that differentiates us from competitors. To continue the sales momentum in Wealth Management, in addition to expanded distribution, our focus is on broadening fund and manager choices and leveraging the launch of the first variable annuity product in Hong Kong. We continue to monitor proposed government initiatives to create medical savings accounts, to drive medical insurance and to provide Mandatory Provident Fund (MPF) members with choice as to where their funds are invested. We are well positioned to capitalize on opportunities that materialize as medical reform takes shape and member choice for MPF becomes a market reality.

Our core strategy in Japan is to grow our two major lines of business, Insurance and Wealth Management. The Bikkuri-Bako product launched in June 2007 re-established us as a significant player in the variable annuity business and we expect its success to continue as we expand distribution to other partners. Continued growth of our two main channels of distribution, career agents for Insurance and banks and security dealers for variable annuities, remains a key area of focus. The introduction of new channels and new products, such as products for the corporate market through independent agencies and insurance products for distribution through our bank relationships to benefit from the full deregulation of insurance product distribution through banks at the end of 2007, are expected to enhance sales momentum. A key element of our Wealth Management strategy is to continue to leverage our North American expertise in product development and distribution in order to capitalize on the growth opportunities in this sector of the market.

Our Other Asia Territories' operations are becoming increasingly important contributors to our overall results, a trend that we expect to continue. Expansion of bancassurance distribution is a continued area of focus as evidenced by the launch of our joint venture in 2007 with China Bank in the Philippines. In 2007 we established asset management companies in Singapore, Thailand and Vietnam. We plan to further expand our asset management footprint in addition to expanding the products offered through existing operations. We were the first to launch variable annuities in Singapore and Taiwan and we plan to leverage this "first mover" advantage further in 2008.

In China our core focus continues to be geographic expansion to solidify our position as a leading Sino-foreign insurance joint venture. We ended 2007 operating in 24 cities, and were approved for an additional four cities, among the most of any foreign insurance joint venture. Moving forward, our objective is to grow our operations geographically and to expand distribution and product beyond our traditional agency and insurance product focus. In 2008 a particular focus will be to leverage our sponsorship of the 2008 Beijing Olympics to enhance our brand development in China.

# Reinsurance Division

**Established in 1984, our Reinsurance Division has become one of North America's leading providers of risk management solutions, specializing in retrocession. In the simplest terms, reinsurance refers to the transfer of all or part of certain risks related to policies issued by an insurance company to a reinsurer. Retrocession is a form of reinsurance involving the assumption of risk from other reinsurers.**

**Through offices in Canada, the United States, Germany, Belgium, Barbados, Singapore and Japan, we provide customer-focused solutions and innovative products in the following lines of business:**

- **Life – offering retrocession of traditional life mortality risk as well as specialized coverages such as structured/non-traditional solutions;**
- **Property and Casualty – offering traditional property catastrophe and aviation retrocession for Property and Casualty reinsurers; and**
- **International Group Program ("IGP") – offering international employee benefits management through a network of life insurance companies (Associate Insurers) operating throughout the world to meet the group insurance and pension needs of multinational corporations and their affiliates.**

In 2007, Reinsurance Division contributed six per cent of the Company's shareholders' net income and two per cent of the Company's premiums and deposits.

### Financial Performance

Reinsurance Division's shareholders' net income for 2007 was $263 million, a decrease of 11 per cent from $294 million reported in 2006. On a U. S. dollar basis, earnings decreased by five per cent due to lower Property and Casualty Reinsurance earnings resulting from both unfavourable claims experience compared with favourable experience in 2006 and lower business volumes. This was partly offset by higher earnings in Life Reinsurance driven by strong investment results and improved claims experience. In addition, the impact of the strengthened Canadian dollar dampened earnings for the year.

### Summary Statements of Operations

| For the years ended December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Revenue | | | | | | |
| Premium income | **$ 1,026** | $ 1,010 | $ 1,217 | **$ 956** | $ 890 | $ 1,005 |
| Investment income | | | | | | |
| Investment income | **186** | 208 | 185 | **172** | 184 | 156 |
| Realized and unrealized gains on assets supporting policy liabilities | **29** | – | – | **31** | – | – |
| Other revenue | **20** | 19 | 27 | **19** | 17 | 22 |
| Total revenue | **$ 1,261** | $ 1,237 | $ 1,429 | **$ 1,178** | $ 1,091 | $ 1,183 |
| Policyholder benefits | **$ 824** | $ 764 | $ 1,452 | **$ 771** | $ 675 | $ 1,202 |
| General expenses | **52** | 52 | 45 | **49** | 45 | 38 |
| Investment expenses | **4** | 3 | 3 | **3** | 3 | 3 |
| Commissions | **4** | 5 | 20 | **3** | 5 | 19 |
| Other | **8** | 10 | (2) | **7** | 8 | (2) |
| Total policy benefits and expenses | **$ 892** | $ 834 | $ 1,518 | **$ 833** | $ 736 | $ 1,260 |
| Income (loss) before income taxes | **$ 369** | $ 403 | $ (89) | **$ 345** | $ 355 | $ (77) |
| Income taxes | **(106)** | (109) | (19) | **(99)** | (96) | (15) |
| **Net income (loss) attributed to shareholders** | **$ 263** | $ 294 | $ (108) | **$ 246** | $ 259 | $ (92) |

### Premiums

Premiums were $1,026 million, up two per cent from $1,010 million reported in 2006. The increase was largely due to higher Life Reinsurance premiums driven by new business and increased rates as a result of the natural aging of the in-force business. This was partly offset by the impact of the stronger Canadian dollar as well as lower Property and Casualty Reinsurance premiums resulting from lower business volumes.

**Premiums**

| For the years ended December 31 (in $ millions) | Canadian $ | | | U.S. $ | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Life Reinsurance | **$ 523** | $ 476 | $ 452 | **$ 487** | $ 419 | $ 374 |
| Property and Casualty Reinsurance | **70** | 97 | 310 | **66** | 86 | 257 |
| International Group Program | **433** | 437 | 455 | **403** | 385 | 374 |
| **Total premiums** | **$ 1,026** | $ 1,010 | $ 1,217 | **$ 956** | $ 890 | $ 1,005 |

**Moving Forward**

As the leading individual life retrocessionaire in North America, our focus is to continue to write profitable business while maintaining our leadership position in the niche markets where we choose to operate.

Our clients in the Life Reinsurance market have experienced declines in business volumes in recent years and, as a result, are considering various options for improving their volumes. These changes in the reinsurance market may ultimately have a negative impact on our new business volumes. Given that our position in the Life Retrocession market is very strong and our capacity is the largest in the industry, we will work with our clients to find mutually attractive life retrocession in-force opportunities and to extend our excess-of-retention pool business. Clients are concerned about their own profitability so, while we will continue to be disciplined in our pricing, we will look to reduce our unit costs through technology solutions to ensure our competitiveness. We will enhance our customer service and responsiveness and improve our data analytics and risk management capabilities through a number of initiatives involving our organizational and systems infrastructures. In addition, we are working on the development of new products that will position us to meet our clients' needs in regard to risk and capital management.

Property and Casualty Reinsurance has established a recognized market position as a leader in providing retrocessional coverage for a very select clientele in the property and aviation reinsurance markets. The property catastrophe market did not experience a major insured catastrophe in 2007. As a result, we expect that traditional risk rates and terms will continue to soften in the near future. Our longstanding and excellent client relationships, combined with our superior financial rating, position us well to find opportunities in the market that will provide attractive returns. We have limited our exposure in this line of business and we expect to continue writing business at the same levels as in 2007.

IGP expects to maintain its market leading position through continued dominance in North America while growing in Europe and Asia.

# Supplemental Information Regarding Non-Traditional Life Reinsurance

Reinsurance Division provides non-traditional reinsurance and retrocessional coverage to life and annuity insurers and reinsurers. This type of non-traditional life cover has been classified as financial reinsurance.

The non-traditional coverage is primarily coinsurance and modified coinsurance coverage of a share of specified blocks of life insurance or annuity contracts issued or reinsured by the cedant. It may also include the reinsurance of large blocks of life insurance on a yearly renewable term basis. All of the non-traditional coverage receives deposit accounting treatment for Canadian generally accepted accounting principles ("Canadian GAAP") and United States generally accepted accounting principles ("U.S. GAAP") purposes, but meets the requirements for reinsurance accounting under statutory rules. Under Canadian GAAP and U.S. GAAP deposit accounting, Reinsurance Division's income related to these transactions is recorded as fee income, reported in other revenue on the income statement, and liabilities, if any, are recorded as deposit liabilities.

The main differences between traditional and non-traditional coinsurance and modified coinsurance for life and annuity reinsurance is that, in a non-traditional reinsurance agreement, the reinsurer pays a lower ceding commission for its share of a block of business than would otherwise be paid under a traditional reinsurance contract. Non-traditional transactions often involve the payment of experience refunds to the ceding insurer covering a substantial portion of the earnings accruing to the business reinsured during the early years of the contract. In addition, the contracts contain recapture rights (that is, rights of the ceding company to reassume future obligations for the reinsured contracts) that are often more flexible than those found in traditional coverage. These more flexible recapture rights are coupled with terms that create an incentive for the ceding insurer to recapture if the block is profitable on a statutory accounting basis.

All of the non-traditional life and annuity treaties written by the Company provide prospective coverage, covering liabilities extending out over the life of the underlying policyholder life and annuity contracts.

# Corporate and Other

**Corporate and Other is comprised of the Investment Division's external asset management business, earnings on excess capital (assets backing capital, net of amount allocated to operating divisions), the transfer of credit risk from operating divisions, changes in actuarial methods and assumptions and other non-operating events. Also included in Corporate and Other is the John Hancock Accident and Health ("JH A&H") operation, which primarily consists of contracts in dispute.**

In 2007, Corporate and Other contributed five per cent of the Company's shareholders' net income and, as at December 31, 2007, accounted for eight per cent of the Company's funds under management.

### Financial Performance

Corporate and Other's shareholders' net income was $223 million in 2007, slightly higher than $218 million reported in 2006. Contributing to the increase were higher net investment income largely driven by realized gains on the sale of public and private equities and the more favourable claims experience in the John Hancock Accident and Health business. Offsetting these items were lower income as a result of less favourable credit experience compared to a very strong 2006; a charge for asset repositioning at the beginning of 2007 as a result of moving to the new CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement"; and a charge taken by Corporate and Other for the centrally managed interest rate mismatch position in the large North American insurance segments.

### Summary Statements of Operations

**For the years ended December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Revenue | | | |
| Investment income | **$ 33** | $ 358 | $ 376 |
| Other revenue | **305** | 299 | 379 |
| Realized gains on invested assets | **456** | – | – |
| Total revenue | **$ 794** | $ 657 | $ 755 |
| Policyholder benefits | **$(159)** | $(419) | $(572) |
| General and investment expenses | **369** | 417 | 578 |
| Other | **418** | 381 | 331 |
| Total policy benefits and expenses | **$ 628** | $ 379 | $ 337 |
| Income before income taxes | **$ 166** | $ 278 | $ 418 |
| Income taxes | **12** | (60) | (39) |
| Net income | **$ 178** | $ 218 | $ 379 |
| Loss attributed to participating policyholders[1] | **(45)** | – | – |
| **Net income attributed to shareholders** | **$ 223** | $ 218 | $ 379 |

[1] Represents one-time charge to participating accounts in China reflecting the impact of moving to a methodology consistent with the other territories.

### Funds Under Management

Funds under management decreased by 17 per cent, or $6.6 billion, to $31.9 billion at December 31, 2007. The decline in the general fund is largely due to the negative impact of the strengthened Canadian dollar as well as the impact of buying back 56 million common shares for $2.2 billion during the year. Segregated funds in this division relate to timber investments. Other funds under management also decreased as a result of the negative impact of the strengthened Canadian dollar.

### Funds Under Management

**As at December 31**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| General fund | **$ 9,639** | $11,620 | $ 6,768 |
| Segregated funds | **2,598** | 2,727 | 2,760 |
| Third party funds managed by Investment Division | **19,704** | 24,164 | 25,204 |
| **Total funds under management** | **$31,941** | $38,511 | $34,732 |

# Investment Division

**Manulife Financial's Investment Division, operating as MFC Global Investment Management ("MFC Global"), manages assets for the Company's general fund and for third party retail and institutional clients through a variety of products and distribution channels. MFC Global manages a broad range of investments including equities, government and corporate bonds, private placements, real estate, mortgages, oil and gas, timber and farmland. Additionally, MFC Global has a physical presence in key financial centers around the world, including the United States, Canada, the United Kingdom, Japan, Australia, Hong Kong, and throughout South-east Asia.**

### General Fund Assets

The objective in investing in these assets is to maximize returns while operating within the Company's investment, risk management, asset liability matching and investment policies. The Company's general fund invested assets expressed in Canadian dollars decreased to $161.3 billion as at December 31, 2007 from $171.3 billion as at December 31, 2006. The decrease in assets reflects $18.8 billion negative impact of the strengthened Canadian dollar during the year, offset by asset growth and $4.4 billion positive impact of new accounting rules effective January 1, 2007 whereby public securities are now carried at fair value. The following table shows the composition of the Company's general fund invested assets.

### General Fund Assets

| As at December 31 (Canadian $ in millions) | 2007 Carrying value | 2007 % of total | 2006 Carrying value | 2006 % of total |
|---|---|---|---|---|
| Cash and short-term securities | **$ 12,354** | **8** | $ 10,901 | 6 |
| Bonds | **72,831** | **45** | 78,085 | 46 |
| Stocks | **11,134** | **7** | 11,272 | 7 |
| Mortgages | **26,061** | **16** | 28,131 | 16 |
| Private placements | **21,591** | **13** | 25,074 | 15 |
| Policy loans | **5,823** | **4** | 6,413 | 4 |
| Bank loans | **2,182** | **1** | 2,009 | 1 |
| Real estate | **5,727** | **4** | 5,905 | 3 |
| Other investments | **3,597** | **2** | 3,530 | 2 |
| **Total invested assets** | **$ 161,300** | **100** | $ 171,320 | 100 |

### Bonds and Private Placements

The Company's bond and private placement portfolio represented 58 per cent of invested assets as at December 31, 2007. This portfolio of public bonds and private debt is diversified by sector as well as by industry, duration and issuer. There was no significant change in sector distribution during the year. At the end of 2007, 96 per cent of the portfolio was invested in investment grade rated securities (BBB and higher).

The following table shows the distribution of the bond and private placement portfolio by sector and industry.

### Bonds and Private Placements

| As at December 31 (Canadian $ in millions) | 2007 Fair value | 2007 % of total | 2007 % Investment Grade | 2006 Fair value | 2006 % of total | 2006 % Investment Grade |
|---|---|---|---|---|---|---|
| Government and agency | **$25,383** | **27** | **96** | $ 28,571 | 27 | 97 |
| Financial | **21,048** | **22** | **99** | 22,119 | 21 | 99 |
| Telecommunications | **2,421** | **3** | **90** | 3,161 | 3 | 96 |
| Utilities | **12,475** | **13** | **94** | 13,732 | 13 | 93 |
| Energy | **5,761** | **6** | **98** | 6,246 | 6 | 95 |
| Industrial | **5,364** | **6** | **94** | 5,942 | 6 | 95 |
| Securitized (ABS/MBS) | **9,218** | **10** | **99** | 11,390 | 11 | 99 |
| Consumer (non-cyclical) | **4,869** | **5** | **94** | 5,398 | 5 | 96 |
| Consumer (cyclical) | **2,789** | **3** | **88** | 3,210 | 3 | 84 |
| Basic materials | **3,237** | **4** | **80** | 3,298 | 3 | 81 |
| Technology | **263** | **–** | **100** | 363 | – | 99 |
| Media and internet | **1,308** | **1** | **97** | 1,795 | 2 | 90 |
| Diversified and miscellaneous | **268** | **–** | **98** | 359 | – | 99 |
| **Total bonds and private placements** [1] | **$94,404** | **100** | **96** | $105,584 | 100 | 96 |

[1] Includes bonds of $72,831 (2006 – $80,730) and private placements of $21,573 (2006 – $24,854) with carrying value of $72,831 and $21,591 respectively.

**Mortgages and Real Estate**
As at December 31, 2007, mortgages represented 16 per cent of invested assets with 55 per cent of the mortgage portfolio in Canada and 45 per cent in the United States. Commercial mortgages accounted for 74 per cent of total mortgages with the rest being Canadian residential and agricultural mortgages. Predominantly composed of first mortgages, the mortgage portfolio is diversified by geographic region, property type and mortgagor. Government-insured loans represented 21 per cent of the total mortgage portfolio, offering an excellent risk-adjusted return.

As at December 31, 2007, four per cent of the Company's invested assets were held in real estate, with a fair value of $7.6 billion (2006 – $7.2 billion). The portfolio is diversified by geographic region, with 59 per cent located in the United States, 34 per cent in Canada and seven per cent in Asia. The portfolio is also diversified by property type, with 86 per cent in commercial properties and 14 per cent in timber and agriculture. The commercial portfolio is focused on high quality office buildings located in superior downtown and large suburban markets across North America and Japan. The Company has been able to deliver occupancy rates that are highly satisfactory. Office properties represented 83 per cent of the commercial portfolio, with the remainder shared between industrial, retail, residential and other property types.

**Stocks**
As at December 31, 2007, stocks represented seven per cent of invested assets. The portfolio consists almost entirely of publicly traded common stocks and is diversified by industry sector and issuer. As at December 31, 2007, the stock portfolio was invested 31 per cent in U.S. issuers, 40 per cent in Canadian issuers, 21 per cent in Asian issuers and eight per cent in other issuers.

**Other Investments**
Other investments include private equity and fixed income investments held primarily in power and infrastructure, oil and gas, and timber and agricultural sectors.

**Third Party Assets**
MFC Global also manages a significant book of third party assets on behalf of clients of the Company's operating divisions and institutional clients. Assets managed for third parties decreased by $3 billion to $91 billion, however, on a constant currency basis, assets managed for third parties increased by $10 billion or 10.6 per cent, driven by growth from both retail and institutional mandates.

**Third Party Assets**

| As at December 31, (Canadian $ in millions) | 2007 | 2006 | Change $ | Change % |
|---|---|---|---|---|
| Managed on behalf of: | | | | |
| Operating Division clients | **$64,728** | $64,519 | $ 209 | – |
| Institutional clients | **26,247** | 29,335 | (3,088) | (11) |
| **Total third party assets** | **$90,975** | $93,854 | $(2,879) | (3) |

**Moving Forward**
Consistently achieving superior investment returns and growing the investment management business remain the two primary goals of the Investment Division. Although credit spreads have widened due to the subprime crisis, the challenge ahead remains maintaining high returns in investment grade assets in an environment which continues to be characterized by low interest rates and rising credit risk. The Company's disciplined investment philosophy, diversified holdings, portfolio of alternative assets and strong credit quality are expected to continue to provide enhanced risk adjusted returns.

In addition, the Division will continue to leverage our strong distribution network, expanded expertise and significant scale to aggressively grow the investment management business. The Division plans on investing in this business in 2008 to expand its institutional distribution network and build the infrastructure to support its growth plans for 2009 and beyond.

# Risk Management

**Overview**

Manulife Financial's goal in managing risk is to strategically optimize risk taking and risk management to support long-term revenue and earnings growth, and shareholder value growth. We seek to achieve this by capitalizing on business opportunities that are aligned with the Company's risk taking philosophy, risk appetite and return expectations, by identifying, monitoring and measuring all key risks taken, and by proactively executing effective risk control and mitigation programs.

Risks will only be assumed that are prudent in relation to the Company's capital strength and earnings capacity, are aligned with our operational capabilities, meet our corporate ethical standards, allow us to remain diversified across risk categories, businesses and geographies, and for which we expect to be appropriately compensated. Risk must be managed effectively to safeguard our reputation and capital, and to meet the expectations of our shareholders, customers and regulators.

We employ an enterprise-wide approach to all risk taking and risk management activities globally. The enterprise risk management framework sets out policies and standards of practice related to risk governance, risk identification and monitoring, risk measurement, and risk control and mitigation. In order to ensure that we can effectively execute our risk management we continuously invest to attract and retain qualified risk professionals, and to build and maintain the necessary processes, tools and systems.

Individual risk management strategies are also in place for each specific key risk within our broad risk categories: strategic, credit, market and liquidity, insurance and operational. To ensure consistency, these strategies incorporate policies and standards of practice that are aligned with those within the enterprise risk management framework, covering:

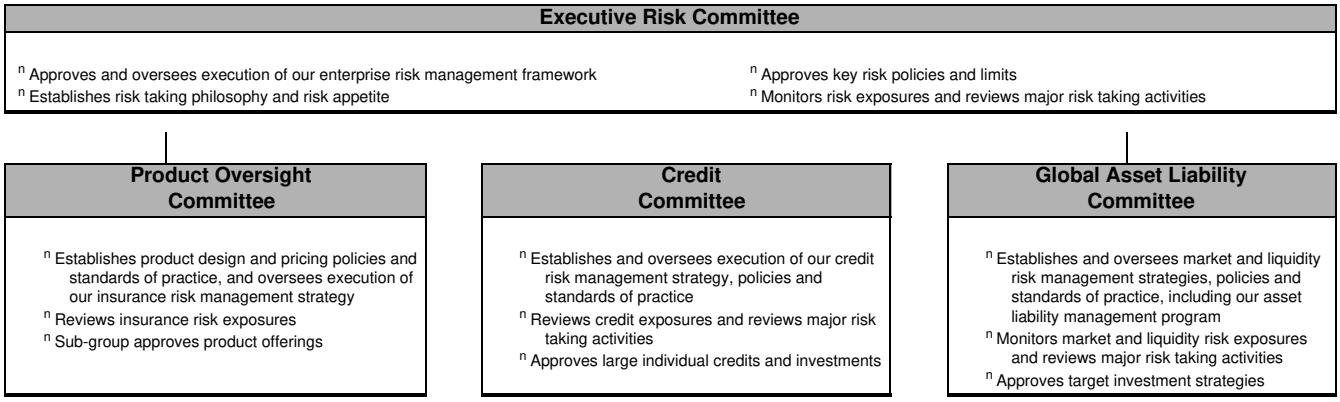
- Assignment of risk management accountabilities across the organization;
- Delegation of authorities related to risk taking activities;
- Philosophy related to assuming risks;
- Establishment of specific risk limits;
- Identification, measurement, monitoring, and reporting of risks; and
- Activities related to risk control and mitigation.

**Risk Governance**

Sound business decisions require a strong risk culture, and well-informed executive management and Board of Directors. The Audit and Risk Management Committee ("ARMC") of the Board of Directors oversees our global risk taking activities and risk management practices. The ARMC approves and periodically reviews our enterprise risk management policy, risk taking philosophy, overall risk appetite, and approves and monitors compliance with all key risk policies and limits. The ARMC regularly reviews with management trends in material risk exposures and major risk taking activities, and the ongoing effectiveness of our risk management practices. The Conduct Review and Ethics Committee of the Board oversees activities and risks specifically related to conflicts of interest, confidentiality of information, customer complaints and related third party transactions, and the Management Resources and Compensation Committee of the Board oversees global human resources strategy, policies, key programs, and all related risks.

The Chief Executive Officer ("CEO") is directly accountable to the Board of Directors for all risk taking activities and risk management practices, and is supported by the Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO") as well as by the Executive Risk Committee ("ERC"). Together, they shape and continuously promote our risk culture throughout our global operations. The ERC, along with other executive-level risk oversight committees, establish risk policy, guide risk taking activity, monitor material risk exposures, and sponsor strategic risk management priorities throughout the organization.

The executive-level risk oversight committees and their mandates are presented below:



Business units across the organization own and take accountability for the risks they assume. Business unit general managers are responsible for ensuring their business strategies align with the Company's risk taking philosophy and culture, for thoroughly evaluating and managing all risk exposures consistent with our enterprise risk policies and standards of practice, and for delivering expected risk-adjusted returns.

Corporate Risk Management ("CRM"), under the direction of the CRO, establishes and maintains our enterprise risk management framework as well as individual risk management strategies for each broad risk category, and oversees the execution of these strategies across the enterprise. CRM proactively partners with business units to ensure a consistent enterprise-wide assessment of risk, risk-based capital, and risk-adjusted returns.

**Risk Identification and Monitoring**

Manulife Financial endeavours to evaluate all potential new business initiatives, acquisitions, product offerings, reinsurance arrangements, and investment and financing transactions on a directly comparable risk-adjusted basis and to identify, monitor, measure, and control the risks assumed using a common set of practices. Our business units identify and assess risks arising from their activities on an ongoing basis, as an integral component of their business management processes. CRM oversees a formal process for monitoring and reporting on enterprise-wide risk exposures relating to specific risk categories, discusses risk exposures with our various risk oversight committees, and submits requests for approval of any policy limit exceptions, as required.

The ERC and the ARMC each review a set of risk reports quarterly that present all key elements of our risk profile and exposures across all risk categories enterprise-wide, incorporating both quantitative risk measures and qualitative assessments. The reports also highlight key risk management activities and facilitate monitoring of compliance with all key risk policy limits. The reports present information gathered through a formal risk identification and assessment process involving business unit general managers and their executive teams, as well as corporate executives overseeing global risk management programs.

The Chief Actuary presents the results of the Dynamic Capital Adequacy Testing to the Board of Directors annually. Our Internal Auditor independently reports the results of internal audits of risk controls and risk management programs to the ARMC semi-annually. Management reviews the implementation of all global risk management programs, and their effectiveness, with the ARMC annually.

**Risk Measurement**

Risk exposures are evaluated using a variety of risk measures. Certain of these risk measures are used across a number of risk categories, while others apply only to a single risk type. Risk measures range from simple key risk indicators and scenario impact analyses, to deterministic stress testing of earnings and shareholders' economic value, as well as sophisticated stochastic scenario modeling of economic capital and earnings at risk. Economic capital and earnings at risk, in particular, provide measures of enterprise-wide risk that can be aggregated, and compared, across all business activities and risk types. Qualitative assessments are performed for those risk types that cannot be reliably quantified.

We measure consolidated internal risk-based capital using a combination of economic capital and Canadian-based Minimum Continuing Capital and Surplus Requirements ("MCCSR"). Economic capital measures the amount of capital needed to meet all obligations with a very high and pre-defined confidence level. We evaluate our consolidated earnings volatility using an earnings at risk metric, which measures the potential variance from expected earnings over a pre-defined period, with a pre-defined confidence level. Both economic capital and earnings at risk are measured enterprise-wide and can be allocated by risk, product line, asset category, and market. We continue to expand the application of economic capital, in the evaluation of risk-adjusted returns for product pricing and investment decision support, throughout our organization.

We stress test our regulatory capital adequacy over a five year projected timeframe, incorporating both existing and projected new business activities, under a number of significantly adverse but "plausible" scenarios through our Dynamic Capital Adequacy Test.

**Risk Control and Mitigation**

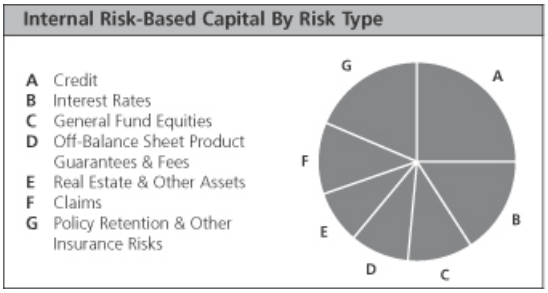
Risk control activities are in place throughout the Company to mitigate risks to within the approved risk limits for each specific risk. Controls, which include policies, procedures, systems and processes, are appropriate and commensurate with the key risks faced at all levels across the Company and are a normal part of day to day activity, business management and decision making.

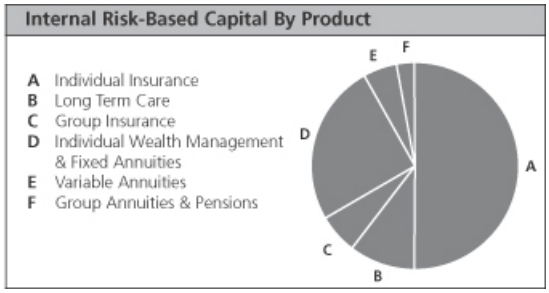
CRM establishes and oversees formal review and approval processes, involving independent individuals, groups or risk oversight committees, for product offerings, reinsurance, investment activities and other material business activities, based on the nature, size and complexity of the risk taking activity involved. Authorities for assuming risk at the transaction level are delegated based on the skill, knowledge and experience of the specific individuals.

Risk mitigation activities, such as product and investment portfolio management, hedging, reinsurance and insurance protection are used to ensure our aggregate risk remains within our risk appetite and limits. Internal controls within the business units and corporate functions are in place to limit our exposure to operational risks.

The Company manages risk taking activities against an overall group appetite for assuming risk that reflects the financial condition, and the business strategies and risk tolerances approved by the Board of Directors. The risk appetite is set in relation to a variety of risk measures including economic capital and earnings at risk, as well as regulatory capital requirements. To ensure exposures to particular risks are appropriate and that the Company remains well-diversified across risk categories, we manage specific risk exposures against enterprise-wide limits established for each of these specific risks. These limits are set in relation to risk measures ranging from economic capital and earnings at risk to risk measures applied only to the particular risk.

The following charts show the composition of the Company's internal risk-based capital by broad risk category and product line.




The following sections describe the key risks we face in each broad risk category and highlight the strategies in place to manage these risks.

**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.**

**Key Risk Factors** Manulife Financial operates in highly competitive markets and competes for customers with both insurance and non-insurance financial services companies. Customer loyalty and retention, and access to distributors, are important to the Company's success and are influenced by many factors, including our product features, service levels, prices relative to our competitors, and our financial strength ratings and our reputation. External business, political, tax, legal and regulatory environments can significantly impact the products and services we can offer, and their price and attractiveness.

**Risk Management Strategy** The CEO and Executive Committee establish and oversee execution of business strategies, and have accountability to identify and manage the risks embedded in these strategies. They are supported by a number of important processes:

- Strategic planning that is integrated with risk assessments and reviewed where appropriate with the Board of Directors;
- Detailed business planning executed by divisional management and reviewed by the CEO;
- Quarterly operational performance reviews of all businesses, along with business risks, with the CEO and annual reviews with the Board of Directors;
- Risk-based capital attribution and allocation that ensures a consistent decision making framework across the organization;
- Review and approval of acquisitions and divestitures by the CEO and where appropriate with the Board of Directors.

**Market and Liquidity Risk**

**Market risk is the risk of loss resulting from adverse investment returns caused by market price volatility, interest rate and credit spread changes, and from adverse foreign currency rate movements. Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands.**

**Risk Management Strategy Overview** Manulife Financial's Global Asset Liability Committee, with the support of a network of business unit asset liability committees, establishes and oversees the execution of the Company's market risk management strategy including our asset liability management program. The programs cover the management of a variety of risks that arise in generating investment returns to support product liabilities, as well as returns on assets in the shareholders' equity account. These risks include performance of non-fixed income investments, such as equities, commercial real estate, timberlands and oil and gas properties, interest rate changes, and foreign exchange rate changes, as well as liquidity risk. These programs are designed to keep potential losses from these risks within acceptable limits. Global investment policies establish enterprise-wide and portfolio level targets and limits, as well as delegated transaction approval authorities. The targets and limits are designed to ensure investment portfolios are widely diversified across asset classes and individual investment risks, and are suitable for the liabilities they support.

General account product liabilities are segmented into groups with similar characteristics that are each supported by a unique portfolio of investments. Investment policies and goals are established for each asset segment, setting out target investment strategies and portfolio management philosophies that best match the premium and benefit pattern, guarantees, policyholder options, and crediting rate strategies for the products they support. These encompass asset mix, quality rating, term profile, liquidity, currency and industry concentration targets, as well as portfolio management styles. Similarly, we establish a target investment strategy and portfolio management philosophy for our shareholders' equity account. Our target investment strategies are established using sophisticated portfolio analysis techniques to optimize returns, subject to considerations related to regulatory and economic capital requirements, and tolerances with respect to risk.

**Market Price and Interest Rate Risk**

**Key Risk Factors** Market price volatility and interest rate changes, including credit spreads, with our product guarantees and policyholder withdrawal options, may lead to asset returns insufficient to support product liabilities, and may impact the value of assets held in our shareholders' equity account. The level of our sales activity and asset retention may also be affected by the performance of markets, interest rates, inflation and general economic conditions as these will influence the performance of our general account investments, segregated funds and mutual funds.

Interest rate risk arises within our general fund primarily due to the uncertainty of future returns on investments made as recurring premiums are received, and to a lesser extent, due to tactical mismatch positions taken between the term profile of our assets and liabilities. Market price and interest rate risk also arises due to minimum rate guarantees and withdrawal options on products where investment returns are generally passed through to policyholders. If the term profile of our assets is shorter than our liabilities, interest rate declines may reduce the future return on invested assets supporting the liabilities. On the other hand, for products that pass through investment returns to policyholders, if rates increase significantly we may need to increase credited rates and reduce margins in order to remain competitive. Declines in market values of equity, commercial real estate, and timberlands will also impact the return on assets supporting liabilities and in our shareholders' equity account.

Market price and interest rate risk arising from our off-balance sheet products is due mainly to the uncertainty of future levels of asset-based fees, as well as death and living benefit guarantees provided on variable annuity and variable insurance products. Guarantees include death, maturity, income and withdrawal guarantees on variable products. A sustained decline in stock markets could reduce asset-based fee revenues and increase the cost of guarantees associated with our variable products.

**Risk Management Strategy** We manage assets supporting products that generally pass through investment returns to policyholders, to achieve a target return designed to maximize dividends or credited rates, subject to established risk tolerances. To support wealth management products with fixed credited rates, we invest in fixed income assets that have a term profile generally matching the term profile of the liabilities, to the extent assets are available in the market at those terms. Several insurance and wealth management products have guaranteed benefits extending well beyond the term for which fixed income assets are generally available in the market. We manage assets supporting these long-dated benefits to achieve a target return sufficient to support these obligations over their lifetime, subject to established risk tolerances by investing a portion in a diversified basket of non-fixed income assets, with the balance invested in fixed income portfolios.

We evaluate market price and interest rate risk exposures using a variety of techniques and measures that are primarily based on projecting asset and liability cash flows under a variety of future interest rate and market return scenarios. These measures include durations, key-rate durations, convexity, cash flow gaps, shareholders' economic value sensitivity to specific stress scenarios, earnings at risk and economic capital.

Interest rate and credit spread risk arising in our general account, is managed against enterprise-wide economic capital and earnings at risk based limits and economic value sensitivity limits for specific segments. We delegate trading authorities to individuals as well as accountabilities for managing and monitoring interest rate risk. Asset duration, key-rate duration and cash flow targets are reviewed, modified and communicated to portfolio managers with a frequency ranging from daily to annually, depending on the type of liabilities and the frequency and size of potential changes in the liability profiles. We monitor actual asset positions against targets and rebalance positions to within established interest rate risk exposure limits with a frequency ranging from daily to quarterly, depending on the potential exposure to changes in the profile of assets and liabilities.

We mitigate market price risk arising from our general account non-fixed income investments by investing in a diversified basket of assets consisting of public and private equities, commercial real estate, timberland, agricultural land and oil and gas properties. We manage total non-fixed income asset investments against an established aggregate limit and against aggregate limits for each asset category. To diversify risk, we manage our public and private equity investments against established targets and limits by industry type and corporate connection, commercial real estate investments to established limits by property type and geography, and timber and agricultural land investments to limits by geography and crop. We proactively manage allocations to non-fixed income assets, reflecting management's risk preferences.

We mitigate both market price and interest rate risk arising from off-balance sheet products through benefit guarantee design, limitations on fund offerings, use of reinsurance and capital markets hedging. We design new product benefit guarantees and fund offerings to meet established extreme event risk exposure limits, based on economic capital. We have reinsurance in place on existing business that transfers investment return related benefit guarantee risk, where appropriate. We also employ dynamic capital markets hedging for a portion of our business.

The Company's aggregate exposure to equities is managed against enterprise-wide economic capital and earnings at risk based limits. These limits cover the combined risk arising from off-balance sheet product death and living benefit guarantees, asset-based fees and general account investments.

**Exposures Arising from General Fund** The following table shows the potential impact on shareholders' economic value as a result of specific stress scenarios applied to our general fund, each one reflecting a shock from December 31st market levels, that reflects a confidence level of approximately 87 per cent over a one-year horizon, according to internal models. We calculate shareholders' economic value as the net present value of future cash flows related to current assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax. The stress scenarios are:

- an immediate and permanent parallel increase of one per cent in interest rates for all maturities across all markets;

- an immediate and permanent parallel decrease of one per cent in interest rates for all maturities across all markets, subject to a minimum interest rate of 0.25 per cent and
- an immediate ten per cent decline in the market value of non-fixed income assets.

Liabilities supported with matching mandates include guaranteed benefit and expense obligations falling within terms for which fixed income assets are generally available in the market. These liabilities represented approximately half of our product liabilities as at December 31, 2007. Our strategy is to support these liabilities with fixed income assets that have a generally matching term profile.

Liabilities supported with target return mandates include guaranteed benefit and expense obligations falling beyond the term for which fixed income assets are generally available in the market as well as liabilities for products where investment returns are generally passed through to policyholders. These liabilities represented approximately half of our product liabilities as at December 31, 2007. Target return mandate segments also include assets in our shareholders' equity account. The underlying economic risk exposure arising from our long-dated guaranteed liabilities is the potential failure to achieve the assumed returns over the entirety of their long investment horizon. For products where investment returns are generally passed through to policyholders, the economic risk arises primarily from embedded minimum guarantees and policyholder withdrawal options.

**Table 1 ^ Impact on Shareholders' Economic Value Arising From General Fund**

| | 1% change in interest rates | | 10% decline in market values** | | | |
|---|---|---|---|---|---|---|
| **As at December 31** (Canadian $ in millions) | Increase | Decrease | Equities | Real Estate | Timber | Other* |
| **2007** | | | | | | |
| **Matching Mandates** | | | | | | |
| Wealth management | **$ 6** | **$ (9)** | | | | |
| Insurance | **95** | **(159)** | | | | |
| **Total** | **$ 101** | **$ (168)** | | | | |
| **Target Return Mandates** | | | | | | |
| Wealth management | **$ (27)** | **$ 3** | **$ (56)** | **$ (39)** | **$ (3)** | **$ (4)** |
| Insurance | **778** | **(1,224)** | **(120)** | **(239)** | **(48)** | **(10)** |
| Shareholders' equity account | **(369)** | **467** | **(292)** | **(2)** | **(22)** | **(64)** |
| **Total** | **$ 382** | **$ (754)** | **$ (468)** | **$ (280)** | **$ (73)** | **$ (78)** |
| 2006 | | | | | | |
| **Matching Mandates** | | | | | | |
| Wealth management | $ 22 | $ (24) | | | | |
| Insurance | 247 | (325) | | | | |
| **Total** | $ 269 | $ (349) | | | | |
| **Target Return Mandates** | | | | | | |
| Wealth management | $ (70) | $ 13 | $ (59) | $ (27) | $ (4) | $ (3) |
| Insurance | 533 | (1,033) | (124) | (211) | (67) | (7) |
| Shareholders' equity account | (396) | 451 | (339) | (15) | (1) | (65) |
| **Total** | $ 67 | $ (569) | $ (522) | $ (253) | $ (72) | $ (75) |

* Other assets include agricultural lands and oil and gas holdings.

** A 10% increase in market values of equities, real estate, timber and other assets would have the exact opposite impact to that displayed above.

As at December 31, 2007, the largest portion of our exposure to interest rate changes arose in our target return segments supporting our guaranteed liabilities falling beyond the term for which fixed income assets are generally available in the market. These segments had exposure to a permanent decline in interest rates primarily due to fixed income asset portfolios with terms shorter than the long-dated liabilities they support. Interest rate exposure also arose as a result of minimum rate guarantees on products where we generally pass through investment returns. The exposures within our insurance liability segments were partially offset by the exposures within our shareholders' equity account. We remain positioned to benefit from interest rate increases.

**Exposures Arising from Variable Products and Other Managed Assets** The following table shows the potential impact on shareholders' economic value, arising from variable products and mutual funds, as well as institutional asset management operations, as a result of an immediate ten per cent decline and ten per cent increase in the market value of equity funds.

**Table 2 ^ Impact on Shareholders' Economic Value from Variable Products and Other Managed Assets**

| Change in Market Values as at December 31 (Canadian $ in millions) | 2007 10% Increase | 2007 10% Decrease | 2006 10% Increase | 2006 10% Decrease |
|---|---|---|---|---|
| Market-based fees | **$ 545** | **$ (540)** | $ 543 | $ (567) |
| Variable product guarantees | **$ 99** | **$ (209)** | $ 104 | $ (167) |

Additional information related to investment related guarantees on variable annuities and segregated funds is shown in the table below.

**Table 3 ^ Variable Annuity and Segregated Fund Benefit Guarantees**

| As at December 31 (Canadian $ in millions) | 2007 Fund value[2] | 2007 Amount at risk[2] | 2007 Expected guarantee cost[3] | 2006 Fund value[2] | 2006 Amount at risk[2] | 2006 Expected guarantee cost[3] |
|---|---|---|---|---|---|---|
| Maturity/income/withdrawal benefits | **$ 60,737** | **$ 863** | | $ 51,188 | $ 429 | |
| Death benefits[1] | **11,063** | **1,230** | | 12,926 | 1,133 | |
| **Total** | **$ 71,800** | **$ 2,093** | **$ (2,268)** | $ 64,114 | $ 1,562 | $ (1,623) |

1 Death benefits include stand-alone guarantees and guarantees in excess of maturity or income guarantees where both are provided on a policy.
2 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. This amount is not currently payable and represents a theoretical value only.
3 Expected guarantee cost is net of reinsurance and fee income allocated to support the guarantees.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. The expected guarantee cost represents the average, across all stochastically modeled investment return scenarios, of the present values of projected future guaranteed benefit payments, net of reinsurance and fee income allocated to support the guarantees, considering future mortality, policy termination and annuitization rates. Fee income supporting guarantees is expected to exceed benefit payments, resulting in a negative expected cost. The increase in the amount at risk and the improved expected cost of guarantees as compared to December 31, 2006 was driven by sales of products with higher guarantees that also have higher margins on an expected basis.

### Foreign Currency Risk

**Key Risk Factors** A substantial portion of the Company's global business is denominated in currencies other than Canadian dollars, mainly U.S. dollars, Hong Kong dollars and Japanese yen. We also invest a substantial portion of our shareholders' equity in non-Canadian denominated assets. If the Canadian dollar strengthened relative to non-Canadian currencies, the translated value of reported earnings from these non-Canadian denominated businesses would decrease and the translated value of our reported shareholders' equity would decline.

**Risk Management Strategy** Manulife Financial has a policy of matching the currency of our assets with the currency of the liabilities they support, to mitigate economic exposure to currency exchange rate changes. To limit the impact of changes in foreign exchange rates on regulatory capital ratios, we have a policy of generally matching the currency of the assets in our shareholders' equity account to the liabilities they support, up to target capital levels. This policy ensures that changes to our reported shareholders' equity are largely offset by changes in our reported capital requirements, stabilizing capital ratios from the impact of foreign exchange rates. However, the policy results in variability in reported shareholders' equity. Currency risk exposure is managed to an established value at risk limit measured relative to the policy position.

The following table shows the impact on shareholders' equity and net income of a 1% change in the Canadian dollar relative to our key operating currencies.

**Table 4 ^ Impact of Changes in Foreign Exchange Rates***

| As at December 31 (Canadian $ in millions) | Shareholders' Equity 2007 | Shareholders' Equity 2006 | Net Income 2007 | Net Income 2006 |
|---|---|---|---|---|
| 1% strengthening relative to U.S. Dollar | **$ (159)** | $ (165) | **$ (31)** | $ (28) |
| 1% strengthening relative to Japanese Yen | **$ (14)** | $ (15) | **$ (6)** | $ (6) |

* A weakening in rates would have the exact opposite impact to that displayed above.

### Liquidity Risk

**Key Risk Factors** Manulife Financial is exposed to liquidity risk in each operating company and in the holding company. In the operating companies, expected cash demands arise day-to-day to fund anticipated policyholder benefits, expenses and investment activities. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders

either terminating policies with material cash surrender values, or not renewing them when they mature, and from an increase in the level of borrowers renewing or extending their loans when they mature.

The ability of MFC, the holding company, to fund its cash requirements depends upon it receiving dividends, distributions and other payments from its operating subsidiaries. These subsidiaries are generally required to maintain solvency and capital standards imposed by their local regulators and, as a result, have restrictions on payments which they may make to MFC.

**Risk Management Strategy** Global liquidity management policies and procedures are designed to ensure we have adequate liquidity available to cover financial obligations as they come due, and to sustain and grow operations in both normal and stressed conditions. They take into account any legal, regulatory, tax, operational or economic impediments to inter-entity funding.

Liquidity risk is reduced by having policy liabilities that are well-diversified by product, market, geographical region and policyholder. We design insurance products to encourage policyholders to maintain their policies in-force, thereby generating a diversified and stable flow of recurring premium income. We design the policyholder termination features of our wealth management products and related investment strategies to mitigate the financial exposure and liquidity risk related to unexpected policyholder terminations. We establish and implement investment strategies that match the term profile of the assets to the liabilities they support, taking into account the potential for unexpected policyholder terminations and resulting liquidity needs. We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. We forecast and monitor actual daily operating liquidity and cash movements in local operations as well as centrally, to ensure liquidity is available and cash is employed optimally.

Global operating and strategic liquidity levels are managed against established minimums. We set minimum operating liquidity as the level of one month's operating cash outflows. Our operating liquidity remains well above minimum requirements. We measure strategic liquidity under both immediate (within one month) and ongoing (within one year) stress scenarios. Our policy is to maintain the ratio of adjusted liquid assets to adjusted policy liabilities at or above a pre-established target. Adjusted liquid assets include cash and short-term securities, and marketable bonds and stocks that are discounted to reflect convertibility to cash, net of maturing debt obligations. Policy liabilities are adjusted to reflect their potential for withdrawal. Our strategic liquidity remains above policy targets.

**Table 5 ^ Strategic Liquidity***

| As at December 31 (Canadian $ in millions) | 2007 Immediate scenario | 2007 Ongoing scenario | 2006 Immediate scenario | 2006 Ongoing scenario |
|---|---|---|---|---|
| Adjusted liquid assets | **$ 81,487** | **$81,571** | $ 89,966 | $ 89,140 |
| Adjusted policy liabilities | **$ 20,597** | **$26,750** | $ 22,507 | $ 28,973 |
| Liquidity ratio | **396%** | **305%** | 400% | 308% |

* During the year, the Strategic Liquidity Ratio was adjusted to more accurately reflect the liquidity assumptions associated with certain pledged assets. Prior year numbers have been revised to conform to the current basis of calculation.

**Credit Risk**

**Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligations.**

**Key Risk Factors** A pronounced and sustained economic downturn could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to our general account invested assets and off-balance instruments, and an increase in provisions for future credit impairments to be included in our actuarial liabilities. Counterparty risk arises primarily from derivatives and reinsurance activities. Any of our reinsurance providers being unable or unwilling to fulfill their contractual obligations related to the liabilities we cede to them could lead to an increase in actuarial reserves.

**Risk Management Strategy** The Credit Committee establishes and oversees execution of our credit risk management strategy. The committee sets out objectives related to the overall quality and diversification of our general account investment portfolio and establishes criteria for the selection of counterparties, including reinsurers and insurance providers. Our policies establish exposure limits by borrower, corporate connection, quality rating, industry, and geographic region, and govern the usage of credit derivatives. Corporate connection limits vary according to risk rating. We invest our general account assets primarily in investment grade bonds and commercial mortgages. We do not actively participate in the credit derivative market, and currently have a minimal exposure to credit default swaps.

All of our credit-granting units follow a defined evaluation process that provides an objective assessment of credit proposals. We assign each investment a risk rating based on a detailed examination of the borrower that includes a review of: business strategy, market competitiveness, industry trends, financial strength, access to funds, and other risks facing the organization. We assess and update risk ratings regularly, based on a standardized 22-point scale consistent with those of external rating agencies. For additional input to the process, we also assess credit risks using a variety of industry standard, market based tools and metrics. We map our risk ratings to pre-established probabilities of default and loss given defaults, based on historical industry and company experience, and resulting default costs, which form key inputs to our product pricing, actuarial liabilities and economic capital.

We establish delegated credit approval authorities and make credit decisions on a case-by-case basis at a management level appropriate to the size and risk level of the transaction, based on the delegated authorities that vary according to risk rating. We refer all major credit decisions to the Credit Committee and the largest credit decisions to the CEO for approval and, in certain cases, to the Board of Directors.

We have in place distinct derivative counterparty exposure limits, based on a minimum acceptable counterparty credit rating of “A” from internationally recognized rating agencies. We measure derivative counterparty exposure as gross potential credit exposure, which takes into consideration mark-to-market value, net of any collateral held, and an allowance to reflect future potential exposure. We measure reinsurance counterparty exposure as both current exposure and potential future exposures reflecting the level of ceded actuarial liabilities. We require all reinsurance and insurance counterparties to meet minimum risk rating criteria.

Regular reviews of the credits within the various portfolios are undertaken to ensure that changes to credit quality are identified, and where appropriate, that corrective action is taken. Prompt identification of problem credits is a key objective. CRM provides independent credit risk oversight by reviewing assigned risk ratings, and monitoring problem and potential problem credits.

An allowance for losses on loans is established when a loan 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 the loan and related investment income. We reduce the carrying value of an impaired loan to its estimated net realizable value at the time of recognition of impairment. We establish an allowance for losses on reinsurance contracts when a reinsurance counterparty becomes unable or unwilling to fulfill their contractual obligations. We base the allowance for loss on current recoverables and ceded actuarial liabilities. There is no assurance that the allowance for losses will be adequate to cover future potential losses or that additional provisions or asset write-downs will not be required.

Actuarial liabilities also include general provisions for credit losses from future asset impairments. We set these taking into account normal historical levels and future expectations, with an allowance for adverse deviations. Fluctuations in credit default rates and deterioration in credit ratings of borrowers may result in losses if actual rates exceed expected rates. As at December 31, 2007 and December 31, 2006, credit loss rates over the next year which exceed the rates provided for in actuarial reserves by 25 per cent would reduce net income by $21 million and $30 million, respectively.

A variety of aggregate credit risk exposure measures are shown in the following table.

**Table 6 Credit Risk Measures**

| **As at December 31** (Canadian $ in millions unless otherwise stated) | **2007** | 2006 |
|---|---|---|
| Net impaired assets | **$ 240** | $ 341 |
| Net impaired assets as a per cent of total invested assets | **0.15%** | 0.20% |
| Allowance for loan losses | **$ 76** | $ 186 |
| Provision for future credit losses included in actuarial liabilities [1] | **$ 1,991** | $ 2,547 |

[1] Excludes allowances for pass-through credit risk pertaining to participating policies and certain other policies. The allowance for expected credit losses implicit in actuarial liabilities for these policies was estimated to be $1,066 million as at December 31, 2007 and $1,289 million as at December 31, 2006.

### Insurance Risk

**Insurance risk is the risk of loss due to actual experience emerging differently than assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholder behaviour and expenses.**

**Key Risk Factors** A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when we design and price products, and when we establish actuarial liabilities. To develop assumptions for future claims, we use both Company and industry experience. To develop assumptions for future policyholder behavior, we use Company experience and predictive models. Predictions, therefore, rely on significant judgment. Actual experience may be materially different than the assumptions we make. Claims may be impacted by the unusual onset of disease or illness, natural disasters, large-scale manmade disasters and acts of terrorism. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced however, by many factors including market and general economic conditions, and the availability and price of other products in the marketplace.

**Risk Management Strategy** The Product Oversight Committee oversees insurance risk management, together with all other elements of our product design and pricing practices, to ensure our product offerings align with our risk taking philosophy and risk limits, while promoting business opportunities. Within the broad framework set out by our Product Design and Pricing Policy, this committee establishes global product design and pricing standards and guidelines.

These cover:

- product design features
- use of reinsurance
- pricing models and software
- internal risk-based capital allocations
- target profit objectives
- pricing methods and assumption setting
- stochastic and stress scenario testing
- required documentation
- review and approval processes
- experience monitoring programs

We designate individual pricing officers in each business unit who are accountable for all pricing activities. The general manager and chief financial officer of each business unit, and CRM, approve the design and pricing of each product, including key claims, policyholder behaviour, investment return and expense assumptions, as well as reinsurance treaties with third parties, ensuring corporate

standards are met. Corporate Actuarial approves all actuarial valuation methods and assumptions and approves reinsurance treaties related to business in-force, as well as all related party reinsurance treaties. We perform annual risk and compliance self-assessments of the product development and pricing activities of all businesses.

We utilize a global underwriting manual to ensure insurance underwriting practices for direct written life business are consistent across the organization while reflecting local conditions. Each business unit establishes underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures.

We apply retention limits per insured life to reduce our exposure to individual large claims which are monitored in each business unit. These retention limits vary by market and jurisdiction. We reinsure exposure in excess of these limits with other companies. Our current global retention limit is U.S. $20 million (U.S. $25 million for joint life policies) and is shared across business units. We apply lower limits in some markets and jurisdictions. We further reduce exposure to claims concentrations by applying geographical aggregate retention limits for certain covers.

As noted above, fluctuations in claims experience may result in losses. As at December 31, 2007 and December 31, 2006 actual mortality and morbidity rates over the next year exceeding the rates provided for in actuarial reserves by five per cent would reduce net income by $127 million and $123 million, respectively. Enterprise-wide, this claims exposure is lessened as a result of operating internationally and insuring a wide range of unrelated risk events, reducing the likelihood of high aggregate claims rates.

**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.**

**Key Risk Factors** Operational risk is naturally present in all of the Company's business activities and encompasses a broad range of risks, including reputation risk, regulatory compliance failures, legal disputes, technology failures, business interruption, information security and privacy, human resource management and employment practices, environmental concerns, processing errors, business integration, theft and fraud, and damage to physical assets. Exposures can take the form of financial losses, regulatory sanctions, loss of competitive positioning, or damage to reputation. Operational risk is also embedded in all the practices we use to manage other risks therefore, if not managed effectively, can impact our ability to manage other key risks such as credit risk, market and asset liability risk and insurance risk.

**Risk Management Strategy** Manulife Financial's corporate governance practices, corporate values, and integrated, enterprise-wide approach to managing risk set the foundation for mitigating operational risks. We strengthen this base by ensuring appropriate internal controls and systems, together with trained and competent people, are in place throughout the organization. We establish and execute enterprise-wide risk management strategies for specific operational risks that could materially impact our ability to do business or impact our reputation. Within established corporate standards, business unit general managers are accountable for the day-to-day management of the operational risks inherent in their operations. Business units and functional areas perform risk control self-assessments to identify, document and assess inherent operational risks and effectiveness of internal controls. They monitor key risk indicators that provide early warnings of emerging control issues and proactively modify procedures.

Through our corporate insurance program, the Company transfers a portion of our operational risk exposure by purchasing global and local insurance covers that provide protection against unexpected material losses resulting from events such as criminal activity, property loss or damage and liability exposures, or that satisfy legal requirements and contractual obligations. We determine the nature and amount of insurance coverage centrally, reflecting enterprise-wide exposures and risk tolerances.

The following is a further description of key operational risk factors with associated management strategies:

**Reputation Risk** Reputation risk is the risk that our corporate image may be eroded by adverse publicity, as a result of our business practices or those of our employees, representatives and business partners, potentially causing damage to our franchise value. Representatives include affiliated broker-dealers, agents, wholesalers and independent distributors, such as broker-dealers and banks, whose services and representations our customers rely on. Business partners, among others, include third parties to whom we have outsourced some of our administrative functions and that we rely on to fulfill various obligations. Manulife Financial's reputation is one of its most valuable assets and must be safeguarded. A loss of reputation is often a consequence of some other risk control failure whether associated with complex financial transactions or relatively routine operational activities. As such, reputation risk cannot be managed in isolation from other risks. Our enterprise-wide Reputation Risk Policy specifies the oversight responsibilities of the Board and the responsibilities of executive management, in managing reputation risk. We apply a set of guiding principles in conducting all our business activities, to protect and enhance our reputation, and place a priority on communication to and education of all employees and representatives. We require reputation risk assessments to be considered as part of business strategy development and execution. While the CEO and executive management are ultimately responsible for our reputation, every one of our employees and representatives has the responsibility to conduct their business activities in a manner that upholds our reputation. This responsibility is communicated to every director, officer and employee through our Code of Business Conduct and Ethics.

**Legal and Regulatory Risk** The Company is subject to extensive regulatory oversight by insurance and/or financial services regulators in the jurisdictions in which it conducts business. While many of these laws, regulations and regulatory policies are intended to protect policyholders, beneficiaries and depositors and investors in our products and services, others also set standards and requirements for the governance of our operations. Failure to comply with applicable statutes or regulations could result in financial penalties or sanctions, and damage to reputation. We are also regularly involved in litigation, both as plaintiff and defendant, which could result in an unfavourable resolution. Global Compliance oversees our regulatory compliance program, supported by designated chief

compliance officers in every division. The program is designed to promote compliance with regulatory obligations worldwide and to help ensure awareness of the laws and regulations that affect us, and the risks associated with failing to comply. Divisional compliance groups monitor emerging legal and regulatory issues as well as proposed regulatory changes and take an active role in attempting to influence these where appropriate. They also prepare us to address new requirements. Global Compliance also independently assesses and monitors the effectiveness of a broad range of regulatory compliance processes and business practices against potential legal, regulatory and reputation risks, and helps to ensure significant issues are escalated and proactively mitigated. Among these processes and practices are: product design, sales and marketing practices, sales compensation practices, asset management practices, fiduciary responsibilities, employment practices, underwriting and claims processing and regulatory filings.

**Technology, Information Security and Business Interruption Risks** Technology is used in virtually all aspects of our business and operations including the creation and support of new products and services. Operational integrity, data integrity and security of information and our systems infrastructure are all relied upon for normal business operations. Disruption to operations due to system failure or information security breaches can have negative consequences for our businesses. Technology related risks are managed through a rigorous systems development protocol and global information security programs. Global Information Systems oversees risks associated with information security, information systems privacy and compliance, business continuity and disaster recovery planning. We have in place a global business continuity policy along with standards of practice to ensure key business functions can continue and normal operations can resume effectively and efficiently, in the event of a major disruption. Each business unit maintains its own business continuity plans and processes and the global program incorporates periodic scenario analysis to validate the assessment of both critical and non-critical units, as well as the establishment and testing of appropriate business continuity plans for all critical units. We establish and regularly test crisis management and communications protocols. We have off-site backup facilities available to minimize recovery time. We subject our outsourcing arrangements, whereby a service provider performs a service activity on behalf of the Company, to review procedures, prior to their approval. We have comprehensive policies and procedures in place to monitor the ongoing results and contractual compliance of such arrangements.

**Human Resource Risks** Attracting and retaining qualified resources is critical to the execution of our business strategies. We face tremendous competition for qualified executives, employees and agents from companies both within the financial services industry and in other industries. We have established and implemented a number of human resource policies, practices and programs in order to manage these risks and Corporate Human Resources manages our global human resource programs. Our executive management is committed to employee training and development, and our compensation program is designed to attract, motivate and retain high-performing employees. We have in place a number of recruiting programs to attract the best and the brightest for every level of the organization.

**Environmental Risk** An environmental issue on a property owned by us or any property with which we are affiliated could result in financial or reputational loss. Manulife Financial's environmental policy reflects the Company's commitment to conducting all business activities in a manner that recognizes the need to preserve the quality of the environment, as well as the requirement to be compliant with all applicable environmental laws and regulations. In providing credit to borrowers, or making equity investments in private firms, we take reasonable steps to help ensure that counterparties are environmentally responsible. In natural resource management operations, we have specific policies and procedures in place to mitigate environmental risks and operate in an environmentally responsible manner. We also have programs in place across the real estate holdings to conserve energy and reduce waste.

**Derivatives Risk** Derivatives are used to manage market risks. We mitigate the unique operational risks associated with the use of derivatives by having in place specific risk management policies and processes including limits on the notional volume of derivative transactions, authorized types of derivatives and applications, delegated authorization and trading limits for specific personnel, as well as the pre-approval of all derivative application strategies and regular monitoring of the effectiveness of derivative strategies.

**Additional Risk Factors That May Affect Future Results**

The Accounting Standards Board of the CICA makes changes to the financial accounting and reporting standards that govern the preparation of our financial statements. These changes may be difficult to anticipate and may materially impact how we record and present our financial condition and results of operations. As discussed under "Critical Accounting and Actuarial Policies", the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the financial statements and accompanying notes. These estimates and assumptions may require revision and actual results may differ materially from these estimates. As well, as noted under "Caution Regarding Forward-Looking Statements", forward-looking statements involve risks and uncertainties and actual results may differ materially from those expressed or implied in such statements. Key risk factors and their management have been described above, summarized by major risk category.

Other factors that may affect future results include changes in government trade policy; monetary policy; fiscal policy; political conditions and developments in or affecting the countries in which we operate; technological changes; public infrastructure disruptions; unexpected changes in consumer spending and saving habits; the possible impact on local, national or global economies from public health emergencies, such as an influenza pandemic, and international conflicts and other developments including those relating to terrorist activities. Although we take steps to anticipate and minimize risks in general, unforeseen future events may have a negative impact on our business, financial condition and results of operations.

We caution that the preceding discussion of risks that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to our Company, investors and others should carefully consider the foregoing risks, as well as other uncertainties and potential events, and other external and Company specific risks that may adversely affect the future business, financial condition or results of operations of our Company.

# Capital Management

**Overview**
Manulife Financial manages its capital on a total company basis as well as at each regulated entity level. Management seeks to optimize the Company's capital structure under a variety of constraints as defined by regulatory rules, rating agency expectations, competitive considerations and our own business needs. Overall, the capital position of the Company and its entities remains well in excess of all regulatory requirements.

**Capital Management Framework**
The Company's objectives with respect to capital management are: to remain in compliance with all regulatory requirements; to ensure safety and stability of our financial position; to ensure we have the flexibility to take advantage of attractive business and investment opportunities as they arise; and to optimize the return on shareholders' equity.

In its assessments of capital adequacy, the Company typically adopts regulatory capital definitions and measures applicable to any given entity and jurisdiction in which an entity operates. These are supplemented by an internal capital measurement framework that reflects our own risk view. We establish internal targets for capital adequacy that exceed regulatory requirements. This ensures ongoing compliance with regulatory constraints and enables us to properly take into account risk profiles, rating agency expectations and peer comparisons, among others. Management regularly monitors performance against those internal targets and initiates action when appropriate.

Capital is generally allocated to business lines for planning and performance management purposes based on the higher of the internal risk-based capital and the regulatory capital levels. The currency mix of assets supporting capital is consistent with the currency mix of the company's underlying liability risks.

Annually as part of our Dynamic Capital Adequacy Testing ("DCAT"), we assess the strength of our capital position under severe shock scenarios. The scenarios are determined each year to ensure their ongoing relevance to our business and risk profile. The 2007 results indicate that the Company's capital levels continue to provide sufficient protection against a number of severe adverse shocks.

Capital quality is maintained by limiting the amount of debt capital or non-permanent equity capital in the capital structure. The Company remains well within regulatory constraints on the composition of capital between equity and other instruments. Our capital and funding structure also meets expectations of rating agencies with respect to their various leverage measures. The Company monitors and rebalances its capital mix through opportunistic capital issuances, capital repurchases and redemptions.

The following measure of available capital serves as the foundation of our capital management activities at the MFC level. For regulatory reporting purposes, the numbers are further adjusted for various additions or deductions to capital as mandated by the guidelines issued by the Office of the Superintendent of Financial Institutions ("OSFI").

**As at December 31,**

| (Canadian $ in millions) | **2007** | 2006 | 2005 |
|---|---|---|---|
| Equity | **$22,406** | $25,018 | $23,443 |
| Preferred shares | **982** | 982 | 688 |
| Innovative instruments | **1,000** | 1,000 | 1,000 |
| Subordinated debentures | **1,196** | 1,195 | 800 |
| AOCI on AFS securities | **1,327** | – | – |
| Other capital instruments | **470** | 1,156 | 1,157 |
| Non-controlling interest in subsidiaries | **146** | 202 | 187 |
| **Total** | **$27,527** | $29,553 | $27,275 |

The 2007 numbers reflect the adoption of CICA Handbook section 3855 on January 1, 2007. For further details, see note 14 to the consolidated financial statements.

The reduction in the Company's capital relative to previous years is primarily due to a larger reported deficit in AOCI on currency translation of net foreign operations. The deficit reflects mostly the appreciation of the Canadian currency relative to the U.S. dollar. Since the currency translation also lowered required capital, overall changes in the exchange rate had an immaterial impact on the Company's capital position.

In addition to the currency movements, the total capital was also affected by the Company's share repurchases and capital redemptions that are discussed below. Their impact was largely offset by the growth in earnings.

Designated committees of the Board of Directors review and approve Manulife's Capital Management Policies. Each quarter members of the Audit and Risk Management Committee of the Board review the Company's capital position. Annually, the Chief Actuary discusses with the Board key sensitivities of the Company's capital position as assessed in the context of annual DCAT. Operational oversight of capital management is provided by the Finance Committee, chaired by the CFO and consisting of senior finance, risk management and investment executives. The committee oversees capital policies as well as reviews issues and initiatives that affect the capital position of Manulife's subsidiaries and the Company as a whole.

**Common Shareholder Dividend and Target Dividend Payout Ratio**

The target common shareholder dividend payout is a range of 25 per cent to 35 per cent of net income. The dividends per common share paid in cash and the common share dividend payout ratio in the last three years were:

| For the years ended December 31, | 2007 | 2006 | 2005 |
|---|---|---|---|
| Dividends per common share paid in cash | **$0.88** | $0.73 | $0.58 |
| Common share dividend payout ratio | **31%** | 29% | 28% |

Note: On June 2, 2006, MFC paid a stock dividend of one common share on each of its issued and outstanding common shares. The effect is the same as a two-for-one split of MFC's common shares.

**Capital and Funding Activities**

In 2007, we issued $251 million of capital (2006 – $1,078 million as well as $896 million in long-term debt) and redeemed/repurchased $2,916 million of capital (2006 – $1,881 million), including $2,245 million of common shares (2006 – $1,631 million).

During 2007, pursuant to the acquisition of a subsidiary as well as the exercise of stock options and the settlement of deferred share units, 9.5 million common shares were issued for a total consideration of $251 million (2006 – $139 million).

On February 1, 2007, the Company redeemed its total outstanding U.S. $492.5 million 8.375% Capital Trust Pass-through Securities ("TruPS") issued by MIC Financing Trust I ("MIC Trust") that qualified as regulatory capital, at par plus accrued and unpaid distributions to the date of redemption.

On December 31, 2007, The Manufacturers Life Insurance Company ("MLI") redeemed its total outstanding 6.10% non-cumulative Class A, Series 6 preferred shares for $89 million. These shares reduced the amount of non-controlling interest in subsidiaries (see note 12 to the consolidated financial statements).

During 2007, MFC purchased and subsequently cancelled 56.4 million common shares pursuant to normal course issuer bids ("NCIB") at a total cost of $2,245 million. The current NCIB expires on November 8, 2008, and allows for the repurchase of up to 75 million common shares at prevailing market prices of which 3.1 million shares were repurchased as at December 31, 2007.

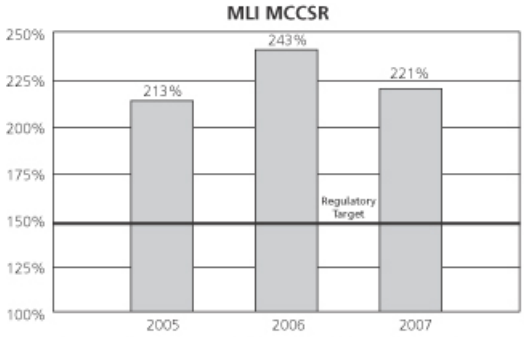
**Regulatory Capital Position**

The Company monitors and manages consolidated capital for MFC in compliance with the OSFI Guideline A2 – Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued July 5, 2005. Under this regime our consolidated available capital is measured against a required amount of risk capital determined using methods and assumptions in the guideline. The capital position of the consolidated MFC holding company remains well in excess of our internal targets.

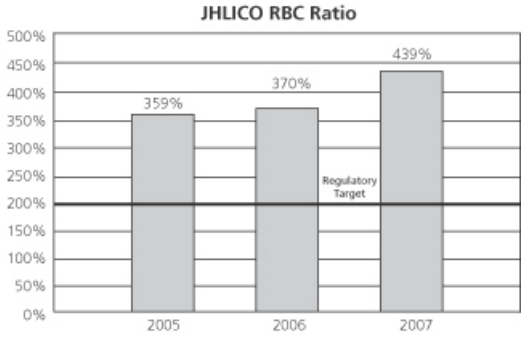
Manulife has established capital targets in excess of regulatory targets for our primary operating subsidiaries. MFC has two principal operating insurance companies: MLI and John Hancock Life Insurance Company ("JHLICO").

MLI, our principal Canadian operating company, is regulated by OSFI and is subject to Minimum Continuing Capital and Surplus Requirements ("MCCSR"). MLI's MCCSR ratio as at December 31, 2007 was 221 per cent (December 31, 2006 – 243 per cent), well in excess of OSFI's target of 150 per cent. The key drivers affecting the ratio over the course of 2007 were business growth, changes in asset and liability mix, dividends paid to MFC and capital redemptions, all of which more than offset the positive impact of earnings. MLI's operations and subsidiaries all maintained capital levels in excess of local requirements as at December 31, 2007. In particular Manulife Canada Ltd., an OSFI-regulated Canadian operating insurance company, had an MCCSR ratio of 216 per cent, well above the regulatory target of 150 per cent.

JHLICO is domiciled in the State of Massachusetts and reports annually subject to the Risk-Based Capital ("RBC") requirements of the National Association of Insurance Commissioners ("NAIC"). JHLICO's RBC ratio changed from 370 per cent as at December 31, 2006 to 439 per cent as at December 31, 2007 due to earnings and asset mix changes offsetting business growth. This ratio is well above the regulatory target of 200 per cent. JHLICO's operations and subsidiaries all maintained capital levels in excess of local requirements as at December 31, 2007.




OSFI regulatory minimum is 120%, with 150% regulatory target.




RBC ratios are a per cent of the Company Action Level RBC. The NAIC regulatory minimum is 100%, with 200% regulatory target.

**Credit Ratings**

The Company's credit ratings are among the highest of global financial institutions. In September 2007, Moody's upgraded the ratings of MFC's key subsidiaries, including MLI and JHLICO, from Aa2 to Aa1 with a stable outlook. S&P ratings for those key subsidiaries remained at AAA following upgrades from AA+ in November 2006.

The following table summarizes our operating company ratings as at December 31, 2007.

**Primary Insurance Company Financial Strength/Claims Paying Credit Ratings**

| | S&P | Moody's | DBRS | Fitch | A.M. Best |
|---|---|---|---|---|---|
| The Manufacturers Life Insurance Company | AAA | Aa1 | IC-1 | AA+ | A++ |
| John Hancock Life Insurance Company | AAA | Aa1 | Not Rated | AA+ | A++ |
| John Hancock Life Insurance Company (U.S.A.) | AAA | Aa1 | Not Rated | AA+ | A++ |
| Manulife (International) Limited | AAA | Not Rated | Not Rated | Not Rated | Not Rated |
| Manulife Life Insurance Company (Japan) | AAA | Not Rated | Not Rated | Not Rated | Not Rated |

**Performance and Non-GAAP Measures**

We use a number of non-GAAP financial measures to measure overall performance and to assess each of our businesses. Non-GAAP measures include return on common shareholders' equity, premiums and deposits and funds under management. Non-GAAP financial measures are not defined terms under GAAP and, therefore, are unlikely to be comparable to similar terms used by other issuers.

Return on equity is a profitability measure that presents the net income available to common shareholders as a percentage of the capital deployed to earn the income. The implementation of the new accounting standards for financial instruments resulted in certain unrealized gains and losses, which do not have an impact on reported income for the period, being reflected in a new component of shareholders' equity. Accordingly, the Company calculates return on equity using average common shareholders' equity excluding accumulated other comprehensive income on available-for-sale securities and cash flow hedges.

# Critical Accounting and Actuarial Policies

**The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on historical experience, management's assessment of current events and conditions and activities that the Company may undertake in the future as well as possible future economic events. Actual results could differ from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.**

**Our significant accounting policies are described in note 1 to the consolidated financial statements. The most significant estimation processes relate to the evaluation of invested asset impairment, determination of policy liabilities, assessment of variable interest entities, determination of pension and other post-employment benefit obligations and expenses, income taxes and impairment testing of goodwill and intangible assets as described below.**

**Evaluation of Invested Asset Impairment**
Available-for-sale fixed income securities which are considered other than temporarily impaired are written down to their estimated fair value with losses recorded in earnings.

Available-for-sale stocks which are considered other than temporarily impaired are also written down to their estimated fair value with losses recorded in earnings.

Provisions for impairments of mortgage loans and private placement loans are recorded with losses reported in earnings, when there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

In assessing whether an impairment is other than temporary and assessing fair values and recoverable values, judgment is exercised relating to matters including economic factors, developments affecting companies in particular industries and specific issues with respect to single issuers and borrowers, for which the ultimate outcome is unknown.

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. Additional information on the process and methodology for determining the allowance for credit losses is included in the discussion of credit risk beginning on page 27.

**Policy Liabilities**
Policy liabilities for Canadian GAAP are valued under standards established by the Canadian Institute of Actuaries. These standards are designed to ensure we establish an appropriate liability on the balance sheet to cover future obligations to all our policyholders. Under Canadian GAAP, the assumptions underlying the valuation of policy liabilities are required to be reviewed and updated on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business. In conjunction with prudent business practices to manage both product and asset related risks, the selection and monitoring of appropriate valuation assumptions are designed to minimize our exposure to measurement uncertainty related to policy liabilities.

**Determination of Policy Liabilities**
Policy liabilities have two major components: a best estimate amount and a provision for adverse deviation. The best estimate amount represents the estimated value of future policyholder benefits and settlement obligations to be paid over the term remaining on in-force policies, including the costs of servicing the policies. The best estimate amount is reduced by the future expected policy revenues and future expected investment income on assets supporting the policies, adjusted for the impact of any reinsurance ceded associated with the policies. Reinsurance is used to transfer part or all of a policy liability to another insurance company at terms negotiated with that insurance company. To determine the best estimate amount, assumptions must be made for a number of key factors, including future mortality and morbidity rates, investment returns, rates of policy termination, operating expenses, certain taxes and foreign currency.

To recognize the uncertainty involved in determining the best estimate actuarial liability assumptions, a provision for adverse deviation ("PfAD") is established. The PfAD is determined by including a margin of conservatism for each assumption to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities will be adequate to pay future benefits. The Canadian Institute of Actuaries establishes suggested ranges for the level of margins for adverse deviation based on the risk profile of the business. We use assumptions at the conservative end of the suggested ranges, taking into account the risk profile of our business. The effect of these margins is to increase policy liabilities over the best estimate assumptions. The margins for adverse deviation decrease the income that is recognized when a new policy is sold and increase the income recognized in later periods, with the margins releasing as the policy risks reduce.

**Best Estimate Assumptions**

We follow established processes to determine the assumptions used in the valuation of our policy liabilities. The nature of each risk factor and the process for setting the assumptions used in the valuation are discussed below.

**Mortality:** Mortality relates to the occurrence of death. Mortality assumptions are based on our internal as well as industry past and emerging experience and are differentiated by sex, underwriting class, policy type and geographic market. To offset some of this risk, we reinsure mortality risk on in-force policies to other insurers and the impact of the reinsurance is directly reflected in our policy valuation. Actual mortality experience is monitored against these assumptions separately for each business. Overall 2007 experience was favourable when compared with our assumptions.

**Morbidity:** Morbidity relates to the occurrence of accidents and sickness for the insured risks. Morbidity assumptions are based on our internal as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market. Actual morbidity experience is monitored against these assumptions separately for each business. Overall 2007 experience was unfavourable when compared with our assumptions.

**Policy Termination and Premium Persistency:** Policy termination includes lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on our recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market and actual experience is monitored against these assumptions separately for each business. Overall 2007 experience was unfavourable when compared to our assumptions.

**Expenses and Taxes:** Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies, including associated overhead expenses. The expenses are derived from internal cost studies and are projected into the future with an allowance for inflation. For some developing businesses, there is an expectation that unit costs will decline as these businesses mature. Actual expenses are monitored against assumptions separately for each business. Overall maintenance expenses for 2007 were favourable when compared with our assumptions. Taxes reflect assumptions for future premium taxes and other non-income related taxes. For income taxes, policy liabilities are adjusted only for temporary tax timing and permanent tax rate differences on the cash flows available to satisfy policy obligations.

**Investment Returns:** We segment assets to support liabilities by business segment and geographic market and establish investment strategies appropriate to each liability segment. The projected cash flows from these assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return for all future years. The investment strategies for future asset purchases and sales are based on our target investment policies for each segment and the re-investment returns are derived from current and projected market rates for fixed interest investments and our projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed income investments. Credit losses are projected based on our own and industry experience, as well as specific reviews of the current investment portfolio. In 2007, credit loss experience on both bonds and mortgages continued to be favourable when compared to our assumptions. Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from internal cost studies. Overall 2007 investment management expense experience was unfavourable when compared to our assumptions.

**Foreign Currency:** Foreign currency risk results from a mismatch of the currency of the policy liabilities and the currency of the assets designated to support these obligations. Because we have a policy of matching the currency of our assets with the currency of the liabilities they support, there is little exposure related to unfavourable movements in foreign exchange rates in the valuation. Where a currency mismatch exists, the assumed rate of return on the assets supporting the liabilities is reduced to reflect the potential for adverse movements in exchange rates.

**Experience Adjusted Products:** Where policies have features that allow the impact of changes in experience to be passed on to policyholders through policy dividends, experience rating refunds, credited rates or other adjustable features, the projected policyholder benefits are adjusted to reflect the projected experience. Minimum contractual guarantees and other market considerations are taken into account in determining the policy adjustments.

**Provision for Adverse Deviation**

The provision for adverse deviation is the sum of the total margins for adverse deviation for each risk factor. Margins for adverse deviation are established by product type and geographic market for each assumption or factor used in the determination of the best estimate actuarial liability. The margins are established based on the risk characteristics of the business being valued.

In addition to the explicit margin for adverse deviation, the valuation basis for segregated fund liabilities explicitly limits the future revenue recognition in the valuation basis to the amount necessary to offset acquisition expenses, after allowing for the cost of any guarantee features. This limitation is reported as an additional margin and is shown in segregated fund non-capitalized margins.

The provision for adverse deviation and the future revenue deferred in the valuation due to the limitations on recognition of future revenue in the valuation of segregated fund liabilities are shown in the table below.

| As at December 31<br>(Canadian $ in millions) | 2007 | 2006 |
|---|---|---|
| **Best estimate actuarial liability** | **$96,030** | $102,502 |
| **Provision for Adverse Deviation** | | |
| Insurance risks (mortality/morbidity) | **$ 6,167** | $ 5,659 |
| Policyholder behavior (lapse/surrender/premium persistency) | **2,544** | 2,667 |
| Expenses | **918** | 850 |
| Investment risks (non-credit) | **9,932** | 9,169 |
| Investment risks (credit) | **1,161** | 1,581 |
| Segregated fund guarantees | **457** | 435 |
| Other | **443** | 553 |
| **Total Provision for Adverse Deviation (PfAD)** | **$21,622** | $ 20,914 |
| **Segregated funds – additional margins** | **11,548** | 9,798 |
| **Total of PfAD and additional segregated fund margins** | **$33,170** | $ 30,712 |

Reported actuarial liabilities as at December 31, 2007 of $117,652 million (2006 – $123,416 million) are composed of $96,030 million (2006 – $102,502 million) of best estimate actuarial liability and $21,622 million (2006 – $20,914 million) of PfAD.

The increase in PfAD for insurance risks is due in part to a reallocation of future expected mortality improvements offset from expected assumptions to PfADs for North American Individual Insurance businesses, as well as an increase in the morbidity PfAD supporting Long Term Care business driven by business growth.

The increase in PfAD for investment risk (non-credit) reflects an increased margin in the valuation for interest spread risk.

PfADs for investment risk (credit) have decreased due to currency given the relative concentration of higher allowance assets in the U.S., as well as the removal of certain minimum margins on corporate bonds.

Segregated fund margins, namely those classified as non-capitalized margins, have increased from growth and market movement.

### Sensitivity of Policy Liabilities to Changes in Assumptions

When our assumptions are updated to reflect recent and emerging experience or change in outlook, the result is a change in the value of policy liabilities. The sensitivity of the value of policy liabilities to changes in assumptions is shown below, assuming that there is a simultaneous change in the assumption across all business units. In practice, experience for each assumption will frequently vary by geographic market and business and assumption updates are made on a business/geographic specific basis.

### Sensitivity of Policy Liabilities to Changes in Assumptions

| As at December 31,<br>(Canadian $ in millions) | Increase (Decrease) in Policy Liabilities | |
|---|---|---|
| | **2007** | 2006 |
| **Policy Related Assumptions** | | |
| 1% increase in future mortality rates | **$ 56** | $ 76 |
| 1% worsening in future morbidity rates | **211** | 134 |
| 10% adverse change in future termination rates | **841** | 913 |
| 10% increase in future expense levels | **689** | 775 |
| **Asset Related Assumptions** | | |
| 100 basis point decrease in market interest rates | **$ 641** | $ 615 |
| 100 basis point increase in market interest rates | **(528)** | (510) |
| 10% decrease in equity market values | **511** | 572 |
| 10% decrease in real estate and other non-fixed income asset market values | **348** | 269 |

- The sensitivities of policy liabilities to changes in assumptions shown in the table above are adjusted for the related impact on income taxes.
- An increase in mortality rates will generally increase policy liabilities for life insurance contracts and reduce policy liabilities for policies with longevity risk such as payout annuities. For policies where an increase in mortality will increase policy liabilities, the impact of a one per cent increase on life policies alone is $148 million.
- Changes in market interest rates reflect a change to the initial market interest rates, but assume that ultimate long-term fixed income re-investment rates ("URRs") for new investments are unchanged. If the long-term URRs were to be changed by a similar amount to the initial market interest rates, so that the valuation reflected a permanent shift in market interest rates available for all future re-investments, the policy liability increases by $3,743 million for a 100 basis point decrease in interest rates, and decreases by $2,507 million for a 100 basis point increase in interest rates.
- The sensitivities for level of future market interest rates are calculated based on adjusting the interest rates in the current valuation interest scenario used to determine policy liabilities, and do not reflect potential additional costs from full prescribed scenario testing.
- The sensitivities to real estate and other non-fixed income market values reflect the impact of an increase/decrease on all forms of real estate assets as well as any other non-fixed income instruments supporting policy liabilities excluding common and private equities.

### Review of Actuarial Methods and Assumptions

The 2007 review of the actuarial methods and assumptions underlying policy liabilities produced a net increase in the policy liabilities of $32 million. Net of the impacts on participating surplus and minority interests, this resulted in a decrease in 2007 shareholders' income of pre-tax $19 million.

**Impact of 2007 Review by Category of Change**
(Canadian $ in millions)

| | | |
|---|---|---|
| Interest rate risk booking scenario | $ (40) | Increase from reducing the assumed ultimate risk free re-investment rates applied in the scenario used to establish policy liabilities. Under this scenario, risk free interest rates and market spreads are assumed to grade from current market level rates to ultimate re-investment rates over five years. The reduction in the long bond risk free rates underlying the ultimate re-investment rates was to 3.55% in Canada and 3.65% in the U.S., a reduction of 25 bps. Offsetting this increase was a reduction from updating the current market spreads used in the re-investment grading to reflect Q3 2007 market spreads. Going forward this assumption will be updated each quarter, similar to the risk free rates. |
| Other investment return assumption and modeling changes | (228) | The reduction is driven by (i) elimination of a modeling uncertainty provision established in the 2006 basis changes related to new investment modeling processes implemented at that time, (ii) a reduction from removal of minimum asset default margins based on determination that these were not required given the robust way in which the long-term underlying default assumptions are developed, and (iii) updates to expected returns for real estate, equity, and infrastructure assets. |
| Regular review of non-economic assumptions | 659 | Comprises the following items: (i) a net increase from the impact of strengthening future morbidity assumptions, less offsetting expected policy adjustments, on U.S. Long Term Care; (ii) an increase from mortality strengthening in U.S. Annuities and Reinsurance partially offset by a decrease in Japan; (iii) an increase from strengthening related to policy persistency, primarily on U.S. Long Term Care, Canadian Individual Insurance and U.S. Variable Annuities; (iv) an increase from expense assumptions reflecting both higher projected future investment management expenses and increased administrative expense assumptions. |
| Model enhancements | (168) | Comprised of a number of enhancements, including (i) a reduction from refining the modeling of future tax timing benefits across several businesses; (ii) a decrease from product cash flow modeling refinements in Canadian Individual Insurance partially offset by an increase in U.S. Life; (iii) an increase from refining the segregated fund guarantee reserve methodology to replace the averaging methodology currently used with a method consistent with recent actuarial guidance. |
| Overhead expenses | (95) | Net reduction in the proportion of future overhead expenses that are assumed to relate to in-force business. |
| Par Closed Block PfAD levels | (96) | Reduction of margins for par closed block ceded actuarial liabilities. |
| **Total** | **$ 32** | |

Note: For all non-participating policies, excluding certain minor Asian lines of business, the policy liabilities are updated quarterly to reflect the impact of market interest rates and non-fixed income market values. The impact of the update is reflected directly in each reporting segment's earnings.

The change in policy liabilities in respect of the review of assumptions was $(62) million for Q4, and $94 million in Q1 to Q3 2007.

The 2006 review of the actuarial methods and assumptions underlying policy liabilities produced a net reduction in the policy liabilities of $67 million. Net of the impacts on participating surplus and minority interests, this resulted in an increase in 2006 shareholders' income of pre-tax $82 million.

**Impact of 2006 Review by Category of Change**
(Canadian $ in millions)

| | | |
|---|---|---|
| Asset risk | $(146) | Reduction in provisions related to the risk on disposition of assets in the John Hancock private debt portfolio supporting policy liabilities. |
| Interest rate risk booking scenario | 261 | Increase from adoption of a new scenario for determining the margin for adverse deviations required for re-investment risk related to future interest rates. The new scenario assumes faster convergence in North America from current market rates to the conservative assumed ultimate long-term interest rates. The new scenario maintains current levels of conservatism versus the most adverse of the professionally prescribed scenarios; these prescribed scenarios were also changed in 2006. |
| Other investment return assumption impacts | (404) | Decrease from updating the future investment return assumptions for 2006 investment market movements. The reduction is driven by strong non-fixed income returns (equities and real estate) in a number of businesses. |
| Regular review of non-economic assumptions | 506 | Comprises the following items: (i) increase from strengthening related to policy persistency, primarily on U.S. and Canadian Individual Insurance, U.S. Long Term Care, and Life Reinsurance; (ii) increase from expense assumptions primarily reflecting higher projected future investment management expenses; (iii) an increase from mortality assumptions driven by the adverse impact of improving mortality experience on Long Term Care offset by the beneficial impact from improving mortality in a number of insurance businesses; and (iv) a decrease from refinements to Long Term Care claims modeling assumptions. |
| Model enhancements | (284) | Comprises a number of enhancements, including (i) a reduction from refining the modeling of future tax timing benefits across several businesses; (ii) a net decrease from model refinements related to investment risks; and (iii) a net increase from refinements to future investment spread modeling. |
| **Total** | **$ (67)** | |

Note: For all segregated fund insurance and wealth management policies, as well as certain general account wealth management policies in North America, the policy liabilities are updated quarterly to reflect the impact of market interest rates and non-fixed income market values. The impact of the update is reflected directly in each reporting segment's earnings.

**Change in Policy Liabilities**

The change in policy liabilities can be attributed to several sources: new business; acquisitions; in-force movement; and currency impact. Changes in policy liabilities are substantially offset in the financial statements by premiums, investment income, policy benefits and other policy related cash flows. The changes in policy liabilities by business segment are shown below:

**2007 Policy Liability Movement Analysis**

| (Canadian $ in millions) | U.S. Insurance | U.S. Wealth Management | Canadian Division | Asia and Japan Division | Reinsurance Division | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2006 | $ 44,232 | $ 38,222 | $ 32,554 | $ 13,673 | $ 1,884 | $ 254 | $130,819 |
| Impact of adopting new accounting policies for financial instruments | 1,566 | 1,119 | 3,769 | 1,236 | 59 | – | 7,749 |
| Balance, January 1, 2007 | $ 45,798 | $ 39,341 | $ 36,323 | $ 14,909 | $ 1,943 | $ 254 | $138,568 |
| New business | 387 | 2,210 | 373 | (126) | 11 | – | 2,855 |
| In-force movement | 1,957 | (5,263) | (43) | 973 | (118) | 243 | (2,251) |
| Currency impact | (7,046) | (5,640) | (4) | (1,843) | (215) | (2) | (14,750) |
| Total net changes, excluding new accounting policies for financial instruments | $ (4,702) | $ (8,693) | $ 326 | $ (996) | $ (322) | $ 241 | $ (14,146) |
| Balance, December 31, 2007 | $ 41,096 | $ 30,648 | $ 36,649 | $ 13,913 | $ 1,621 | $ 495 | $124,422 |

For new business, the segments with large positive general account premium revenue at contract inception show increases in policy liabilities. For segments where new business deposits are primarily into segregated funds, the increase in policy liabilities related to new business is small since the increase measures only general account liabilities.

The increase in policy liabilities from adopting new accounting policies for financial instruments was offset by an increase in the statement value of the assets supporting policy liabilities.

The reduction in policy liabilities from currency reflects the appreciation of the Canadian dollar. As assets are currency matched to liabilities, the reduction in policy liabilities due to currency is offset by a corresponding reduction from currency in the value of assets supporting those liabilities.

The large reduction of $5,263 million for in-force movements on the U.S. Wealth Management block includes $2,235 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The increase in the Corporate and Other segment includes certain liabilities related to the business segments which will be moved into those segments early in 2008.

Included in the total in-force reduction of $2,251 million is an increase of $32 million from changes in methods and assumptions, as described earlier. This increase results in a decrease in pre-tax earnings.

Of the $604 million net increase in policy liabilities related to new business and in-force movement, $376 million is an increase in actuarial liabilities. The remaining $228 million is an increase in other policy liabilities.

**2006 Policy Liability Movement Analysis**

| (Canadian $ in millions) | U.S. Insurance | U.S. Wealth Management | Canadian Division | Asia and Japan Division | Reinsurance Division | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2006 | $ 41,959 | $ 43,258 | $ 31,291 | $ 13,166 | $ 2,231 | $ 144 | $132,049 |
| New business | 433 | 1,394 | 303 | (146) | 16 | – | 2,000 |
| Acquisitions | – | – | – | 8 | – | – | 8 |
| In-force movement | 1,799 | (6,276) | 960 | 462 | (366) | 111 | (3,310) |
| Currency impact | 41 | (154) | – | 183 | 3 | (1) | 72 |
| Total net changes | $ 2,273 | $ (5,036) | $ 1,263 | $ 507 | $ (347) | $ 110 | $ (1,230) |
| Balance, December 31, 2006 | $ 44,232 | $ 38,222 | $ 32,554 | $ 13,673 | $ 1,884 | $ 254 | $130,819 |

For new business, the segments with large positive general account premium revenue at contract inception show increases in policy liabilities. For segments where new business deposits are primarily into segregated funds, the increase in policy liabilities related to new business is small since the increase measures only general account liabilities.

The increase of $8 million in acquisition results from the acquisition of a block of business from Pramerica in the Philippines in the third quarter of 2006.

The large reduction of $6,276 million for in-force movements on the U.S. Wealth Management block includes $4,534 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The reduction of $366 million for

in-force movement in Reinsurance Division is largely due to provisions set up in 2005 related to Hurricane Katrina that were released to cover claims costs. The increase in the Corporate and Other segment includes a liability established in the 2006 valuation review of methods and assumptions related to implementation of quarterly CALM valuation for insurance business.

Included in the total in-force reduction of $3,310 million is a reduction of $67 million from changes in methods and assumptions, as described earlier. This reduction results in an increase in pre-tax earnings.

Of the $1,310 million net reduction in policy liabilities related to new business and in-force movement, $1,127 million is a decrease in actuarial liabilities. The remaining $183 million is comprised of a $284 million decrease in other policy liabilities and a $101 million re-classification from other liabilities to policy liabilities, both of which impacted the Consolidated Balance Sheet.

**Variable Interest Entities**

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG15"), which was effective for the Company on January 1, 2005. AcG15 sets out the application of consolidation principles to variable interest entities ("VIEs") that are subject to consolidation on the basis of beneficial financial interest as opposed to ownership of voting interests. Where an entity is considered a VIE, the primary beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The primary beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE's expected losses and/or is entitled to a majority of the VIE's expected residual returns, as defined in AcG15. The Company's policy is that when it is the primary beneficiary of a VIE, it consolidates the VIE either into the general fund or the segregated funds based on which has the preponderance of the exposure to the VIE. As outlined in note 18 to the consolidated financial statements, certain VIEs have been consolidated into the general fund, with no financial impact, and certain VIEs have been consolidated on the Segregated Funds Statements of Net Assets. The Company uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG15 and applying them to specific transactions. For further details on the Company's involvement with VIEs, see note 18 to the consolidated financial statements.

**Pensions and Other Post-employment Benefits**

We have a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees and agents after employment. These plans include registered/qualified pension plans, supplemental pension plans and, in some instances, health, dental and life insurance plans. The traditional defined benefit pension plans provide benefits based on years of service and average earnings at retirement. Due to the long-term nature of these plans and of the post-employment benefit plans, the calculation of the benefit expense and accrued benefit obligations depends on various economic assumptions such as discount rates, expected rates of return on plan assets, health care cost trend rates, and compensation increase rates. These assumptions are determined by management and are reviewed annually. Actual experience that differs from the assumed experience will affect the amount of the accrued benefit obligation and benefit expense. The key weighted average assumptions used, as well as the sensitivity of these assumptions, are presented in note 17 to the consolidated financial statements.

**Income Taxes**

The Company is subject to income tax laws in various jurisdictions. These complex tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each timing difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences.

**Goodwill and Intangible Assets**

Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. The test is at the reporting unit level for goodwill and at the Company level for intangible assets with indefinite lives. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. Carrying value is determined as the amount of capital allocated to the reporting unit. Any potential impairment of intangible assets with indefinite lives is identified by comparing the estimated fair value of the asset to its carrying value on the balance sheet. An impairment loss would be recognized and the asset written down to the extent that the carrying value of the asset exceeds the fair value. Fair values are determined using valuation techniques such as market multiples and discounted cash flow models. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with plans presented to the Board of Directors. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. The tests performed in 2007 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives.

**Changes in Accounting Policies**

**Stock-based compensation**
In July 2006, the Emerging Issues Committee of the CICA issued a new abstract, EIC 162, "Stock-based Compensation for Employees Eligible to Retire before the Vesting Date". The abstract requires that stock-based compensation be recognized at the grant date for grants to employees who are eligible to retire on the grant date, and over the period from the date of grant to the date of retirement eligibility for grants to employees who will become eligible to retire during the vesting period. This abstract was effective for the year ended December 31, 2006 and was to be applied retroactively.

The Company adopted the provisions of this new abstract in the fourth quarter of 2006 and reported the cumulative effect on prior years as adjustments to January 1, 2006 opening contributed surplus and opening retained earnings. Opening retained earnings decreased by $10 million, made up of $7 million related to stock options and $3 million related to restricted share units. For the year ended December 31, 2006, the effect of adopting this change in policy was a decrease in net income of $6 million (net of a provision for income taxes of $1 million).

**Financial instruments – recognition and measurement, hedges, comprehensive income and equity**
Effective January 1, 2007, the Company adopted CICA Handbook Sections 3855 "Financial Instruments – Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income", 3251 "Equity" and 4211 "Life Insurance Enterprises – Specific Items". Section 4211 replaced Section 4210. As a result, all financial instruments whether assets or liabilities, except for policy liabilities accounted for in accordance with Section 4211, are accounted for under the new sections. Prior to January 1, 2007, life insurance enterprises followed handbook Section 4210 which contained accounting policies specific to life insurance enterprises. The changes in accounting policies were adopted retroactively without restatement.

In accordance with the new handbook sections, effective January 1, 2007 the Company designated all financial assets as trading (under Section 3855's fair value option), AFS or as loans and receivables. Financial instruments designated as fair value option, derivatives and AFS securities, except those that are not traded in an active market, are measured at fair value. Stock securities not traded in an active market are carried at cost. The Company has chosen to designate bond and stock securities which support policy liabilities as trading under the fair value option in order to reduce a recognition inconsistency that would otherwise arise. Bond and stock securities which support surplus are, for the most part, designated AFS. Private placement debt not traded in an active market is classified as loans and carried at amortized cost.

Changes in the fair value of securities designated as fair value option are reported in earnings, while changes in the fair value of AFS securities are reported within other comprehensive income ("OCI"), until the financial asset is disposed of or becomes other than temporarily impaired, at which time such changes are reported in earnings.

With the introduction of the financial instrument standards, the life insurance standard Section 4210 was replaced with Section 4211 which removes the unique investment accounting for insurance enterprises for financial instruments, other than owned real estate. Realized gains and losses on debt and equity investments are no longer deferred and amortized and therefore the balance of the deferred realized net gains at December 31, 2006, for other than real estate, was eliminated through opening retained earnings. In addition, Section 4211 removes the unique move-to-market accounting and impairment accounting for equities. Under Section 4210, equity impairments were not recognized unless the entire equity portfolio was impaired. Under the new sections the Company recognizes other than temporary impairments, on debt or equities classified as AFS, on an individual security basis.

All financial liabilities, other than actuarial liabilities, are measured at fair value when they are classified as fair value option or are derivatives. Other financial liabilities are measured at amortized cost. As the assets supporting consumer notes are managed along with assets supporting policy liabilities, the Company has designated consumer notes as fair value in order to reduce any recognition inconsistency. The subordinated debt securities payable to MIC Financing Trust I, settled on February 1, 2007, were designated as fair value.

Section 3855 does not apply to insurance contracts issued to policyholders by insurance enterprises that are accounted for in accordance with Section 4211 except for certain reinsurance contracts. Reinsurance contracts principally involving the transfer of financial risks are accounted for under Section 3855 and are measured at fair value. The U.S. Wealth Management segment has reinsurance ceded contracts to manage its exposure to equity market segregated fund guarantees. In addition, the Reinsurance Division has entered into similar contracts with other insurance companies. The Company continues to report the carrying amount of these contracts as policy liabilities, consistent with other reinsurance contracts. The change in fair value of these contracts is reported as change in actuarial liabilities. The determination of actuarial liabilities on direct contracts takes into consideration associated reinsurance ceded contracts.

The determination of actuarial liabilities under Section 4211 is dependent upon the carrying value of assets required to support the liabilities. Consequently, the carrying value of actuarial liabilities was updated to reflect the changes as a result of implementing the new investment accounting standards.

Derivatives are classified as fair value option unless they are specifically designated within an effective hedging relationship. For fair value hedges, the effective portion of the change in the fair value of a derivative instrument as at January 1, 2007 is offset by the changes in fair value attributed to the risk being hedged in the underlying asset or liability. For cash flow hedges, the effective portion of the change in the fair value of the derivative instrument is offset in AOCI.

The changes in accounting policies resulted in a charge to opening retained earnings of $176 million, an increase in opening participating policyholders' equity of $13 million and an increase in opening AOCI of $1,741 million. Amounts previously reported as currency translation account have been reclassified to AOCI.

The changes to the opening January 1, 2007 consolidated balance sheet were as follows:

| (Canadian $ in millions) | January 1, 2007 | Accounting Policy Changes | December 31, 2006 | reference |
|---|---|---|---|---|
| **Assets** | | | | |
| **Invested assets** | | | | |
| Cash and short-term securities | **$ 10,898** | $ (3) | $ 10,901 | |
| Securities | | | | |
| Bonds | **80,707** | 2,622 | 78,085 | 1 |
| Stocks | **13,232** | 1,960 | 11,272 | 2 |
| Loans | **61,515** | (112) | 61,627 | 3 |
| Real estate | **5,905** | – | 5,905 | |
| Other investments | **3,464** | (66) | 3,530 | 4 |
| **Total invested assets** | **$ 175,721** | $ 4,401 | $ 171,320 | |
| Other assets | **$ 14,625** | $ 29 | $ 14,596 | |
| Derivatives | **1,978** | 1,578 | 400 | 5 |
| **Total other assets** | **$ 16,603** | $ 1,607 | $ 14,996 | |
| **Total assets** | **$ 192,324** | $ 6,008 | $ 186,316 | |
| **Liabilities and Equity** | | | | |
| Policy liabilities | **$ 138,568** | $ 7,749 | $ 130,819 | 6 |
| Deferred realized net gains | **127** | (4,315) | 4,442 | 7 |
| Bank deposits | **7,843** | (2) | 7,845 | |
| Consumer notes | **2,770** | (90) | 2,860 | 8 |
| Long-term debt | **1,929** | (1) | 1,930 | 9 |
| Future income tax liability | **2,429** | 171 | 2,258 | 10 |
| Derivatives | **1,793** | 883 | 910 | 11 |
| Other liabilities | **5,749** | 50 | 5,699 | |
| | **$ 161,208** | $ 4,445 | $ 156,763 | |
| **Liabilities for preferred shares and capital instruments** | **3,680** | (15) | 3,695 | 12 |
| **Non-controlling interest in subsidiaries** | **202** | – | 202 | |
| **Equity** | | | | |
| Participating policyholders' equity | **155** | 13 | 142 | 13 |
| Shareholders' equity | | | | |
| Preferred shares | **638** | – | 638 | |
| Common shares | **14,248** | – | 14,248 | |
| Contributed surplus | **125** | – | 125 | |
| Retained earnings | **13,336** | (176) | 13,512 | 14 |
| Accumulated other comprehensive income (loss) | | | | |
| on available-for-sale securities and cash flow hedges | **1,741** | 1,741 | – | 15 |
| on translation of net foreign operations | **(3,009)** | – | (3,009) | |
| **Total equity** | **$ 27,234** | $ 1,578 | $ 25,656 | |
| **Total liabilities and equity** | **$ 192,324** | $ 6,008 | $ 186,316 | |

1 Net unrealized gains of $1,155 on AFS and $1,467 on fair value option
2 Net unrealized gains of $1,146 on AFS and $814 on fair value option
3 Hedge accounting adjustments related to loans being designated in prior years as hedged items
4 Adoption of new impairment policy for equities
5 Fair value adjustment
6 Consequential impact of change in accounting policies
7 Elimination of category for other than real estate
8 Unrealized gain related to electing fair value
9 Hedge accounting adjustments related to long-term debt that was in a fair value hedge in 2006
10 Tax effect of opening adjustments
11 Fair value adjustment
12 Subordinated debt payable to MIC Financing Trust I classified as trading
13 Portion of fair value adjustments related to par surplus
14 Result of above items
15 $2,298 related to AFS securities net of income taxes of $537, offset by $31 related to cash flow hedges, net of income taxes of $11

**Accounting for leveraged leases**
Effective January 1, 2007 the Company adopted amended Emerging Issues Committee's EIC 46, "Leveraged Leases", which harmonizes leveraged lease accounting with U.S. GAAP. This guidance requires that changes in the projected timing of cash flows relating to income taxes generated by a leveraged lease be considered triggers requiring recalculation of the rate of return and allocation of lease income from the inception of the lease, with gain or loss recognition of any resulting change. Prior to this amendment, only changes to lease assumptions which affected the total amount of estimated net income were considered to be such triggers. The Company's adoption of EIC 46 resulted in a charge to opening retained earnings at January 1, 2007 of $157 million.

**Capital disclosures**
Effective October 1, 2007, the Company adopted CICA Handbook Section 1535 "Capital Disclosures". This section requires disclosure of the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Transition to the new standard did not have any financial impact to the Company.

**Future Change in Accounting Policies**

**Financial instruments – disclosure and presentation**
On December 1, 2006, the CICA issued new accounting standards comprising CICA Handbook Sections 3862 "Financial Instruments – Disclosure" and 3863 "Financial Instruments – Presentation". Section 3862 requires extensive disclosures of financial instruments, including their impact on financial position and performance and on the risks associated with recognized and unrecognized financial instruments. Section 3863 carries forward unchanged the presentation requirements of Section 3861. These standards will be effective for the Company's fiscal year beginning January 1, 2008.

**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 primary 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 policy liabilities and differences in reporting policyholder cash flows. These differences are described in more detail in note 23 to the consolidated financial statements.

For U.S. GAAP, asset impairment charges include other than temporary impairments due to interest rate movements where we do not have the intent to hold the asset until recovery. The intent to hold is based on the investment mandate of each of our investment portfolios. For those that we do not intend to hold, assets have been written down to the lower of cost or fair market value.

**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 generally accepted accounting principles ("Hong Kong GAAP").

Under Hong Kong GAAP, real estate classified as investment properties are carried at appraised value, with changes being reported as income, as compared to current Canadian GAAP where real estate is carried on a move to market value basis. In certain interest rate environments, actuarial liabilities determined in accordance with Hong Kong GAAP may be higher than actuarial liabilities computed in accordance with current Canadian GAAP.

**Canadian GAAP and Hong Kong Regulatory Practices**
The Hong Kong Insurance Authority requires that insurance companies have minimum "net assets" for solvency purposes and stipulates minimum criteria for the calculation of actuarial liabilities in arriving at regulatory basis "net assets". Each year, the Company compares the amount of net assets prepared in accordance with Canadian GAAP, as reported in the Company's annual return, with the minimum solvency margin required in Hong Kong as described above. As at December 31, 2007, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required by Hong Kong insurance regulations.

**Controls and Procedures**

**Disclosure Controls and Procedures**
Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws. Our process includes controls and procedures that are designated to ensure that information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

As of December 31, 2007, management evaluated the effectiveness of its disclosure controls and procedures as defined under the rules adopted by the U.S. Securities and Exchange Commission and the Canadian securities regulatory authorities. This evaluation was performed under the supervision of the ARMC, the CEO and CFO.

Based on that evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2007.

**Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations due to manual controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment, management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm that also audited the consolidated financial statements of the Company for the year ended December 31, 2007. Their report, on page 48, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007.

**Changes in Internal Control over Financial Reporting**

No changes were made in our internal control over financial reporting during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Additional Disclosures

### Contractual Obligations

In the normal course of business, the Company enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment.

As at December 31, 2007, the Company's contractual obligations and commitments are as follows:

| Payments due by period (Canadian $ in millions) | Total | Less than 1 year | 1 – 3 years | 3 – 5 years | After 5 years |
|---|---|---|---|---|---|
| Long-term debt [1] | $ 2,280 | $ 600 | $ 144 | $ 505 | $ 1,031 |
| Liabilities for capital instruments [1,2] | 7,464 | 170 | 340 | 345 | 6,609 |
| Purchase obligations | 537 | 156 | 232 | 124 | 25 |
| Capital leases | 5 | 2 | 3 | – | – |
| Operating leases | 422 | 107 | 152 | 97 | 66 |
| General fund policyholder liabilities [3] | 438,141 | 14,534 | 14,641 | 12,410 | 396,556 |
| Bank deposits and consumer notes [1] | 12,535 | 9,484 | 1,512 | 611 | 928 |
| Other | 261 | 82 | 79 | 39 | 61 |
| **Total contractual obligations** | **$ 461,645** | **$ 25,135** | **$ 17,103** | **$ 14,131** | **$ 405,276** |

1 The contractual payments include principal, interest and distributions. The contractual payments reflect the amounts payable from January 1, 2008 to and including the final contractual maturity date. In the case of floating rate obligations, the floating rate index is based on the interest rates as at December 31, 2007 and is assumed to remain constant to the final contractual maturity date. The Company may have the contractual right to redeem or repay obligations prior to maturity and if such right is exercised, total contractual obligations paid and the timing of payment could vary materially from the amounts and timing included in the table.

2 Liabilities for preferred shares – Class A, Series 1 are not included in the contractual obligation table. These preferred shares are redeemable by the Company on or after June 19, 2010 by payment of cash or issuance of MFC common shares and are convertible at the option of the holder into MFC common shares on or after December 15, 2015.

3 General fund policyholder liability cash flows include estimates related to the timing and payment of death and disability claims, policy surrenders, policy maturities, annuity payments, minimum guarantees on segregated fund products, policyholder dividends, commissions and premium taxes offset by contractual future premiums on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of policy liabilities. These amounts are undiscounted and do not reflect recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows will differ from these estimates (see "Policy Liabilities").

In the normal course of business, the Company enters into investment commitments, which are not reflected in the consolidated financial statements. As at December 31, 2007, there were $2,535 million of investment commitments (2006 – $2,211 million), of which $1,727 million matures within one year (2006 – $1,712 million), $726 million within one to three years (2006 – $414 million), $70 million matures within three to five years (2006 – $73 million) and $12 million matures after five years (2006 – $12 million).

### Transactions with Related Parties

In its capacities as an investor and as an investment manager, the Company has relationships with various types of entities, some of which are variable interest entities ("VIEs"). Note 18 of the annual consolidated financial statements describes the entities with which the Company has significant relationships.

### Legal and Regulatory Proceedings

The Company is regularly involved in litigation, both as a defendant and as a plaintiff. The litigation naming the Company as a defendant ordinarily involves its activities as a provider of insurance protection and wealth management products, as well as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States and Asia, including provincial and state regulatory bodies, state attorneys general, the United States Securities and Exchange Commission, the Financial Industry Regulatory Authority and Canadian securities commissions regularly make inquiries and, from time to time, require the production of information or conduct examinations concerning the Company's compliance with, among other things, insurance laws, securities laws, and laws governing the activities of broker-dealers. The Company intends to continue to cooperate fully with government and regulatory authorities in connection with their respective inquiries. The Company does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its consolidated financial condition or results of operations.

## Quarterly Financial Information

| **As at and for the three months ended** (Canadian $ in millions, except per share amounts) | Dec. 31, 2007 | Sept. 30, 2007 | June 30, 2007 | Mar. 31, 2007 | Dec. 31, 2006 | Sept. 30, 2006 | June 30, 2006 | Mar. 31, 2006 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | | |
| **Premium income** | | | | | | | | |
| Life and health insurance | $ 3,799 | $ 3,640 | $ 3,694 | $ 3,678 | $ 3,996 | $ 3,629 | $ 3,593 | $ 3,552 |
| Annuities and pensions | 1,500 | 1,242 | 1,138 | 1,053 | 1,084 | 1,049 | 1,078 | 1,123 |
| Total premium income | $ 5,299 | $ 4,882 | $ 4,832 | $ 4,731 | $ 5,080 | $ 4,678 | $ 4,671 | $ 4,675 |
| Investment income | 3,575 | 3,117 | 1,100 | 2,549 | 2,863 | 2,593 | 2,368 | 2,609 |
| Other revenue | 1,393 | 1,359 | 1,356 | 1,340 | 1,247 | 1,140 | 1,150 | 1,120 |
| **Total revenue** | $ 10,267 | $ 9,358 | $ 7,288 | $ 8,620 | $ 9,190 | $ 8,411 | $ 8,189 | $ 8,404 |
| Income before income taxes | $ 1,358 | $ 1,466 | $ 1,440 | $ 1,342 | $ 1,440 | $ 1,330 | $ 1,271 | $ 1,295 |
| Income taxes | (284) | (397) | (341) | (355) | (332) | (362) | (323) | (349) |
| **Net income** | $ 1,074 | $ 1,069 | $ 1,099 | $ 987 | $ 1,108 | $ 968 | $ 948 | $ 946 |
| **Net income available to shareholders** | $ 1,144 | $ 1,070 | $ 1,102 | $ 986 | $ 1,100 | $ 974 | $ 959 | $ 952 |
| **Basic earnings per common share** | $ 0.76 | $ 0.70 | $ 0.72 | $ 0.63 | $ 0.71 | $ 0.62 | $ 0.61 | $ 0.60 |
| **Diluted earnings per common share** | $ 0.75 | $ 0.70 | $ 0.71 | $ 0.63 | $ 0.70 | $ 0.62 | $ 0.60 | $ 0.59 |
| **Segregated funds deposits** | $ 9,043 | $ 8,888 | $ 8,545 | $ 10,751 | $ 7,879 | $ 7,705 | $ 7,997 | $ 9,706 |
| **Total assets** | $176,458 | $175,232 | $179,307 | $191,079 | $186,316 | $178,005 | $177,222 | $183,110 |
| **Segregated funds net assets** | $175,544 | $175,094 | $177,509 | $179,441 | $172,937 | $154,606 | $146,904 | $151,858 |
| **Weighted average common shares** (in millions) | 1,502 | 1,511 | 1,532 | 1,546 | 1,545 | 1,551 | 1,570 | 1,584 |
| **Diluted weighted average common shares** (in millions) | 1,515 | 1,525 | 1,546 | 1,562 | 1,561 | 1,566 | 1,586 | 1,601 |
| **Dividends per common share** | $ 0.24 | $ 0.22 | $ 0.22 | $ 0.20 | $ 0.20 | $ 0.175 | $ 0.175 | $ 0.175 |

## Other Disclosures

### Selected Annual Financial Information

| **As at and for the years ended December 31** (Canadian $ in millions, except per share amounts) | **2007** | 2006 | 2005 |
|---|---|---|---|
| **Total assets** | **$176,458** | $186,316 | $ 182,785 |
| **Long-term financial liabilities:** | | | |
| Long-term debt | **$ 1,820** | $ 1,930 | $ 1,078 |
| Non-controlling interest in subsidiaries | **146** | 202 | 187 |
| Liabilities for preferred shares and capital instruments | **3,010** | 3,695 | 3,301 |
| | **$ 4,976** | $ 5,827 | $ 4,566 |
| Cash dividend per common share | **$0.88** | $0.725 | $ 0.58 |
| Cash dividend per Class A Share, Series 1 | **$1.025** | $1.025 | $ 1.025 |
| Cash dividend per Class A Share, Series 2 | **$1.16252** | $1.16252 | $ 0.96554 |
| Cash dividend per Class A Share, Series 3 | **$1.125** | $1.07813 | $– |

### Additional Information Available

Additional information relating to Manulife Financial, including MFC's Annual Information Form, is available on the Company's web site at and on SEDAR at.

### Outstanding Shares

As at March 18, 2008, MFC had 1,496,797,569 common shares outstanding.

# 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 Office 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 judgment 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.

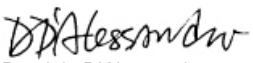
Appropriate systems of internal control, policies and procedures have been maintained to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

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 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 and independent 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 prepared by management, and then 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 and the standards of the Public Company Accounting Oversight Board (United States). Ernst & Young LLP has full and free access to management and the Audit and Risk Management Committee.



Dominic D'Alessandro
President and Chief Executive Officer

Peter H. Rubenovitch
Senior Executive Vice President and Chief Financial Officer

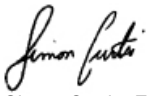
Toronto, Canada

March 18, 2008

# Appointed Actuary's Report to the Shareholders

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 2007 and 2006 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.



Simon Curtis, F.C.I.A.
Executive Vice President and Appointed Actuary

Toronto, Canada

March 18, 2008

# Independent Auditors' Report to the Shareholders

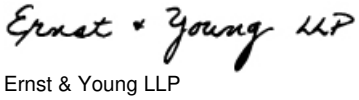
We have audited the Consolidated Balance Sheets of Manulife Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2007 and 2006 and the Consolidated Statements of Operations, Equity, Comprehensive Income and Cash Flows of the Company and the Consolidated Statements of Changes in Net Assets of its Segregated Funds for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. We believe that our audits provide a reasonable basis for our opinion.

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, 2007 and 2006 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 conformity with Canadian generally accepted accounting principles.

As explained in Note 2 to the consolidated financial statements, in fiscal 2007, the Company adopted the requirements of the Canadian Institute of Chartered Accountants Handbook, Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 4211 "Life Insurance Enterprises – Specific Items" and amended Emerging Issues Committee's EIC 46 "Accounting for Leveraged Leases".

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 18, 2008 expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada

March 18, 2008

# Independent Auditors' Report on Internal Controls under Standards of the Public Company Accounting Oversight Board (United States)

We have audited Manulife Financial Corporation's internal control over financial reporting as at December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control over Financial Reporting contained in Management's Discussion and Analysis. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

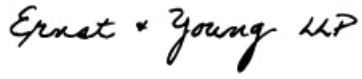
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Manulife Financial Corporation maintained in all material respects, effective internal control over financial reporting as at December 31, 2007, based on the COSO criteria.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of the Company and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 2007 and 2006 and the Consolidated Statements of Operations, Equity, Comprehensive Income and Cash Flows of the Company and the Consolidated Statements of Changes in Net Assets of its Segregated Funds for the years then ended and our report dated March 18, 2008 expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada

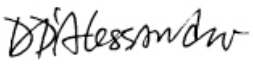
March 18, 2008

# Consolidated Balance Sheets

**As at December 31,**

| (Canadian $ in millions) | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| **Invested assets** (note 5) | | |
| Cash and short-term securities | **$ 12,354** | $ 10,901 |
| Securities | | |
| Bonds | **72,831** | 78,085 |
| Stocks | **11,134** | 11,272 |
| Loans | | |
| Mortgages | **26,061** | 28,131 |
| Private placements | **21,591** | 25,074 |
| Policy loans | **5,823** | 6,413 |
| Bank loans | **2,182** | 2,009 |
| Real estate | **5,727** | 5,905 |
| Other investments | **3,597** | 3,530 |
| **Total invested assets** | **$161,300** | $171,320 |
| **Other assets** | | |
| Accrued investment income | **$ 1,414** | $ 1,557 |
| Outstanding premiums | **672** | 669 |
| Goodwill (note 22) | **6,721** | 7,461 |
| Intangible assets (note 4) | **1,573** | 1,708 |
| Derivatives (note 21) | **2,129** | 400 |
| Miscellaneous | **2,649** | 3,201 |
| **Total other assets** | **$ 15,158** | $ 14,996 |
| **Total assets** | **$176,458** | $186,316 |
| **Segregated funds net assets** | **$175,544** | $172,937 |
| **Liabilities and Equity** | | |
| Policy liabilities (note 6) | **$124,422** | $130,819 |
| Deferred realized net gains (note 2) | **107** | 4,442 |
| Bank deposits | **10,008** | 7,845 |
| Consumer notes (note 9) | **2,085** | 2,860 |
| Long-term debt (note 10) | **1,820** | 1,930 |
| Future income tax liability, net (note 8) | **2,839** | 2,258 |
| Derivatives (note 21) | **1,866** | 910 |
| Other liabilities | **5,820** | 5,699 |
| | **$148,967** | $156,763 |
| **Liabilities for preferred shares and capital instruments** (note 11) | **3,010** | 3,695 |
| **Non-controlling interest in subsidiaries** (note 12) | **146** | 202 |
| **Equity** | | |
| Participating policyholders' equity | **82** | 142 |
| Shareholders' equity | | |
| Preferred shares | **638** | 638 |
| Common shares | **14,000** | 14,248 |
| Contributed surplus | **140** | 125 |
| Retained earnings | **14,388** | 13,512 |
| Accumulated other comprehensive income (loss) | | |
| on available-for-sale securities and cash flow hedges (note 15) | **1,291** | – |
| on translation of net foreign operations (note 15) | **(6,204)** | (3,009) |
| **Total equity** | **$ 24,335** | $ 25,656 |
| **Total liabilities and equity** | **$176,458** | $186,316 |
| **Segregated funds net liabilities** | **$175,544** | $172,937 |

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



Dominic D'Alessandro
President and Chief Executive Officer



Arthur R. Sawchuk
Chairman of the Board of Directors

# Consolidated Statements of Operations

**For the years ended December 31,**

| (Canadian $ in millions except per share amounts) | **2007** | 2006 |
|---|---|---|
| **Revenue** | | |
| Premium income | **$19,744** | $19,104 |
| Investment income (note 5) | | |
| Investment income | **9,531** | 10,193 |
| Realized and unrealized gains on assets supporting policy liabilities and consumer notes | **810** | 240 |
| Other revenue | **5,448** | 4,657 |
| **Total revenue** | **$35,533** | $34,194 |
| **Policy benefits and expenses** | | |
| To policyholders and beneficiaries | | |
| Death, disability and other claims | **$ 6,104** | $ 5,949 |
| Maturity and surrender benefits | **8,111** | 9,814 |
| Annuity payments | **3,098** | 3,316 |
| Policyholder dividends and experience rating refunds | **1,556** | 1,528 |
| Net transfers to segregated funds | **952** | 432 |
| Change in actuarial liabilities | **390** | (1,127) |
| General expenses | **3,387** | 3,352 |
| Investment expenses (note 5) | **983** | 841 |
| Commissions | **4,008** | 3,546 |
| Interest expense (notes 9, 10 and 11) | **1,032** | 932 |
| Premium taxes | **248** | 270 |
| Non-controlling interest in subsidiaries | **58** | 5 |
| **Total policy benefits and expenses** | **$29,927** | $28,858 |
| **Income before income taxes** | **$ 5,606** | $ 5,336 |
| Income taxes (note 8) | **(1,377)** | (1,366) |
| **Net income** | **$ 4,229** | $ 3,970 |
| **Loss attributed to participating policyholders** | **$ 73** | $ 15 |
| **Net income attributed to shareholders** | **$ 4,302** | $ 3,985 |
| Preferred share dividends | **(30)** | (30) |
| **Net income available to common shareholders** | **$ 4,272** | $ 3,955 |
| **Weighted average number of common shares outstanding** (in millions) | **1,522** | 1,563 |
| **Weighted average number of diluted common shares outstanding** (in millions) | **1,537** | 1,579 |
| **Basic earnings per common share** | **$ 2.81** | $ 2.53 |
| **Diluted earnings per common share** (note 16) | **$ 2.78** | $ 2.51 |
| **Dividends per common share** | **$ 0.88** | $ 0.73 |

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

# Consolidated Statements of Equity

| For the years ended December 31, (Canadian $ in millions) | 2007 | 2006 |
|---|---|---|
| **Participating policyholders' equity** | | |
| Balance, January 1 | **$ 142** | $ 157 |
| Cumulative effect of adopting new accounting policy for financial instruments, net of income taxes of $2 | **13** | – |
| Loss for the year | **(73)** | (15) |
| **Balance, December 31** | **$ 82** | $ 142 |
| **Preferred shares** | | |
| Balance, January 1 | **$ 638** | $ 344 |
| Preferred shares issued (note 13) | **–** | 300 |
| Issuance costs, net of tax | **–** | (6) |
| **Balance, December 31** | **$ 638** | $ 638 |
| **Common shares** | | |
| Balance, January 1 | **$14,248** | $14,490 |
| Issued on exercise of stock options and deferred shared units and acquisition of subsidiary (note 13) | **275** | 171 |
| Purchase and cancellation (note 13) | **(523)** | (413) |
| **Balance, December 31** | **$14,000** | $14,248 |
| **Contributed surplus** | | |
| Balance, January 1 | **$ 125** | $ 93 |
| Cumulative effect of adopting new accounting policy for stock-based awards (note 1(i)) | **–** | 7 |
| Redemption of preferred shares issued by a subsidiary (note 12) | **3** | – |
| Exercise of stock options | **(24)** | (32) |
| Stock option expense (note 16) | **20** | 26 |
| Tax benefit of stock options exercised | **16** | 31 |
| **Balance, December 31** | **$ 140** | $ 125 |
| **Shareholders' retained earnings** | | |
| Balance, January 1 | **$13,512** | $11,918 |
| Cumulative effect of adopting new accounting policy for: | | |
| Financial instruments, net of income taxes of $357 | **(176)** | – |
| Leveraged leases, net of income taxes of $77 | **(157)** | – |
| Stock-based awards, net of income taxes of $2 | **–** | (10) |
| Net income attributed to shareholders | **4,302** | 3,985 |
| Preferred share dividends | **(30)** | (30) |
| Common share dividends | **(1,341)** | (1,133) |
| Purchase and cancellation of common shares (note 13) | **(1,722)** | (1,218) |
| **Balance, December 31** | **$14,388** | $13,512 |
| **Accumulated other comprehensive (loss) income** | | |
| Balance, January 1 | **$ (3,009)** | $ (3,215) |
| Cumulative effect of adopting new accounting policies, net of income taxes of $526 | **1,741** | – |
| Other comprehensive (loss) income | **(3,645)** | 206 |
| **Balance, December 31** (note 15) | **$ (4,913)** | $ (3,009) |
| **Total equity** | **$24,335** | $25,656 |

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

# Consolidated Statements of Comprehensive Income

| **For the years ended December 31,**<br>(Canadian $ in millions) | **2007** | 2006 |
|---|---|---|
| **Net income attributed to shareholders** | **$ 4,302** | $3,985 |
| **Other comprehensive (loss) income** | | |
| Change in unrealized gains/losses on available-for-sale financial securities | | |
| Unrealized losses arising during the year, net of income tax expense of $2 | **$ (119)** | $ – |
| Recognition of realized (gains) losses and impairments (recoveries) to net income, net of income tax expense of $72 | **(315)** | – |
| Changes in unrealized gains/losses on derivative investments designated as cash flow hedges | | |
| Unrealized losses arising during the year, net of income tax benefit of $6 | **(11)** | – |
| Recognition of realized gains to net income, net of income tax expense of $3 | **(5)** | – |
| Change in unrealized currency translation (losses) gains of self-sustaining foreign operations | | |
| On translating financial statements, net of taxes of nil | **(3,419)** | 230 |
| On hedges, net of income tax expense of $121 (2006 – income tax benefit of $13) | **224** | (24) |
| **Total other comprehensive (loss) income** | **$(3,645)** | $ 206 |
| **Total comprehensive income attributed to shareholders** | **$ 657** | $4,191 |

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) | 2007 | 2006 |
|---|---|---|
| **Operating activities** | | |
| Net income | **$ 4,229** | $ 3,970 |
| Adjustments for non-cash items in net income: | | |
| Increase in actuarial liabilities, excluding John Hancock Fixed Products institutional products | **2,544** | 3,301 |
| Amortization of net realized gains and move to market adjustments in investments | **(208)** | (1,171) |
| Accretion of discount | **(302)** | (243) |
| Other amortization | **281** | 234 |
| Net realized and unrealized gains including impairments | **(1,078)** | (341) |
| Changes in fair value of consumer notes | **29** | – |
| Future income tax expense | **928** | 996 |
| Stock option expense | **20** | 26 |
| Non-controlling interest in subsidiaries | **52** | 1 |
| Net income adjusted for non-cash items | **$ 6,495** | $ 6,773 |
| Changes in policy related and operating receivables and payables | **976** | (96) |
| **Cash provided by operating activities** | **$ 7,471** | $ 6,677 |
| **Investing activities** | | |
| Purchases and mortgage advances | **$(53,309)** | $(65,693) |
| Disposals and repayments | **52,434** | 63,757 |
| Amortization of premium | **574** | 730 |
| Changes in investment broker net receivables and payables | **(65)** | 365 |
| Net cash increase (decrease) from acquisition and sales of subsidiaries | **125** | (59) |
| **Cash used in investing activities** | **$ (241)** | $ (900) |
| **Financing activities** | | |
| Decrease in securities sold but not yet purchased | **$ (1)** | $ (384) |
| Issue of long-term debt | **1** | 901 |
| Repayment of long-term debt | **(4)** | (22) |
| Issue of subordinated notes | **–** | 645 |
| Repayment of capital instruments | **(570)** | (250) |
| Net redemptions in John Hancock Fixed Products institutional products | **(2,154)** | (4,428) |
| Bank deposits, net | **2,164** | 2,353 |
| Capital from joint venture partner | **–** | 7 |
| Consumer notes matured, net | **(434)** | (182) |
| Redemption of preferred shares issued by a subsidiary (note 12) | **(89)** | – |
| Preferred share dividends | **(30)** | (30) |
| Common share dividends | **(1,341)** | (1,133) |
| Funds repaid, net | **(10)** | (69) |
| Purchase and cancellation of common shares | **(2,245)** | (1,631) |
| Common shares issued on exercise of options | **114** | 139 |
| Tax benefit of stock options exercised | **16** | 59 |
| Preferred shares issued, net | **–** | 294 |
| **Cash used in financing activities** | **$ (4,583)** | $ (3,731) |
| **Cash and short-term securities** | | |
| Increase during the year | **$ 2,647** | $ 2,046 |
| Currency impact on cash and short-term securities | **(1,109)** | 23 |
| Balance, January 1 | **10,328** | 8,262 |
| **Balance, December 31** | **$ 11,866** | $ 10,331 |
| **Beginning of year** | | |
| Gross cash and short-term securities | **$ 10,901** | $ 8,857 |
| Fair value adjustment, January 1, 2007 | **(3)** | – |
| Net payments in transit, included in other liabilities | **(570)** | (595) |
| **Net cash and short-term securities, January 1** | **$ 10,328** | $ 8,262 |
| **End of year** | | |
| Gross cash and short-term securities | **$ 12,354** | $ 10,901 |
| Net payments in transit, included in other liabilities | **(488)** | (570) |
| **Net cash and short-term securities, December 31** | **$ 11,866** | $ 10,331 |

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) | **2007** | 2006 |
|---|---|---|
| **Investments, at market value** | | |
| Cash and short-term securities | **$ 4,025** | $ 3,067 |
| Bonds | **9,591** | 10,789 |
| Stocks and mutual funds | **159,628** | 156,936 |
| Other investments | **3,961** | 4,078 |
| Accrued investment income | **75** | 86 |
| Other liabilities, net | **(1,736)** | (2,019) |
| **Total segregated funds net assets** | **$175,544** | $172,937 |
| | | |
| **Composition of segregated funds net assets:** | | |
| Held by policyholders | **$174,981** | $172,259 |
| Held by the Company | **245** | 360 |
| Held by other contract holders (note 1(e)) | **318** | 318 |
| **Total segregated funds net assets** | **$175,544** | $172,937 |

# Segregated Funds Consolidated Statements of Changes in Net Assets

| **For the years ended December 31,** (Canadian $ in millions) | **2007** | 2006 |
|---|---|---|
| **Additions** | | |
| Deposits from policyholders | **$ 37,227** | $ 33,287 |
| Net realized and unrealized investment gains | **3,997** | 11,863 |
| Interest and dividends | **7,483** | 6,552 |
| Net transfers from general fund | **952** | 432 |
| **Total additions** | **$ 49,659** | $ 52,134 |
| | | |
| **Deductions** | | |
| Payments to policyholders | **$ 20,738** | $ 17,674 |
| Management and administrative fees | **2,674** | 2,407 |
| Currency revaluation | **23,640** | (523) |
| **Total deductions** | **$ 47,052** | $ 19,558 |
| | | |
| Net additions for the year | **$ 2,607** | $ 32,576 |
| Segregated funds net assets, January 1 | **172,937** | 140,361 |
| **Segregated funds net assets, December 31** | **$175,544** | $172,937 |

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

# Notes to Consolidated Financial Statements

(Canadian $ in millions except per share amounts or unless otherwise stated)

**Note 1 ^ Nature of Operations and Significant Accounting Policies**

Manulife Financial Corporation ("MFC") is a publicly traded stock life insurance company and the holding company of The Manufacturers Life Insurance Company ("MLI"), a Canadian life insurance company, and John Hancock Financial Services, Inc. ("JHF"), the holding company of a United States financial services group. MFC and its subsidiaries (collectively, "Manulife Financial" or the "Company") provide a wide range of financial products and services, including individual life insurance, group life and health insurance, long-term care 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 property and casualty retrocession, and provides investment management services with respect to the Company's general fund and segregated fund assets and to mutual funds and institutional customers.

MFC is incorporated under the Insurance Companies Act (Canada) ("ICA"), which requires that financial statements be prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada ("OSFI"). None of the accounting requirements of OSFI are exceptions to Canadian GAAP. The preparation of financial statements, in conformity with Canadian GAAP, requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 periods. Actual results could differ from those estimates. The most significant estimation processes relate to the provisioning for asset impairment, determination of policy liabilities, assessment of variable interest entities, determination of pension and other post-employment benefit obligations and expenses, income taxes and impairment testing of goodwill and intangible assets. 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**

MFC consolidates the financial statements of all subsidiary companies with the exception of those that are determined to be variable interest entities ("VIEs") where MFC is not the primary beneficiary. As outlined in note 18, certain VIEs are consolidated into the general fund, with no financial impact, and certain VIEs are consolidated on the Segregated Funds Statements of Net Assets. Inter-company balances and transactions are eliminated and non-controlling interests in subsidiaries are included as a separate line item on the Consolidated Balance Sheets and the Consolidated Statements of Operations. The results of operations of subsidiaries are included in the consolidated financial statements from their date of acquisition.

The equity method of accounting is used to account for investments over which the Company has significant influence, whereby the Company records its share of the investee's financial results. Gains and losses on sale of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately. These investments are included in other investments in the Company's Consolidated Balance Sheets.

**b) Invested assets**

The invested assets held by the Company are accounted for using the methods described below.

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments – Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income", 3251 "Equity" and 4211 "Life Insurance Enterprises – Specific Items". Section 4211 replaced Section 4210. As a result, all financial instruments whether assets or liabilities, except for policy liabilities accounted for in accordance with Section 4211, are accounted for under the new sections. Prior to January 1, 2007, life insurance enterprises followed handbook Section 4210 which contained accounting policies specific to life insurance enterprises. The changes in accounting policies were adopted retroactively without restatement. For a general discussion of the adoption and impact of these Sections, refer to Note 2 – Changes in Accounting Policies. The effect of these changes on invested assets is indicated below.

Cash and short-term securities comprise cash, current operating accounts, overnight bank and term deposits, and fixed-income securities held for the purpose of meeting short-term cash commitments. Short-term securities are carried at their fair values. Net payments in transit and overdraft bank balances are included in other liabilities.

Bonds are designated as trading (under Section 3855's fair value option) or as available-for-sale ("AFS"). Bonds are carried at fair value. Unrealized gains and losses on bonds designated as trading are recognized in income immediately. Unrealized gains and losses on AFS bonds are recorded in other comprehensive income ("OCI"). Realized gains and losses on sale of bonds are recognized in income immediately. Impairment losses are recognized in income on AFS bonds on an individual security basis when the bond is considered to be other than temporarily impaired. Impairment occurs when it is deemed probable that the Company will not be able to collect all amounts due according to contractual terms of the bond.

Prior to January 1, 2007, bonds were carried at amortized cost, less provision for impairment, if any, with no recognition of unrealized gains or losses. Realized gains and losses were deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold. Provisions for impairments were recognized immediately in income on a specific bond basis when there was no longer reasonable assurance as to the timely collection of the full amount of principal and interest.

Stocks are designated as trading or as AFS. Stock securities traded in an active market are carried at fair value. Stock securities not traded in an active market are carried at cost. Realized gains and losses on sale of stocks and unrealized gains and losses on stocks designated as trading are recognized in income immediately. Unrealized gains and losses on AFS stocks are recorded in OCI. Impairment losses are recognized in income on AFS stocks on an individual security basis when the stock is considered to be other than temporarily impaired. Other than temporary impairment occurs when fair value has declined significantly below cost for a prolonged period and there is not objective evidence to support recovery in value before disposal.

Prior to January 1, 2007, stocks were carried on a moving average market value basis with carrying values adjusted toward fair value at five per cent per quarter. Realized gains and losses were deferred and brought into income at five per cent per quarter. For impairment purposes, specific stocks were written immediately down to market value through a charge to income only if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) was considered to be other than temporary.

Mortgages are categorized as loans and are carried at amortized cost less repayments and provisions for impairment losses, if any. Realized gains and losses are recorded in income immediately. Impairment losses are recorded on individual mortgages immediately through income when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment provisions are calculated to reduce the carrying value to estimated realizable value, measured by discounting the remaining expected future cash flows at the effective interest rate inherent in the mortgages; the fair value of security underlying the mortgages, net of expected costs of realization and any amounts legally required to be paid to the borrowers; or observable market prices for the mortgages, if any.

Prior to January 1, 2007, realized gains and losses on mortgages were deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.

Private placements include corporate loans for which there is no price quoted in an active market. These are categorized as loans and are carried at amortized cost less provision for impairments. Realized gains and losses are recorded in income immediately. Impairment losses are recorded on individual private placements immediately through income when there is no longer assurance as to the timely collection of the full amount of principal and interest. Impairment provisions are calculated to reduce the carrying value to estimated realizable value, measured by discounting the remaining expected future cash flows at the effective interest rate inherent in the loan; the fair value of security underlying the loans, net of expected costs of realization and any amounts legally required to be paid to the borrowers; or observable market prices for the loans, if any.

Private placements also include investments in leveraged leases, which are financing arrangements for assets leased to third parties. The leased assets are supported by the Company's investment and by senior non-recourse debt provided by third parties. The Company records as its carrying value the net investment of both the leased asset and the non-recourse debt calculated by accruing income at the lease's expected internal rate of return in accordance with Emerging Issues Committee's EIC 46 "Leveraged Leases". Temporary tax differences of the leveraged leases are included in net future tax liabilities. Impairment testing involves identifying changes to the internal rate of return due to changes in expected future cash flows. Impairment losses are recorded by revising the carrying value downwards to reflect the revised internal rate of return, retrospectively.

Policy loans are categorized as loans and are carried at their unpaid balances. Policy loans are not subject to impairment losses because they are fully collateralized by the cash surrender value of the policies borrowed against.

Bank loans are carried at unpaid principal minus provision for credit losses, if any.

Once established, provisions for impairment of private placements, mortgages and bank loans are reversed only if the conditions that caused the impairment no longer exist. On disposition of an impaired asset, the allowance is released.

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.

Income recognition for bonds and loans is on the accrual basis, with amortization of premiums and discounts over the life of the investment using the effective yield method.

The Company uses trade date accounting for purchases and sales of invested assets.

Real estate investments are carried on a moving average market basis with carrying values adjusted towards fair value at three per cent per quarter. Realized gains and losses are deferred and brought into income at three per cent per quarter. For impairment purposes, specific properties are subject to being written immediately down to market value through a charge to income, if impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.

Other investments include private equity and fixed income investments held primarily in power and infrastructure, oil and gas, and timber and agricultural sectors.

**c) Goodwill and other intangible assets**

Goodwill represents the excess of the cost of businesses acquired over estimated fair values of the net assets acquired. Intangible assets include indefinite life and finite life intangible assets. Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. The test is at the reporting unit level for goodwill and at the Company level for intangible assets with indefinite lives. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. Carrying value is determined as the amount of capital allocated to the reporting unit. Any potential impairment of

intangible assets with indefinite lives is identified by comparing the estimated fair value of the asset to its carrying value on the balance sheet. An impairment loss would be recognized and the asset written down to the extent that the carrying value exceeds the fair value. Finite life intangible assets are amortized over their estimated useful lives and tested for impairment whenever changing circumstances suggest impairment may have occurred.

**d) Miscellaneous assets**

Included in miscellaneous assets are prepaid pension benefit costs, amounts due from reinsurers and capital assets. Capital assets are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to 10 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. Consequently, these funds are segregated and presented separately from the general fund of the Company. Investments held in segregated funds are carried at market value. Income earned from segregated fund management fees is included in other revenue in the general fund Consolidated Statements of Operations.

Where the Company's general and segregated funds share a controlling financial interest in a VIE, the VIE is consolidated into the accounts of the segregated funds if the segregated funds own a greater interest than the general fund. Non-controlling interests in such consolidated VIEs are reported as net assets held by other contract holders in the Segregated Funds Consolidated Statements of Net Assets.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum withdrawal 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.

**f) Policy liabilities**

Policy 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. The Company's Appointed Actuary is responsible for determining the amount of policy liabilities in accordance with 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. A valuation allowance is established, if necessary, to reduce the future income tax asset to an amount that is more likely than not to be realized.

**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 the net investments in self-sustaining foreign operations and the results of hedging these positions, net of applicable taxes, are recorded in OCI. Translation gains and losses on disposition of net investments in self-sustaining foreign operations are included in net income.

**i) Stock-based compensation**

The Company provides stock-based compensation to certain employees and directors as described in note 16.

The Company uses the fair value method for stock option awards granted on or after January 1, 2002. The intrinsic value method is used to account for stock option awards granted prior to January 1, 2002.

Stock options are expensed with a corresponding increase in contributed surplus. Restricted share units and deferred share units are expensed with a corresponding liability accrued based on the market value of the Company's shares. The change in the value of restricted share units and deferred share units resulting from changes in the Company's market value and credited dividends is recognized in the Consolidated Statements of Operations, offset by the impact of total return swaps used to manage the variability of related cash flows.

Stock-based compensation is recognized as compensation expense over the applicable vesting period, except if the employee is eligible to retire at the time of grant or will be eligible to retire during the vesting period. Compensation cost, attributable to stock options and restricted share units granted to employees who are eligible to retire on the grant date is recognized on the grant date.

Compensation cost attributable to stock options and restricted share units granted to employees who will become eligible to retire during the vesting period, is recognized over the period from the grant date to the date of retirement eligibility.

In July 2006, the Emerging Issues Committee of the CICA issued a new abstract, EIC 162, "Stock-based Compensation for Employees Eligible to Retire before the Vesting Date". The abstract requires that stock-based compensation be recognized at the grant date for grants to employees who are eligible to retire on the grant date and over the period from the date of grant to the date of retirement eligibility for grants to employees who will become eligible to retire during the vesting period. This abstract was effective for the year ended December 31, 2006 and was to be applied retroactively.

The Company adopted the provisions of this new abstract in the fourth quarter of 2006 and reported the cumulative effect on prior years as adjustments to January 1, 2006 opening contributed surplus and opening retained earnings. Opening retained earnings decreased by $10, made up of $7 related to stock options and $3 related to restricted share units. For the year ended December 31, 2006, the effect of adopting this change in policy was a decrease in net income of $6 (net of a provision for income taxes of $1).

Contributions to the Global Share Ownership Plan ("GSOP") are expensed as incurred. Under the GSOP, qualifying employees can choose to have up to five per cent of their annual base earnings applied toward the purchase of common shares of MFC. Subject to certain conditions, MFC will match a percentage of the employee's eligible contributions to certain maximums. All contributions are used by the plan's trustee to purchase common shares in the open market.

**j) Employee future benefits**

The Company maintains a number of pension and benefit plans, both defined benefit and defined contribution, for its eligible employees and agents. These plans include broad-based pension plans for employees, supplemental pension plans for executives and other post-employment benefit plans.

The defined contribution plans provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution plans is the required contributions provided by the Company.

The traditional defined benefit pension plans provide pension benefits based on the length of the employees' service and the employees' final average earnings. The other defined benefit pension plans consist of cash balance plans in the United States that provide benefits based on accumulated contributions and interest credits. The cost of all defined benefit pension plans is recognized using the projected benefit method, pro-rated on service, and estimates of expected return on plan assets, and, where applicable, rates of compensation increases and retirement ages of employees. Actuarial gains and losses that exceed 10 per cent of the greater of the accrued benefit obligation or the market-related value of the plan assets and any past service costs are amortized to income on a straight-line basis over the estimated average remaining service life of the plan members. The expected return on plan assets is based on the Company's best estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of plan assets is determined using a methodology where the difference between the actual and expected market value of plan assets is recognized over five years.

The Company also provides health, dental and, in some instances, life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to income over the employees' years of service to their dates of full entitlement. Actuarial gains and losses that exceed 10 per cent of the accrued benefit obligation are amortized to income on a straight-line basis over the estimated average remaining service life of the plan members.

In Canada and the United States, health and dental benefits are also provided to employees who are absent from work due to disability (or other approved leave) for the duration of their leave. The estimated present value of these benefits is charged to income in the year of disability.

Prepaid benefit costs are included in other assets and accrued benefit liabilities are included in other liabilities.

**k) Derivative and hedging instruments**

The Company uses derivative financial instruments ("derivatives") to manage its exposures to foreign currency, interest rate and other market risks arising from on-balance sheet financial instruments as well as other anticipated transactions. Derivatives embedded in other financial instruments ("host instruments") are required to be separately recorded as derivatives when their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative and the host instrument is not held for trading or designated at fair value. Effective January 1, 2007, all derivatives including embedded derivatives that are required to be separately accounted for under new standards are recorded at fair value on the Company's Consolidated Balance Sheet. Derivatives with unrealized gains are reported as derivative assets and derivatives with unrealized losses are reported as derivative liabilities on the Consolidated Balance Sheet.

The method of recognizing changes in fair value on derivatives depends on whether they are designated and effective, as hedging instruments. For derivatives that are not designated as hedging instruments, changes in fair values are recorded in investment income. When derivatives are used to manage exposures, a determination is made for each derivative as to whether hedge accounting can be applied, as discussed below.

**Hedge accounting**

Where the Company has elected to use hedge accounting, a hedge relationship is designated and documented at inception. The documentation details the particular risk management objective, the hedged risk and specific financial asset, financial liability or

anticipated cash flows being hedged, the hedging instrument and the methodology used to assess the effectiveness and measure any ineffectiveness of the hedging relationship. Hedge effectiveness is evaluated at the inception of the relationship and at least on a quarterly basis using a variety of techniques including regression analysis and cumulative dollar offset. Both at inception and throughout the term of the hedge, the Company expects that each hedging instrument will be highly effective in achieving offsetting changes in fair value or offsetting changes in cash flows attributable to the risk being hedged. When it is determined that the hedging relationship is no longer effective, or the hedging instrument or the hedged item has been sold or terminated, the Company discontinues hedge accounting prospectively. In such cases, if the derivative hedging instruments are not sold or terminated, any subsequent changes in fair value of the derivative is recognized in investment income.

For derivatives that are designated as hedging instruments, changes in fair values are recognized according to the nature of the risks being hedged, as discussed below.

**Fair value hedges**
In a fair value hedging relationship, changes in the fair value of the hedging derivatives are recorded in investment income, along with changes in the fair value of the hedged items attributable to the hedged risk. The carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk until hedge accounting is discontinued. The Company commences amortization of these adjustments to the carrying value of the hedged item over the remaining term of the hedging relationship immediately after the adjustments are created. To the extent the changes in the fair value of derivatives do not offset the changes in the fair value of the hedged item attributable to the hedged risk in investment income, any ineffectiveness will remain in investment income. When hedge accounting is discontinued, the unamortized balance of the cumulative adjustments to the carrying value of the hedged item continues to be amortized to investment income over the remaining term of the hedging relationship unless the hedged item is sold, at which time the balance is recognized immediately in investment income.

**Cash flow hedges**
In a cash flow hedging relationship, the effective portion of the changes in the fair value of the hedging instrument is recorded in OCI while the ineffective portion is recognized in investment income. Gains and losses accumulated in Accumulated Other Comprehensive Income (“AOCI”) are recognized in investment income during the periods when the variability in the cash flows hedged or the hedged forecasted transactions are recognized in income. The reclassifications from AOCI are made to investment income, with the exception of total return swaps on hedging restricted share units, which are reclassified to compensation expense.

Gains and losses on cash flow hedges accumulated in AOCI are reclassified immediately to investment income when either the hedged item is sold or the forecasted transaction is no longer expected to occur. When hedge accounting is discontinued, and the hedged forecasted transaction remains highly probable to occur, then the amounts previously recognized in AOCI are reclassified to investment income in the periods during which variability in the cash flows hedged or the hedged forecasted transaction is recognized in income.

**Net investment hedges**
The hedges of net investments in the Company’s self sustaining foreign operations are accounted for similar to cash flow hedges. In a net investment hedging relationship, the gains and losses relating to the effective portion of the hedge are recorded in OCI while the ineffective portion is recognized in investment income. Gains and losses in AOCI are recognized in income during the periods when the hedged net investment in foreign operations is reduced.

**Prior to January 1, 2007**
Prior to January 1, 2007, realized and unrealized gains and losses on derivatives which were designated and effective as hedges were accounted for on the same basis as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions that did not qualify for the accounting definition of a hedge, were accounted for as a portfolio investment whereby carrying values were adjusted toward market values at five per cent per quarter. Hedge effectiveness was assessed quarterly.

Derivative income and expenses related to invested assets and financial liabilities were 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 were included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities.

**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.

Expenses are recognized when incurred. Actuarial liabilities are computed at the end of each period, resulting in benefits and expenses being matched with the premium revenue.

## Note 2 ^ Changes in Accounting Policies

### a) Financial instruments

Effective January 1, 2007, the Company adopted CICA Handbook Sections 3855 “Financial Instruments – Recognition and Measurement”, 3865 “Hedges”, 1530 “Comprehensive Income”, 3251 “Equity” and 4211 “Life Insurance Enterprises – Specific Items”. Section 4211 replaced Section 4210. As a result, all financial instruments whether assets or liabilities, except for policy liabilities accounted for in accordance with Section 4211, are accounted for under the new sections. Prior to January 1, 2007, life insurance enterprises followed handbook Section 4210 which contained accounting policies specific to life insurance enterprises. The changes in accounting policies were adopted retroactively without restatement.

In accordance with the new handbook sections, effective January 1, 2007 the Company designated all financial assets as trading (under Section 3855’s fair value option), AFS or as loans and receivables. Financial instruments designated as fair value option, derivatives and AFS securities, except those that are not traded in an active market, are measured at fair value. Stock securities not traded in an active market are carried at cost. The Company has chosen to designate bond and stock securities which support policy liabilities as trading under the fair value option in order to reduce a recognition inconsistency that would otherwise arise. Bond and stock securities which support surplus are, for the most part, designated as AFS. Private placement debt not traded in an active market is classified as loans and carried at amortized cost.

Changes in the fair value of securities designated as fair value option are reported in earnings, while changes in the fair value of AFS securities are reported within OCI, until the financial asset is disposed of or becomes other than temporarily impaired, at which time such changes are reported in earnings.

With the introduction of the financial instrument standards, the life insurance standard Section 4210 was replaced with Section 4211 which removes the unique investment accounting for insurance enterprises for financial instruments, other than owned real estate. Realized gains and losses on debt and equity investments are no longer deferred and amortized and therefore the balance of the deferred realized net gains at December 31, 2006, for other than real estate, was eliminated through opening retained earnings. In addition, Section 4211 removes the unique move-to-market accounting and impairment accounting for equities. Under Section 4210, equity impairments were not recognized unless the entire equity portfolio was other than temporarily impaired. Under the new sections the Company recognizes other than temporary impairments, on debt or equities classified as AFS, on an individual security basis.

All financial liabilities, other than actuarial liabilities, are measured at fair value when they are classified as fair value option or are derivatives. Other financial liabilities are measured at amortized cost. As the assets supporting consumer notes are managed along with assets supporting policy liabilities, the Company has designated consumer notes as fair value in order to reduce any recognition inconsistency. The subordinated debt securities payable to MIC Financing Trust I, settled on February 1, 2007, were designated as fair value.

Section 3855 does not apply to insurance contracts issued to policyholders by insurance enterprises that are accounted for in accordance with Section 4211 except for certain reinsurance contracts. Reinsurance contracts principally involving the transfer of financial risks are accounted for under Section 3855 and are measured at fair value. The U.S. Wealth Management segment has reinsurance ceded contracts to manage its exposure to equity market segregated fund guarantees. In addition, the Reinsurance Division has entered into similar contracts with other insurance companies. The Company continues to report the carrying amount of these contracts as policy liabilities, consistent with other reinsurance contracts. The change in fair value of these contracts is reported as change in actuarial liabilities. The determination of actuarial liabilities on direct contracts takes into consideration associated reinsurance ceded contracts.

The determination of actuarial liabilities under Section 4211 is dependent upon the carrying value of assets required to support the liabilities. Consequently, the carrying value of actuarial liabilities was updated to reflect the changes as a result of implementing the new investment accounting standards.

Derivatives are classified as fair value option unless they are specifically designated within an effective hedging relationship. For fair value hedges, the effective portion of the change in the fair value of a derivative as at January 1, 2007 is offset by the changes in fair value attributed to the risk being hedged in the underlying asset or liability. For cash flow hedges, the effective portion of the change in the fair value of the derivative is offset in AOCI.

The changes in accounting policies resulted in a charge to opening retained earnings of $176, an increase in opening participating policyholders’ equity of $13 and an increase in opening AOCI of $1,741. Amounts previously reported as currency translation account have been reclassified to AOCI.

The changes to the opening January 1, 2007 consolidated balance sheet were as follows:

| | January 1, 2007 | Accounting Policy Changes | December 31, 2006 | reference |
|---|---|---|---|---|
| **Assets** | | | | |
| **Invested assets** | | | | |
| Cash and short-term securities | **$ 10,898** | $ (3) | $ 10,901 | |
| Securities | | | | |
| Bonds | **80,707** | 2,622 | 78,085 | 1 |
| Stocks | **13,232** | 1,960 | 11,272 | 2 |
| Loans | **61,515** | (112) | 61,627 | 3 |
| Real estate | **5,905** | – | 5,905 | |
| Other investments | **3,464** | (66) | 3,530 | 4 |
| **Total invested assets** | **$ 175,721** | $ 4,401 | $ 171,320 | |
| Other assets | **$ 14,625** | $ 29 | $ 14,596 | |
| Derivatives | **1,978** | 1,578 | 400 | 5 |
| **Total other assets** | **$ 16,603** | $ 1,607 | $ 14,996 | |
| **Total assets** | **$ 192,324** | $ 6,008 | $ 186,316 | |
| **Liabilities and Equity** | | | | |
| Policy liabilities | **$ 138,568** | $ 7,749 | $ 130,819 | 6 |
| Deferred realized net gains | **127** | (4,315) | 4,442 | 7 |
| Bank deposits | **7,843** | (2) | 7,845 | |
| Consumer notes | **2,770** | (90) | 2,860 | 8 |
| Long-term debt | **1,929** | (1) | 1,930 | 9 |
| Future income tax liability | **2,429** | 171 | 2,258 | 10 |
| Derivatives | **1,793** | 883 | 910 | 11 |
| Other liabilities | **5,749** | 50 | 5,699 | |
| | **$ 161,208** | $ 4,445 | $ 156,763 | |
| **Liabilities for preferred shares and capital instruments** | **3,680** | (15) | 3,695 | 12 |
| **Non-controlling interest in subsidiaries** | **202** | – | 202 | |
| **Equity** | | | | |
| Participating policyholders' equity | **155** | 13 | 142 | 13 |
| Shareholders' equity | | | | |
| Preferred shares | **638** | – | 638 | |
| Common shares | **14,248** | – | 14,248 | |
| Contributed surplus | **125** | – | 125 | |
| Retained earnings | **13,336** | (176) | 13,512 | 14 |
| Accumulated other comprehensive income (loss) | | | | |
| on available-for-sale securities and cash flow hedges | **1,741** | 1,741 | – | 15 |
| on translation of net foreign operations | **(3,009)** | – | (3,009) | |
| **Total equity** | **$ 27,234** | $ 1,578 | $ 25,656 | |
| **Total liabilities and equity** | **$ 192,324** | $ 6,008 | $ 186,316 | |

1 Net unrealized gains of $1,155 on AFS and $1,467 on fair value
2 Net unrealized gains of $1,146 on AFS and $814 on fair value
3 Hedge accounting adjustments related to loans being designated in prior years as hedged items
4 Adoption of new impairment policy for equities
5 Fair value adjustment
6 Consequential impact of change in accounting policies
7 Elimination of category for other than real estate
8 Unrealized gain related to electing fair value
9 Hedge accounting adjustments related to long-term debt that was in a fair value hedge in 2006
10 Tax effect of opening adjustments
11 Fair value adjustment
12 Subordinated debt payable to MIC Financing Trust I classified as trading
13 Portion of fair value adjustments related to par surplus
14 Result of above items
15 $2,298 related to AFS securities net of income taxes of $537, offset by $31 related to cash flow hedges, net of income taxes of $11

**b) Accounting for leveraged leases**

Effective January 1, 2007 the Company adopted amended Emerging Issues Committee's EIC 46, "Leveraged Leases", which harmonizes leveraged lease accounting with U.S. GAAP. This guidance requires that changes in the projected timing of cash flows relating to income taxes generated by a leveraged lease be considered triggers requiring recalculation of the lease's expected internal rate of return and recalculation of accrued lease income from the inception of the lease, with gain or loss recognition of any resulting change. Prior to this amendment, only changes to lease assumptions which affected the total amount of estimated net income were considered to be such triggers. The Company's adoption of EIC 46 resulted in a charge to opening retained earnings at January 1, 2007 of $157, net of income taxes of $77.

**c) Cash flow presentation of interest discounts and premiums**

Effective July 1, 2007, the Company adopted amended EIC 47 – "Interest Discount or Premium in the Cash Flow Statement". This EIC amendment conforms EIC 47 to Section 3855 and requires classification of the amortization of premiums on investments in debt securities as cash flows from investing activities rather than cash flows from operating activities in the Company's Consolidated Statements of Cash Flows. The Company's adoption of EIC 47 resulted in classification of $574 of premium amortization as cash flows from investing activities for the year ended December 31, 2007 ($730 for the year ended December 31, 2006), which prior to adoption would have been included, net of accretion of discounts, in cash flows provided by operating activities.

**d) Capital disclosures**

Effective October 1, 2007, the Company adopted CICA Handbook Section 1535 "Capital Disclosures". This section requires disclosure of the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Transition to the new standard did not have any financial impact to the Company.

## Note 3 ^ Future Accounting and Reporting Changes

**Financialinstruments – disclosure and presentation**

On December 1, 2006, the CICA issued new accounting standards comprising CICA Handbook Sections 3862 "Financial Instruments – Disclosure" and 3863 "Financial Instruments – Presentation". Section 3862 requires additional disclosures of financial instruments, including their impact on financial position and performance and on the risks associated with recognized and unrecognized financial instruments. Section 3863 carries forward unchanged the presentation requirements of Section 3861. These sections will be effective for the Company's fiscal year beginning January 1, 2008.

## Note 4 ^ Intangible Assets

Intangible assets include the JHF brand name, distribution networks, fund management contracts, and contractual rights. Intangible assets that have finite lives are amortized over their estimated useful lives in relation to the associated gross margins from the related businesses.

| **For the year ended December 31, 2007** | Balance January 1, 2007 | Additions | Disposals | Amortization | Change in foreign exchange rates | Balance December 31, 2007 |
|---|---|---|---|---|---|---|
| **Indefinite life** | | | | | | |
| Brand | **$ 700** | **$ –** | **$ –** | **$ –** | **$ (107)** | **$ 593** |
| Fund management contracts | **342** | **–** | **–** | **–** | **(52)** | **290** |
| | **$ 1,042** | **$ –** | **$ –** | **$ –** | **$ (159)** | **$ 883** |
| **Finite life** | | | | | | |
| Distribution networks | **$ 524** | **$ 123** | **$ –** | **$ (11)** | **$ (68)** | **$ 568** |
| Other intangible assets | **142** | **1** | **–** | **(13)** | **(8)** | **122** |
| | **$ 666** | **$ 124** | **$ –** | **$ (24)** | **$ (76)** | **$ 690** |
| **Total** | **$ 1,708** | **$ 124** | **$ –** | **$ (24)** | **$ (235)** | **$ 1,573** |

| For the year ended December 31, 2006 | Balance January 1, 2006 | Additions | Disposals | Amortization | Change in foreign exchange rates | Balance December 31, 2006 |
|---|---|---|---|---|---|---|
| **Indefinite life** | | | | | | |
| Brand | $ 700 | $ – | $ – | $ – | $ – | $ 700 |
| Fund management contracts | 342 | – | – | – | – | 342 |
| | $ 1,042 | $ – | $ – | $ – | $ – | $ 1,042 |
| **Finite life** | | | | | | |
| Distribution networks | $ 535 | $ – | $ – | $ (11) | $ – | $ 524 |
| Other intangible assets | 165 | – | (9) | (13) | (1) | 142 |
| | $ 700 | $ – | $ (9) | $ (24) | $ (1) | $ 666 |
| **Total** | $ 1,742 | $ – | $ (9) | $ (24) | $ (1) | $ 1,708 |

## Note 5 ^ Invested Assets and Investment Income

### a) Carrying values and fair values of invested assets

| As at December 31, | Fair Value Option | Available For Sale | Other | Total Carrying Value | 2007 Total Fair Value | 2006 Total Carrying Value | 2006 Total Fair Value |
|---|---|---|---|---|---|---|---|
| Cash and short-term securities[1] | **$ 645** | **$ 10,098** | **$ 1,611** | **$ 12,354** | **$ 12,354** | $ 10,901 | $ 10,898 |
| Bonds[2] | | | | | | | |
| Canadian government & agency | **8,384** | **2,673** | **–** | **11,057** | **11,057** | 9,952 | 11,243 |
| U.S. government & agency | **4,796** | **1,262** | **–** | **6,058** | **6,058** | 8,356 | 8,370 |
| Other government & agency | **4,068** | **610** | **–** | **4,678** | **4,678** | 4,327 | 4,576 |
| Corporate | **38,121** | **3,963** | **–** | **42,084** | **42,084** | 44,401 | 45,582 |
| Mortgage/asset-backed securities | **8,055** | **899** | **–** | **8,954** | **8,954** | 11,049 | 10,959 |
| Stocks[2] | **6,913** | **4,221** | **–** | **11,134** | **11,134** | 11,272 | 13,232 |
| Loans | | | | | | | |
| Private placements[3] | **–** | **–** | **21,591** | **21,591** | **21,573** | 25,074 | 24,854 |
| Mortgages[3] | **–** | **–** | **26,061** | **26,061** | **26,071** | 28,131 | 28,403 |
| Policy loans[4] | **–** | **–** | **5,823** | **5,823** | **5,823** | 6,413 | 6,413 |
| Bank loans[3] | **–** | **–** | **2,182** | **2,182** | **2,191** | 2,009 | 2,094 |
| Real estate[5] | **–** | **–** | **5,727** | **5,727** | **7,608** | 5,905 | 7,212 |
| Other investments[6] | **–** | **–** | **3,597** | **3,597** | **4,236** | 3,530 | 4,130 |
| **Total invested assets** | **$70,982** | **$ 23,726** | **$66,592** | **$ 161,300** | **$163,821** | $ 171,320 | $ 177,966 |

1 Short-term securities are carried at their fair values.
2 Fair values for bonds and stocks are determined with reference to quoted market bid prices where available. When quoted market bid prices are not available for bond and stock securities not traded in an active market, fair values are determined using valuation techniques which include discounted cash flows and internal models that refer to observable market data.
3 Fair values of private placements, mortgages and bank loans are based on valuation techniques and assumptions which reflect changes in interest rates and changes in the creditworthiness of individual borrowers which have occurred since the investments were originated. Fair values also reflect any applicable provision for credit loan losses. 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. Leveraged leases are carried at values derived in accordance with leveraged lease accounting (see note 1b) and their fair values are not readily available.
4 Policy loans are carried at amortized cost. As policy loans are fully collateralized by their cash surrender values and can be repaid at any time, their carrying values are assumed to equal their fair values.
5 Fair values of real estate are determined by external appraisals utilizing expected net cash flows discounted at market interest rates. Foreclosed properties of $4 are included in real estate as at December 31, 2007 (2006 – $5).
6 Other investments include private equity and fixed income investments held primarily in power and infrastructure, oil and gas, and timber and agriculture sectors. Fair values of these investments are estimated based on best available information which includes external appraisals as well as various valuation techniques used by external managers.

The following tables present the carrying value and fair value of investments segregated by maturity. Investments that are not due at a single maturity date are shown separately. Actual maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations.

### Carrying Values

| As at December 31, | No specific maturity | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years | 2007 Total carrying value | 2006 Total carrying value |
|---|---|---|---|---|---|---|---|
| Cash and short-term securities | **$12,354** | **$ –** | **$ –** | **$ –** | **$ –** | **$ 12,354** | $ 10,901 |
| Bonds | | | | | | | |
| Canadian government & agency | **–** | **151** | **900** | **1,235** | **8,771** | **11,057** | 9,952 |
| U.S. government & agency | **–** | **119** | **691** | **2,271** | **2,977** | **6,058** | 8,356 |
| Other government & agency | **–** | **182** | **680** | **1,305** | **2,511** | **4,678** | 4,327 |
| Corporate | **–** | **3,077** | **13,528** | **10,052** | **15,427** | **42,084** | 44,401 |
| Mortgage/asset-backed securities | **–** | **57** | **458** | **478** | **7,961** | **8,954** | 11,049 |
| Stocks | **11,134** | **–** | **–** | **–** | **–** | **11,134** | 11,272 |
| Private placements | **–** | **897** | **3,906** | **7,268** | **9,520** | **21,591** | 25,074 |
| Mortgages | **4,581** | **1,600** | **6,609** | **8,260** | **5,011** | **26,061** | 28,131 |
| Policy loans | **5,823** | **–** | **–** | **–** | **–** | **5,823** | 6,413 |
| Bank loans | **92** | **43** | **247** | **1,773** | **27** | **2,182** | 2,009 |
| Real estate | **5,727** | **–** | **–** | **–** | **–** | **5,727** | 5,905 |
| Other investments | **3,597** | **–** | **–** | **–** | **–** | **3,597** | 3,530 |
| **Total** | **$43,308** | **$ 6,126** | **$ 27,019** | **$ 32,642** | **$52,205** | **$ 161,300** | $ 171,320 |

## Fair Values

| As at December 31, | No specific maturity | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years | Due after 10 years | 2007 Total fair value | 2006 Total fair value |
|---|---|---|---|---|---|---|---|
| Cash and short-term securities | **$12,354** | **$ –** | **$ –** | **$ –** | **$ –** | **$ 12,354** | $ 10,898 |
| Bonds | | | | | | | |
| Canadian government & agency | **–** | **151** | **900** | **1,235** | **8,771** | **11,057** | 11,243 |
| U.S. government & agency | **–** | **119** | **691** | **2,271** | **2,977** | **6,058** | 8,370 |
| Other government & agency | **–** | **182** | **680** | **1,305** | **2,511** | **4,678** | 4,576 |
| Corporate | **–** | **3,077** | **13,528** | **10,052** | **15,427** | **42,084** | 45,582 |
| Mortgage/asset-backed securities | **–** | **57** | **458** | **478** | **7,961** | **8,954** | 10,959 |
| Stocks | **11,134** | **–** | **–** | **–** | **–** | **11,134** | 13,232 |
| Private placements | **–** | **896** | **3,899** | **7,257** | **9,521** | **21,573** | 24,854 |
| Mortgages | **4,584** | **1,611** | **6,680** | **8,239** | **4,957** | **26,071** | 28,403 |
| Policy loans | **5,823** | **–** | **–** | **–** | **–** | **5,823** | 6,413 |
| Bank loans | **99** | **43** | **248** | **1,774** | **27** | **2,191** | 2,094 |
| Real estate | **7,608** | **–** | **–** | **–** | **–** | **7,608** | 7,212 |
| Other investments | **4,236** | **–** | **–** | **–** | **–** | **4,236** | 4,130 |
| **Total** | **$45,838** | **$ 6,136** | **$ 27,084** | **$ 32,611** | **$52,152** | **$163,821** | $177,966 |

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

| Mortgages, As at December 31 | 2007 Carrying value | 2007 Fair value | 2006 Carrying value | 2006 Fair value |
|---|---|---|---|---|
| Residential | **$ 8,838** | **$ 8,872** | $ 8,020 | $ 8,093 |
| Office | **3,883** | **3,887** | 4,788 | 4,856 |
| Retail | **5,586** | **5,543** | 6,688 | 6,761 |
| Industrial | **3,225** | **3,235** | 3,574 | 3,649 |
| Other | **4,529** | **4,534** | 5,061 | 5,044 |
| **Total** | **$ 26,061** | **$26,071** | $ 28,131 | $28,403 |

The carrying value of government-insured mortgages was 21% of the total carrying value of the mortgage portfolio as at December 31, 2007 (2006 – 17%) and the carrying value of privately-insured mortgages was 1.5% of the total mortgage portfolio as at December 31, 2007 (2006 – 1.3%).

## b) Investment income

| For the years ended December 31 | 2007 Fair Value Option | 2007 Available For Sale | 2007 Other[3] | 2007 Total | 2007 Yields[4] | 2006 Total | 2006 Yields[4] |
|---|---|---|---|---|---|---|---|
| Cash and short-term securities | $ 38 | $ 465 | $ – | **$ 503** | 4.9% | $ 385 | 4.9% |
| Bonds | | | | | 5.2% | | 5.7% |
| Interest income | 3,451 | 509 | – | **3,960** | 5.3% | 4,086 | |
| (Losses) gains[1] | (111) | 31 | – | **(80)** | (0.1)% | 356 | |
| Impairment (loss) recovery | | (4) | | **(4)** | | 32 | |
| Stock securities | | | | | 11.0% | | 13.1% |
| Dividend income | 172 | 123 | – | **295** | | 285 | |
| Gains[1] | 589 | 432 | – | **1,021** | | 789 | |
| Impairment loss | | (33) | – | **(33)** | | – | |
| Loans | | | | | | | |
| Private placements | | | | | 6.4% | | 7.5% |
| Interest income | | | 1,370 | **1,370** | | 1,457 | |
| Gains[1] | | | 103 | **103** | | – | |
| (Provision) recovery for loan losses, net | | | (13) | **(13)** | | 21 | |
| Mortgages | | | | | 6.3% | | 6.2% |
| Interest income | | | 1,551 | **1,551** | | 1,597 | |
| Gains[1] | | | 74 | **74** | | 43 | |
| Recovery of loan losses, net | | | 21 | **21** | | 12 | |
| Policy loans | | | 414 | **414** | 6.8% | 397 | 6.5% |
| Bank loans | | | | | 7.4% | | 7.2% |
| Interest income | | | 151 | **151** | | 135 | |
| Real estate | | | 605 | **605** | 11.1% | 524 | 10.8% |
| Derivatives | | | | | | | |
| Interest | | | (64) | **(64)** | n/a | (122) | n/a |
| Gains[1] | | | 73 | **73** | n/a | 131 | n/a |
| Other investments | | | | | 11.9% | | 9.9% |
| Interest income | | | 327 | **327** | | 346 | |
| Gains[1] | | | 82 | **82** | | 25 | |
| Impairment loss | | | (15) | **(15)** | | (66) | |
| **Total investment income** | $ 4,139 | $ 1,523 | $ 4,679 | **$ 10,341** | 6.4% | $ 10,433 | 6.7% |
| Interest income | $ 3,489 | $ 974 | $ 3,749 | **$ 8,212** | 5.1% | $ 8,281 | 5.3% |
| Dividend, rental and other income | 172 | 123 | 605 | **900** | 0.5% | 809 | 0.5% |
| Impairments and provisions for loan losses | – | (37) | (7) | **(44)** | 0.0% | (1) | 0.0% |
| Realized gains on assets backing surplus[2] | – | 424 | 39 | **463** | 0.3% | 1,104 | 0.7% |
| Realized and unrealized gains on assets supporting policy liabilities and consumer notes | 478 | 39 | 293 | **810** | 0.5% | 240 | 0.2% |
| **Total investment income** | $ 4,139 | $ 1,523 | $ 4,679 | **$ 10,341** | 6.4% | $ 10,433 | 6.7% |

1 Gains (losses) include both realized and unrealized gains (losses) on securities and derivatives designated as trading under the fair value option and realized gains (losses) for AFS and other invested assets. Amounts in 2006 consist of amortization of deferred net realized gains and move to market adjustments for stock securities.
2 Amounts in 2006 consist of amortization of deferred net realized gains and move to market adjustments for stock securities.
3 Other includes interest income on loans, real estate rental income and move to market adjustments, derivative income as outlined in note 21 and earnings on other investments.
4 Yields in 2007 are based on total investment income divided by the aggregate of the average carrying value of invested assets plus accrued income less deferred realized net gains on real estate holdings (for 2006, deferred net realized gains existed on all invested assets).

## c) Investment expenses

| For the years ended December 31, | 2007 | 2006 |
|---|---|---|
| Related to invested assets | **$376** | $336 |
| Related to segregated, mutual and other funds[1] | **607** | 505 |
| **Total investment expenses** | **$983** | $841 |

1 Incurred by providing portfolio management services where the Company holds or has invested assets on behalf of individuals and financial institutions.

### d) Securities lending

The Company engages in securities lending to generate fee income. Certain securities from its portfolio are loaned to other institutions for periods of time in exchange for collateral from the borrower. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral, which exceeds the market value of the loaned securities, is retained by the Company until the underlying security has been returned to the Company. Securities received as collateral cannot be sold or re-pledged externally by the Company, unless a counterparty defaults on its financial obligations. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the underlying loaned securities fluctuates. As at December 31, 2007, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $3,611 and $3,692, respectively (2006 – $3,713 and $3,798, respectively).

## Note 6 ^ Policy Liabilities

### a) Policy liabilities

Policy liabilities are reported in the consolidated financial statements net of reinsurance ceded. The policy liabilities, before and after reinsurance ceded, are shown below.

| As at December 31, | 2007 | 2006 |
|---|---|---|
| Gross policy liabilities | **$133,109** | $139,607 |
| Impact of reinsurance ceded | **(8,687)** | (8,788) |
| **Policy liabilities** | **$124,422** | $130,819 |

Policy liabilities include actuarial liabilities as well as policy benefits payable, provision for unreported policy claims, and policyholder amounts on deposit. The components of policy liabilities are shown below.

| As at December 31, | 2007 | 2006 |
|---|---|---|
| Actuarial liabilities | **$117,652** | $123,416 |
| Benefits payable and provision for unreported claims | **2,215** | 2,430 |
| Policyholder amounts on deposit | **4,555** | 4,973 |
| **Policy liabilities** | **$124,422** | $130,819 |

Policy liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends and experience rating refunds, 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 current 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 re-investment strategies. Each assumption is adjusted by a margin for adverse deviation. For investment returns, this margin is established by scenario testing. Scenario testing is generally done on a deterministic basis, testing a range of prescribed and company-developed scenarios, but is done stochastically for minimum guarantees on segregated fund products. For other assumptions, this margin is established by directly adjusting the best estimate assumption.

The cash flows used in the actuarial valuation adjust the gross policy cash flows to reflect the projected cash flows from ceded reinsurance. The cash flow impact of reinsurance ceded varies depending upon the amount of reinsurance, the structure of the reinsurance treaties, the expected economic benefit from the treaty cash flows and the impact of margins for adverse deviation.

The period used for the projection of cash flows is the policy lifetime for most individual insurance contracts. For other types of contracts a shorter projection period may be used, limiting the period to the term of the liability over which the Company is exposed to material insurance risk without the ability to adjust premiums or policy charges. Where the projection period is less than the policy lifetime, actuarial liabilities may be reduced by an allowance for acquisition expenses expected to be recovered from policy cash flows beyond the projection period used for the liabilities. Such allowances are tested for recovery using assumptions, including margin for adverse deviation, as used in other components of the actuarial valuation.

### b) Composition

The composition of policy liabilities, on a net of reinsurance ceded basis, by line of business and reporting segment is shown in the table below. Policy liability totals before the impact of reinsurance ceded are also shown. The net of reinsurance ceded numbers are used throughout the consolidated financial statements.

| | Individual insurance | | | | | |
|---|---|---|---|---|---|---|
| **As at December 31, 2007** | Participating | Non-participating | Annuities and pensions | Other policy liabilities[1] | **Total, net of reinsurance ceded** | Total before reinsurance ceded |
| U.S. Insurance | **$ 20,129** | **$ 12,050** | **$ 25** | **$ 8,892** | **$ 41,096** | $ 44,747 |
| U.S. Wealth Management | **–** | **–** | **30,599** | **49** | **30,648** | 31,548 |
| Canadian Division | **6,464** | **11,166** | **13,221** | **5,798** | **36,649** | 40,102 |
| Asia and Japan Division | **11,758** | **1,255** | **684** | **216** | **13,913** | 13,982 |
| Reinsurance Division | **–** | **1,082** | **–** | **539** | **1,621** | 1,818 |
| Corporate and Other | **–** | **109** | **32** | **354** | **495** | 912 |
| **Total, net of reinsurance ceded** | **$ 38,351** | **$ 25,662** | **$ 44,561** | **$ 15,848** | **$ 124,422** | $ 133,109 |
| Total before reinsurance ceded | $ 39,110 | $ 31,096 | $ 45,515 | $ 17,388 | $ 133,109 | |

[1] Other policy liabilities include group insurance, and individual and group health including long-term care insurance.

| | Individual life insurance | | | | | |
|---|---|---|---|---|---|---|
| As at December 31, 2006 | Participating | Non-participating | Annuities and pensions | Other policy liabilities[1] | Total, net of reinsurance ceded | Total before reinsurance ceded |
| U.S. Insurance | $ 23,095 | $ 12,545 | $ 30 | $ 8,562 | $ 44,232 | $ 47,686 |
| U.S. Wealth Management | – | – | 38,166 | 56 | 38,222 | 39,491 |
| Canadian Division | 5,557 | 9,451 | 12,078 | 5,468 | 32,554 | 35,596 |
| Asia and Japan Division | 10,782 | 1,920 | 768 | 203 | 13,673 | 13,687 |
| Reinsurance Division | – | 1,066 | – | 818 | 1,884 | 2,055 |
| Corporate and Other | 26 | 114 | – | 114 | 254 | 1,092 |
| **Total, net of reinsurance ceded** | $ 39,460 | $ 25,096 | $ 51,042 | $ 15,221 | $ 130,819 | $ 139,607 |
| Total before reinsurance ceded | $ 39,898 | $ 30,065 | $ 52,366 | $ 17,278 | $ 139,607 | |

[1] Other policy liabilities include group insurance, and individual and group health including long-term care insurance.

For participating policies in-force 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, 2007, $25,289 (2006 – $26,904) of both assets and policy liabilities related to the participating policyholders’ account were included in the closed blocks.

### c) Assets backing policy liabilities, other liabilities and capital

Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. The Company has established target investment strategies and asset mixes for each asset segment supporting policy liabilities, which take into account the risk attributes of the liabilities supported by the assets and expectations of market performance. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed-rate instruments such as bonds, commercial loans 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 invested in a range of debt and equity investments, both public and private.

Changes in the fair value of assets backing policy liabilities would have a limited impact on the Company’s equity wherever there is an effective matching of the assets and liabilities, as it would be substantially offset by a corresponding change in the fair value of the actuarial liabilities. The fair value of assets backing policy liabilities as at December 31, 2007 was estimated at $126,243 (2006 – $135,066).

The fair value of assets backing capital and other liabilities as at December 31, 2007 was estimated at $52,735 (2006 – $57,749).

The deferred realized net (losses) gains taken into account in the computation of policy liabilities as at December 31, 2007 were $(17) (2006 – $3,123).

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

| As at December 31, 2007 | Individual life insurance: Participating | Individual life insurance: Non-participating | Annuities and pensions | Other policy liabilities[1] | Other liabilities[2] | Capital[3] | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Bonds | **$ 20,145** | **$ 11,986** | **$ 21,087** | **$ 5,876** | **$ 5,223** | **$ 8,514** | **$ 72,831** |
| Stocks | **3,986** | **2,410** | **273** | **173** | **545** | **3,747** | **11,134** |
| Mortgages | **3,825** | **3,232** | **8,804** | **3,308** | **6,575** | **317** | **26,061** |
| Private placements | **2,827** | **2,864** | **8,810** | **2,577** | **1,030** | **3,483** | **21,591** |
| Real estate | **2,043** | **1,503** | **529** | **1,136** | **428** | **88** | **5,727** |
| Other | **5,525** | **3,667** | **5,058** | **2,778** | **10,708** | **11,378** | **39,114** |
| **Total** | **$ 38,351** | **$ 25,662** | **$ 44,561** | **$ 15,848** | **$ 24,509** | **$27,527** | **$176,458** |

| As at December 31, 2006 | Individual life insurance: Participating | Individual life insurance: Non-participating | Annuities and pensions | Other policy liabilities[1] | Other liabilities[2] | Capital[3] | Total |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| Bonds | $ 20,669 | $ 12,460 | $ 25,283 | $ 6,123 | $ 6,993 | $ 6,557 | $ 78,085 |
| Stocks | 3,417 | 2,136 | 613 | 437 | 730 | 3,939 | 11,272 |
| Mortgages | 4,364 | 3,428 | 10,549 | 3,119 | 6,259 | 412 | 28,131 |
| Private Placements | 2,678 | 1,980 | 10,332 | 2,270 | 3,868 | 3,946 | 25,074 |
| Real estate | 1,989 | 1,575 | 464 | 1,222 | 449 | 206 | 5,905 |
| Other | 6,343 | 3,517 | 3,801 | 2,050 | 7,645 | 14,493 | 37,849 |
| **Total** | $ 39,460 | $ 25,096 | $ 51,042 | $ 15,221 | $ 25,944 | $29,553 | $186,316 |

1 Other policy liabilities include group insurance, and individual and group health including long-term care insurance.
2 Other liabilities include non-insurance liabilities.
3 Capital, consists of liabilities for preferred shares and capital instruments, non-controlling interest in subsidiaries and total equity excluding AOCI on cash flow hedges

### d) Significant policy liability valuation assumptions

The determination of policy liabilities involves the use of estimates and assumptions. Actual results could differ from those estimates.

Policy liabilities have two major components: a best estimate amount 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 assumptions

In the computation of policy liabilities, best estimate assumptions are made. Assumptions are made for the valuation term of the liabilities 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 the Company's internal as well as industry past and emerging experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market.<br><br>Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity assumptions are based on the Company's internal as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market. | 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.<br><br>Mortality is monitored monthly and the overall 2007 experience was favourable when compared to the Company's assumptions. Morbidity is also monitored monthly and the overall 2007 experience was unfavourable when compared to the Company's assumptions. |

| | Nature of factor and assumption methodology | Risk management |
|---|---|---|
| **Investment returns** | The Company segments assets to support liabilities by business segment and geographic market and establishes investment strategies appropriate for each liability segment. The projected cash flows from these assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return on these assets for all future years. The re-investment strategies are based on the target investment policies for each segment and the re-investment returns are derived from current and projected market rates for fixed interest investments and a projected outlook for non-fixed interest assets.<br><br>Investment return assumptions include expected future asset credit losses on fixed income investments. Credit losses are projected based on past Company and industry experience as well as specific reviews of the current investment portfolio.<br><br>Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from internal cost studies. The costs are attributed to each asset class to develop unitized assumptions per dollar of asset for each asset class. | 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 CALM, the re-investment rate is quantified by using interest rate scenario testing.<br><br>The exposure to asset credit losses is managed by policies and procedures which limit concentrations by issuer, corporate connections, ratings, sectors and geographic regions. On participating policies and some non-participating policies asset credit loss experience is passed back to policyholders through the investment return crediting formula. For other policies, the premiums and benefits reflect the Company's assumed level of future credit losses at contract inception or most recent contract adjustment date. The Company holds explicit provisions in actuarial liabilities for asset credit risk including provisions for adverse deviation.<br><br>In 2007, credit loss experience on both bonds and mortgages continued to be favourable when compared to the Company's assumptions.<br><br>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 and real estate are also used to support long-dated obligations in the Company's annuity and pensions businesses and for long-dated insurance obligations on contracts where the investment return risk is borne by the Company.<br><br>In 2007, investment expense experience was unfavourable when compared to the Company's assumptions. |
| **Policy terminations** | Policy termination includes lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on the Company's recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market. | 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.<br><br>In aggregate, 2007 lapse experience on insurance products was unfavourable when compared to the Company's 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, including associated overhead expenses. The expenses are derived from internal cost studies projected into the future with an allowance for inflation. For some developing businesses, there is an expectation that unit costs will decline as these businesses mature.<br><br>Taxes reflect assumptions for future premium taxes and other non-income related taxes. For income taxes, policy liabilities are adjusted only for temporary tax timing and permanent tax rate differences on the cash flows available to satisfy policy obligations. | 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.<br><br>Maintenance expenses for 2007 were favourable when compared to the Company's assumptions used in the computation of actuarial liabilities.<br><br>The Company prices its products to cover the expected cost of taxes. |
| **Policyholder dividends, experience rating refunds, and other adjustable policy elements** | The best estimate projections for policyholder dividends and experience rating refunds, and other adjustable elements of policy benefits are determined to be consistent with management's expectation of how these elements will be managed should experience emerge consistently with the best estimate assumptions used for mortality and morbidity, investment returns, rates of policy termination, operating expenses and taxes. | The Company monitors policy experience closely and adjusts policy benefits and other adjustable elements to reflect this experience.<br><br>Policyholder dividends are reviewed annually for all businesses under a framework of board approved dividend policies. |

| | Nature of factor and assumption methodology | Risk management |
|---|---|---|
| **Foreign currency** | Foreign currency risk results from a mismatch of the currency of liabilities and the currency of the assets designated to support these obligations. Where a currency mismatch exists, the assumed rate of return on the assets supporting the liabilities is reduced to reflect the potential for adverse movements in exchange rates. | The Company has a policy of matching the currency of its assets with the currency of the liabilities they support to mitigate exposure related to adverse movements in foreign exchange rates. |

The Company's practice is to review actuarial assumptions on an annual basis as part of its review of methods and assumptions (note 6(f)).

**Provision for adverse deviation assumptions**

The basic assumptions made in establishing policy liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities 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 policy 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 five per cent to 20 per cent 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, taking into account the risk profile of the business.

### e) Change in policy liabilities

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

| **For the year ended December 31, 2007** | Change in actuarial liabilities | Change in other policy liabilities[1] | Change in policy liabilities |
|---|---|---|---|
| Balance, December 31, 2006 | **$123,416** | **$ 7,403** | **$130,819** |
| Impact of adopting new accounting policies for financial instruments | **7,742** | **7** | **7,749** |
| Balance, January 1, 2007 | **$131,158** | **$ 7,410** | **$138,568** |
| New policies | **2,855** | **–** | **2,855** |
| Normal in-force movement | **(2,452)** | **169** | **(2,283)** |
| Changes in methods and assumptions | **(27)** | **59** | **32** |
| Currency impact | **(13,882)** | **(868)** | **(14,750)** |
| **Balance, December 31** | **$117,652** | **$ 6,770** | **$124,422** |

| For the year ended December 31, 2006 | | | |
|---|---|---|---|
| Balance, January 1 | $124,364 | $ 7,685 | $132,049 |
| New policies | 2,000 | – | 2,000 |
| Normal in-force movement | (3,001) | (242) | (3,243) |
| Changes in methods and assumptions | (25) | (42) | (67) |
| Changes due to acquisition and assumption transactions | 8 | – | 8 |
| Currency impact | 70 | 2 | 72 |
| **Balance, December 31** | $123,416 | $ 7,403 | $130,819 |

[1] Other policy liabilities is comprised of benefits payable and provision for unreported claims and policyholder amounts on deposit.

### f) Changes in actuarial methods and assumptions

The Company examines the assumptions used in determining policy liabilities on an ongoing basis to ensure they appropriately reflect emerging experience and changes in risk profile. Policy liabilities are increased when expected benefit costs and related risks increase, and vice versa. Policy liabilities include liabilities for policy benefits in the course of settlement.

In 2007, changes in methods and assumptions used in the determination of policy liabilities resulted in a net increase of $32 (2006 – decrease of $67) in policy liabilities. The net increase includes a decrease of $10 (2006 – increase of $17) to policy liabilities impacting non-controlling interest in subsidiaries, an increase of $23 (2006 – decrease of $2) to participating policyholders' reserves, and a net increase of $19 (2006 – decrease of $82) to reserves that impact the shareholders' account. As a result of the actuarial changes in methods and assumptions, shareholders' pre-tax income decreased by $19 (2006 – increase of $82) and is reported in the Corporate and Other segment.

The changes in methods and assumptions in 2007 include an increase of $618 from a reduction in assumed ultimate re-investment rates, offset by reductions of $657 from reflecting increases in available market spreads on re-investments, and a reduction of $229 from other refinements and re-investment return and scenario testing assumptions. There was also a reduction of $168 for refinements to policy liability modeling. Updates to non-economic valuation assumptions resulted in an increase of $468. This included an increase in reserves for the explicit valuation assumptions for insurance risks, policyholder behaviour and expenses, offset by a reduction in reserves for certain reinsurance risks.

The changes in methods and assumptions in 2006 include a reduction of $404 reflecting the impact of market movement on insurance segment reserves, and a reduction of $146 related to asset disposition risks on fixed interest assets supporting liabilities, offset by a $261 increase related to the adoption of a new scenario for determining the margin for adverse deviations required for re-investment risk related to future interest rates. Other refinements to policy liability modeling resulted in a $222 increase in policy liabilities, as a $284 reduction from model refinements was offset by a $506 increase from revisions to explicit valuation assumptions for insurance risks, policyholder behaviour and expenses.

## Note 7 ^ Risk Management

In addition to risks related to reserve assumptions, the Company is exposed to the following risks which are considered when establishing policy liabilities:

### a) Interest rate risk

Interest rate risk arises on interest-bearing financial instruments recognized on the balance sheet as well as off-balance sheet exposures. Interest rate exposures are measured using a variety of techniques including cash flow gaps, durations, key rate durations, convexity and earnings and shareholders' economic value at risk. The Company calculates shareholders' economic value as the net present value of future cash flows related to current assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax.

The Company's general fund wealth management business may be exposed to interest rate risk as a result of mismatches between the timing and amount of its assets and liabilities. The impact on shareholders' economic value of an immediate and permanent parallel shift of one per cent in interest rates at all maturities across all markets arising from general fund wealth management business is as follows:

**Economic Value at Risk Interest Rate Sensitivity Analysis**

| For the years ended December 31, | 2007 | 2006 |
|---|---|---|
| 1% increase in interest rates | **$ (21)** | $ (48) |
| 1% decrease in interest rates | **$ (5)** | $ (11) |

The Company's general fund insurance business is supported by a portfolio of assets invested in a blend of medium to long maturity bonds and a material component of non-fixed income assets, with the investment allocations between fixed income and non-fixed income assets managed proactively. As a result, the interest rate risks related to this business are not easily identified separately from the price volatility related to non-fixed income assets.

### b) 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.

The effect of reinsurance on premium income was as follows:

| For the years ended December 31, | 2007 | 2006 |
|---|---|---|
| Direct premium income | **$20,359** | $19,469 |
| Reinsurance assumed | **1,400** | 1,393 |
| Reinsurance ceded | **(2,015)** | (1,758) |
| **Total premium income** | **$19,744** | $19,104 |

### c) Credit risk

Credit risk is the risk that a party to a financial instrument will cause a financial loss to the Company by failing to honour its obligation to the Company. Credit risks are primarily associated with invested assets, and derivative and reinsurance counterparties. The Company's exposure to credit risk is managed through risk management policies and procedures which include assessing the quality

of the investment portfolio together with maintenance of issuer, industry and geographic diversification standards. In order to manage its exposure to credit risk, the Company establishes exposure limits by borrower, corporate connection, quality rating, industry and geographic region. For derivative exposures, the Company has established a minimum acceptable counterparty credit rating of “A” from external rating agencies.

The Company has provided for credit risk by establishing allowances against the carrying value of impaired loans. In addition to these allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities (note 6).

An allowance for losses on loans is established when a loan 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 its estimated net realizable value at the time of recognition of impairment. Provisions for loan losses are calculated to reduce the carrying value to estimated net realizable value, measured by discounting the remaining expected future cash flows at the effective interest rate inherent in the loan; the fair value of security underlying the loans, net of expected costs of realization and any amounts legally required to be paid to the borrowers; or observable market prices for the loans, if any. An allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill its contractual obligations. The allowance for loss is based on current recoverables and ceded actuarial liabilities. 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.

### Impairedloans

| As at December 31, | 2007 | | | 2006 |
|---|---|---|---|---|
| | Gross amount | Allowance | Net amount | Net amount |
| Mortgages and others | **$ 45** | **$ 23** | **$ 22** | $ 126 |
| Private placements | **139** | **53** | **86** | 168 |
| **Total** | **$ 184** | **$ 76** | **$ 108** | $ 294 |

### Allowancefor loan losses

| | Balance January 1, 2007 | Provisions | Recoveries | Write-offs[1] | Balance December 31, 2007 |
|---|---|---|---|---|---|
| Mortgages and others | **$ 61** | **$ 15** | **$ (36)** | **$ (17)** | **$ 23** |
| Private placements | **73** | **35** | **(22)** | **(33)** | **53** |
| **Total** | **$ 134** | **$ 50** | **$ (58)** | **$ (50)** | **$ 76** |

1 Includes disposals and impact of currency translation.

### Concentrations of credit risk

The Company establishes enterprise-wide investment portfolio level targets and limits to ensure that portfolios are widely diversified across asset classes and individual investment risks and are suitable for the liabilities they support.

As at December 31, 2007, 96% of bonds and private placements (2006 – 96%) were rated at investment grade “BBB” or higher, and 73% (2006 – 71%) were rated “A” or higher. Government bonds and private placements represented 27% (2006 – 26%) of the portfolios. The Company’s highest exposure to a single non-government issuer was $524 (2006 – $513). 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 $8,417 (2006 – $8,038) of the total portfolio. Income-producing commercial office properties were the largest concentration in the real estate portfolio with $4,115 (2006 – $4,167). As at December 31, 2007, 99% (2006 – 92%) of the stock portfolio was comprised of publicly listed corporations. The largest single issuer represented 5% (2006 – 2%) of the portfolio.

Under contractual arrangements in place with its counterparties, 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 net gains that may have accrued with a particular counterparty. All contracts are held with counterparties rated “A” or higher. As at December 31, 2007, 82% (2006 – 87%) of the exposed amount was with counterparties rated “AA” or higher. The largest single counterparty exposure as at December 31, 2007 was $170 (2006 – $137). In addition, the Company mitigates its risk of credit losses with derivative counterparties by entering into Credit Support Annex Agreements, whereby collateral must be lodged with the counterparty when the exposure exceeds a certain threshold.

The Company’s exposure to credit risk was mitigated by $881 of collateral held as security as at December 31, 2007 (2006 – $752).

## Note 8 ^ Income Taxes

The effective income tax rate for the provision for income taxes reported in the Consolidated Statements of Operations varies from the income taxes computed at the Canadian statutory tax rate of 35% for the year ended December 31, 2007 (2006 – 35%) for the following reasons:

**Reconciliation of income tax expense**

| **For the years ended December 31,** | **2007** | 2006 |
|---|---|---|
| Income tax expense at Canadian statutory tax rate | **$1,962** | $1,868 |
| (Decrease) increase in income taxes due to: | | |
| Tax-exempt investment income | **(114)** | (139) |
| Differences in tax rates on income not subject to tax in Canada | **(368)** | (325) |
| (Release) creation of valuation allowance | **(34)** | 50 |
| General business tax credits | **(64)** | (70) |
| Other | **(5)** | (18) |
| **Income tax expense** | **$1,377** | $1,366 |

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

| **For the years ended December 31,** | **2007** | 2006 |
|---|---|---|
| Canadian income tax expense: | | |
| Current | **$ 185** | $ 197 |
| Future | **141** | (42) |
| | **$ 326** | $ 155 |
| Foreign income tax expense: | | |
| Current | **$ 264** | $ 173 |
| Future | **787** | 1,038 |
| | **$1,051** | $1,211 |
| **Income tax expense** | **$1,377** | $1,366 |

The amount of income taxes paid in cash during the year ended December 31, 2007 was $424 (2006 – $208).

Income taxes are included in the consolidated financial statements as follows:

| **For the years ended December 31,** | **2007** | 2006 |
|---|---|---|
| Consolidated Statements of Operations | | |
| Income taxes | **$1,377** | $1,366 |
| Consolidated Balance Sheets | | |
| Goodwill – tax benefit of stock options exercised | **(3)** | (16) |
| Consolidated Statements of Equity | | |
| Section 3855 implementation opening adjustments | **(355)** | – |
| Stock option acceleration | **–** | (2) |
| Tax benefit of stock options exercised | **(16)** | (31) |
| Preferred shares | **–** | (4) |
| Other comprehensive income opening adjustments | **526** | – |
| Tax benefit in respect of leveraged leases opening adjustment | **(77)** | – |
| Consolidated Statement of Comprehensive Income | | |
| Other comprehensive income AFS and cash flow hedges | **(79)** | – |
| Currency translation account | **121** | (14) |
| **Income taxes** | **$1,494** | $1,299 |

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognized a future income tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future. If all undistributed earnings were repatriated, incremental taxes that would be charged against earnings as at December 31, 2007 are estimated to be $387 (2006 – $384).

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

| As at December 31, | 2007 | 2006 |
|---|---|---|
| Future income tax asset: | | |
| Actuarial liabilities | **$ 829** | $ – |
| Gain on sale of invested assets | **–** | 413 |
| Other | **534** | 1,415 |
| | **$ 1,363** | $ 1,828 |
| Valuation allowance | **(57)** | (91) |
| **Future income tax asset** | **$ 1,306** | $ 1,737 |
| Future income tax liability: | | |
| Actuarial liabilities | **$ –** | $ (60) |
| Real estate | **(408)** | (449) |
| Securities and other investments | **(2,798)** | (2,894) |
| Sale of invested assets | **(405)** | – |
| Intangible assets | **(534)** | (592) |
| **Future income tax liability** | **$(4,145)** | $(3,995) |
| **Net future income tax liability** | **$(2,839)** | $(2,258) |

As at December 31, 2007, the Company has approximately $2,201 (2006 – $2,185) of tax loss carry forwards available, of which $2,200 expire between the years 2008 and 2027 while $1 have no expiry date. A tax benefit has been recognized in the amount of $707 (2006 – $663) in future income taxes. A tax benefit in the amount of $57 (2006 – $91) has not been recognized.

As at December 31, 2007, the Company has approximately $242 (2006 – $232) of general business tax credit carry forwards available which expire between the years 2021 and 2027.

### Note 9 ^ Consumer Notes

*Signature*Notes is an investment product issued by a subsidiary and sold through a broker-dealer network to retail customers in the form of publicly traded fixed and/or floating rate securities. *Signature*Notes are denominated in U.S. dollars, have a variety of maturities, interest rates and call provisions and may be redeemed upon the death of the holder, subject to an overall program redemption limit of one per cent of the aggregate securities outstanding or an individual redemption limit of U.S. $0.2 of aggregate principal. As at December 31, 2007, interest rates ranged from 2.25% to 6.25% (2006 – 1.85% to 6.25%) with maturities until 2036. As the assets supporting consumer notes are managed along with assets supporting policy liabilities, the Company has designated consumer notes as trading under the fair value option in order to reduce any recognition inconsistency. Fair values are determined at the contract level by projecting cash flows and discounting at current pricing rates, defined as U.S. Treasury rates plus a spread. The fair value attributable to credit risk represents the present value of the spread.

The carrying amount at December 31, 2007 of financial liabilities designated at fair value was $2,085, which is $28 lower than the contractual amount at maturity. At December 31, 2006, the carrying amount was $2,860 and the fair value was $2,770. For the year ended December 31, 2007, the fair value of consumer notes increased by $29 of which a decrease of $52 related to changes in fair value attributable to credit risk. The change in fair value is included in interest expense. Total interest expense relating to the consumer notes was $153 for the year ended December 31, 2007 (2006 – $143).

### Note 10 ^ Long-Term Debt

| As at December 31, | 2007 | 2006 |
|---|---|---|
| 5.625% Notes payable U.S. dollar | **$ 497** | $ 597 |
| 4.67% Medium term notes | **349** | 349 |
| Notes payable to Manulife Finance (Delaware) LLC | **545** | 547 |
| Other notes payable | **429** | 437 |
| **Total long-term debt** | **$1,820** | $1,930 |
| **Fair value** | **$1,806** | $1,945 |

The fair value of long-term debt is determined using quoted market prices where available. For debt instruments that do not have quoted prices available, the fair value is determined with reference to quoted prices of a debt instrument with similar characteristics or utilizing a model to discount cash flows based on current market interest rates.

The carrying value of the long-term debt reflects an unamortized fair value increment of U.S. $20, which arose as a result of the acquisition of JHF. The amortization of the fair value adjustment is recorded in interest expense in these consolidated financial statements.

The cash amount of interest paid during the year ended December 31, 2007 was $100 (2006 – $68). Issue costs are amortized over the term of the debt.

**a) 5.625% U.S. dollar notes payable**

On December 6, 2001, JHF issued U.S. $500 ($796) in 5.625% senior notes maturing on December 1, 2008 pursuant to a U.S. $1,000 effective shelf registration statement. The notes are redeemable, in whole or in part, at the option of JHF at any time at a redemption price equal to the greater of par or the fair value of the notes based on the U.S. treasury rate plus 20 basis points, in each case together with accrued and unpaid interest.

**b) 4.67% Medium term notes**

On March 28, 2006, MFC issued $350 in 4.67% notes, which mature March 28, 2013 and are redeemable in whole or in part by MFC at any time at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 11 basis points, in each case together with accrued and unpaid interest.

**c) Notes payable to Manulife Finance (Delaware) LLC**

On December 14, 2006, Manulife Holdings (Delaware) LLC ("MHD"), a wholly owned subsidiary of MLI, issued $550 in senior notes to Manulife Finance (Delaware) LLC ("MFLLC"), a subsidiary of Manulife Finance (Delaware), L.P. ("MFLP") (see note 18(b)). MFLP and its subsidiaries are related parties to the Company. The notes mature on December 15, 2016 with interest payable semi-annually at the 90-day Bankers Acceptance rate plus 0.302%. MHD may redeem the notes, in whole or in part, at any time for the amount of principal and unpaid interest.

MFLP is a wholly owned subsidiary; however, the senior debentures issued by MFLP and the senior notes receivable by MFLLC are not consolidated (see note 18(b)).

**d) Other notes payable**

The notes payable bear interest rates ranging from 6.496% to 12.1% and mature in varying amounts to 2015. The notes were issued by various subsidiaries of JHF.

Aggregate maturities of long-term debt are as follows:

| As at December 31, | 2007 | 2006 |
|---|---|---|
| Less than one year | **$ 504** | $ 7 |
| One to two years | **2** | 599 |
| Two to three years | **1** | 2 |
| Three to four years | **412** | 3 |
| Four to five years | **–** | 416 |
| Greater than five years | **901** | 903 |
| **Total** | **$1,820** | $1,930 |

## Note 11 ^ Liabilities for Preferred Shares and Capital Instruments

| As at December 31, | 2007 | 2006 |
|---|---|---|
| Preferred shares – Class A Shares, Series 1 | **$ 344** | $ 344 |
| Senior debentures issued to Manulife Financial Capital Trust | | |
| 6.7% debentures | **940** | 940 |
| 7.0% debentures | **60** | 60 |
| Surplus notes U.S. dollar | **470** | 578 |
| Subordinated notes – 6.24% Canadian dollar | **550** | 550 |
| Subordinated notes payable to Manulife Finance (Delaware) LLC | **646** | 645 |
| Subordinated debt securities payable to MIC Financing Trust I | **–** | 578 |
| **Total** | **$3,010** | $3,695 |
| **Fair value** | **$3,125** | $3,899 |

The fair value of liability instruments is determined using quoted market prices where available. For liability instruments that do not have quoted prices available, the fair value is determined with reference to the quoted prices of a liability instrument with similar characteristics or utilizing a model to discount cash flows based on current market interest rates.

The carrying value of the surplus notes reflects an unamortized fair value increment of U.S. $46, which arose as a result of the acquisition of JHF. The amortization of the fair value adjustment is recorded in interest expense in these consolidated financial statements.

The cash amount of interest paid during the year ended December 31, 2007 was $212 (2006 – $208). Issue costs are amortized over the term of the capital instruments.

**Preferred shares**
On June 19, 2003, MFC issued 14 million Class A Shares, Series 1 ("Series 1 Preferred Shares") at a price of $25.00 per share, for an aggregate amount of $350. The Series 1 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.10% per Series 1 Preferred Share. With regulatory approval, the Series 1 Preferred Shares may be redeemed by MFC on or after June 19, 2010, in whole or in part, at declining premiums that range from $1.25 to nil per Series 1 Preferred Share, by either payment of cash or the issuance of MFC common shares. On or after December 19, 2015, the Series 1 Preferred Shares will be convertible at the option of the holder into MFC common shares, the amount of which is determined by a prescribed formula, and is subject to the right of MFC prior to the conversion date to redeem for cash or find substitute purchasers for such preferred shares.

**Senior debentures issued to Manulife Financial Capital Trust**
On December 10, 2001, MLI issued senior debentures to Manulife Financial Capital Trust (the "Trust"). The debentures mature on December 31, 2051 and interest is payable semi-annually on June 30 and December 31. With regulatory approval, upon certain tax or regulatory capital changes, or on any interest payment date after December 31, 2006 but prior to June 30, 2012, MLI may redeem the debentures at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 40 basis points in the case of the 7.0% debentures and 32 basis points in the case of the 6.7% debentures, on or after June 30, 2012 at par, in each case together with accrued and unpaid interest.

At the option of the Trust, the 7.0% debentures are convertible into MLI Class A Shares Series 2 and the 6.7% debentures are convertible into MLI Class A Shares Series 4. Under certain circumstances, the 7.0% debentures will be automatically converted into MLI Class A Shares Series 3 and the 6.7% debentures will be automatically converted into MLI Class A Shares Series 5.

The Trust, a wholly owned open-end trust, is deemed to be a VIE; however, because the Company is not the primary beneficiary, the Trust is not consolidated (see note 18(b)).

**U.S. dollar surplus notes**
On February 25, 1994, JHF issued U.S. $450 in 7.375% surplus notes maturing on February 15, 2024. Any payment of interest or principal on the surplus notes requires the prior approval of the Massachusetts Commissioner of Insurance.

**Canadian dollar subordinated debt**
On February 16, 2001, MLI issued, in two tranches, $800 in unsecured subordinated debentures. Debentures with principal of $250, maturing on February 16, 2011, bearing 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 were redeemed at par plus accrued interest to the date of redemption on February 16, 2006. 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). The debentures are redeemable in whole or in part by MLI, subject to regulatory approval, at any time prior to February 16, 2011, at the greater of par or the fair value of the debt based on the yield on Government of Canada bonds plus 21.25 basis points; thereafter at par; in each case together with accrued and unpaid interest.

**Subordinated notes payable to Manulife Finance (Delaware) LLC**
On December 14, 2006, Manulife Holdings (Delaware) LLC ("MHD"), a wholly owned subsidiary of MLI, issued $650 in subordinated notes to Manulife Finance (Delaware) LLC ("MFLLC"), a subsidiary of Manulife Finance (Delaware), L.P. ("MFLP"). The notes mature on December 15, 2036 and bear interest payable semi-annually at the 90-day Bankers Acceptance rate plus 0.72%. With regulatory approval, MHD may redeem the notes, in whole or in part, at any time for the amount of principal and unpaid interest. Issue costs for the subordinated notes payable are amortized over the term of the debt.

MFLP is a wholly owned subsidiary; however, the subordinated debentures issued by MFLP and the subordinated notes receivable by MFLLC are not consolidated (see note 18(b)).

**Subordinated debt securities payable to MIC Financing Trust I**
In January 1997, The Manufacturers Investment Corporation ("MIC") issued U.S. $485 subordinated debt securities to MIC Financing Trust I ("MIC Trust") established by MIC. MIC redeemed the subordinated debt securities for the amount of principal plus accrued and unpaid interest to the date of redemption on February 1, 2007.

MIC Trust has been dissolved as of February 14, 2007. It was a wholly owned trust of MIC; however, the trust preferred securities issued by MIC Trust and the U.S. $485 subordinated notes receivable by MIC Trust were not consolidated (see note 18(b)).

## Note 12 ^ Non-Controlling Interest in Subsidiaries

| As at December 31, | 2007 | 2006 |
|---|---|---|
| Non-controlling interest in common equity of subsidiaries | **$146** | $109 |
| Preferred shares issued by MLI – MLI Class A, Series 6 | **–** | 93 |
| **Total** | **$146** | $202 |

On December 31, 2007, MLI redeemed all of its outstanding Class A, Series 6 Shares at a price of $26 per share. The difference between the redemption price and the carrying value was credited to contributed surplus.

### Note 13 ^ Share Capital

The authorized capital of MFC 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.

**Preferred shares**

On February 18, 2005, MFC issued 14 million Class A Shares, Series 2 ("Series 2 Preferred Shares") at a price of $25.00 per share, for an aggregate amount of $350. The Series 2 Preferred Shares are non-voting and are entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.65% per Series 2 Preferred Share. With regulatory approval, the Series 2 Preferred Shares may be redeemed by MFC on or after March 19, 2010, in whole or in part, at declining premiums that range from $1.00 to nil per Series 2 Preferred Share, by payment of cash.

On January 3, 2006, MFC issued 12 million Class A Shares, Series 3 ("Series 3 Preferred Shares") at a price of $25.00 per share, for an aggregate amount of $300. The Series 3 Preferred Shares are non-voting and entitled to non-cumulative preferential cash dividends payable quarterly, if and when declared, at a per annum rate of 4.50% per Series 3 Preferred Share. With regulatory approval, the Series 3 Preferred Shares may be redeemed by MFC on or after March 19, 2011, in whole or in part, at declining premiums that range from $1.00 to nil per Series 3 Preferred Share, by payment of cash.

**Common shares**

On November 7, 2007, the Toronto Stock Exchange (the "Exchange") accepted MFC's filing of notice of intention to make a normal course issuer bid during the 12-month period commencing November 9, 2007. Under this bid, MFC may repurchase up to 75 million of its common shares, representing approximately 5.0 per cent of common shares outstanding. MFC is also limited to purchasing up to 626,918 common shares in any one day under this bid. During the year ended December 31, 2007, MFC purchased and subsequently cancelled three million of its common shares pursuant to this normal course issuer bid at a cost of $126.

On November 7, 2006, the Exchange accepted MFC's filing of notice of intention to make a normal course issuer bid during the 12-month period commencing November 9, 2006 to repurchase up to 75 million of its common shares, representing approximately 4.9 per cent of common shares then outstanding. During the year ended December 31, 2007, MFC purchased and subsequently cancelled 53 million (2006 – nil) of its common shares pursuant to this normal course issuer bid at a cost of $2,119 (2006 – nil). A previous normal course issuer bid program terminated on November 8, 2006.

All transactions under the normal course issuer bids were and will be executed on the Exchange at prevailing market prices (or, with regulatory approval, off the Exchange) in amounts and at times determined by MFC, subject to compliance with applicable law and regulations. Any common shares purchased as part of the bid will be cancelled.

In total, during the year ended December 31, 2007, MFC purchased and subsequently cancelled 56 million (2006 – 45 million) of its common shares pursuant to the normal course issuer bids at a total cost of $2,245 (2006 – $1,631).

On June 2, 2006, MFC paid a stock dividend of one common share on each of its issued and outstanding common shares. The effect is the same as a two-for-one split of MFC's common shares. All common share numbers and per common share amounts have been restated to reflect the stock dividend.

| | **2007** | | 2006 | |
|---|---|---|---|---|
| **For the years ended December 31,** | Number of shares (in millions) | Amount | Number of shares (in millions) | Amount |
| **Common shares** | | | | |
| Balance, January 1 | **1,547** | **$14,248** | 1,584 | $14,490 |
| Issued on exercise of stock options and deferred share units and acquisition of a subsidiary | **10** | **275** | 8 | 171 |
| Normal course issuer bids – purchased for cancellation | **(56)** | **(523)** | (45) | (413) |
| **Balance, December 31** | **1,501** | **$14,000** | 1,547 | $14,248 |

### Note 14 ^ Capital Management

Manulife Financial manages its capital on a total company basis as well as at each regulated entity level. Management seeks to optimize the Company's capital structure under a variety of constraints as defined by regulatory rules, rating agency expectations, competitive considerations and business needs.

The Company's objectives with respect to capital management are: to remain in compliance with all regulatory requirements, to ensure safety and stability of its financial position; to ensure the Company has the flexibility to take advantage of attractive business and investment opportunities as they arise; and to optimize the return on shareholders' equity.

The target common shareholder dividend payout is a range of 25 per cent to 35 per cent of net income.

In its assessments of capital adequacy, the Company typically adopts regulatory capital definitions and measures applicable to any given entity and jurisdiction in which an entity operates. These are supplemented by an internal capital measurement framework that reflects the Company's own risk view.

Annually as part of its Dynamic Capital Adequacy Testing ("DCAT"), the Company assesses the strength of its capital position under severe shock scenarios. The scenarios are determined each year to ensure their ongoing relevance to the Company's business and risk profile. The 2007 results indicate that the Company's capital levels continue to provide sufficient protection against a number of severe adverse shocks.

Capital quality is maintained by limiting the amount of debt or non-permanent equity capital in the capital structure. The Company remains well within regulatory constraints on the composition of capital between equity and other instruments. The Company monitors and rebalances its capital mix through opportunistic capital issuances, repurchases and redemptions.

The measure of available capital in the table below serves as the foundation of the Company's capital management activities at the Manulife Financial level. For regulatory reporting purposes, adjustments are made for various additions or deductions to capital as mandated by guidelines issued by OSFI.

The adoption of new CICA Handbook Section 3855 on January 1, 2007, resulted in changes in the presentation and measurement of various capital components. The change in accounting standards explains differences between the December 31, 2006 (pre-3855) and January 1, 2007 (post-3855) numbers below. The resulting impact on regulatory capital was minor because the accounting changes were consistent with adjustments to available capital required by OSFI prior to the adoption of Section 3855.

### Capital

| As at | December 31, 2007 | January 1, 2007 | December 31, 2006 |
|---|---|---|---|
| Equity[1] | **$ 22,406** | $ 24,855 | $ 25,018 |
| Preferred shares[2] | **982** | 982 | 982 |
| Innovative instruments[3] | **1,000** | 1,000 | 1,000 |
| Subordinated debentures[4] | **1,196** | 1,195 | 1,195 |
| AOCI on AFS securities | **1,327** | 1,761 | – |
| Other capital instruments[5] | **470** | 1,141 | 1,156 |
| Non-controlling interest in subsidiaries | **146** | 202 | 202 |
| **Total capital** | **$ 27,527** | $ 31,136 | $ 29,553 |

1 Represents common shares, retained earnings, contributed surplus, AOCI on currency translation of net foreign operations and participating policyholders' equity.
2 Includes preferred shares classified as liabilities under GAAP.
3 Represents capital securities issued by Manulife Financial Capital Trust (see note 18).
4 Net of issuance costs.
5 December 31, 2007 balance consists of surplus notes. January 1, 2007 and December 31, 2006 balances also include Capital Trust Pass-through Securities ("TruPS") that were redeemed on February 1, 2007.

The reduction in the Company's capital during 2007 was largely due to the reported deficit in the accumulated other comprehensive income (loss) on translation of net foreign operations that increased from $3,009 at January 1, 2007 to $6,204 at December 31, 2007. The movement reflects primarily the appreciation of the Canadian currency relative to the U.S. dollar. The change had an immaterial impact on the Company's key capital ratios because the currency translation also decreased required capital and affected other adjustments to regulatory capital in Canadian dollars. It is the Company's policy to maintain the currency mix of assets supporting capital consistent with the currency mix of the Company's underlying liability risks.

In addition to the currency movements, the dollar amount of total capital was affected by the Company's capital activities. In 2007, the Company issued $251 of capital (2006 – $1,078 as well as $896 in long-term debt) and redeemed/repurchased $2,916 of capital (2006 – $1,881), including $2,245 of common shares (2006 – $1,631). The net impact of these capital activities on the Company's capital was largely offset by earnings growth. Overall, the Company and its entities continue to be capitalized in excess of all regulatory requirements.

Designated committees of the Board of Directors review and approve the Company's capital management policies. Each quarter the Audit and Risk Management Committee reviews the Company's capital position. Annually, the Chief Actuary discusses with the board key sensitivities of the Company's capital position as assessed in the context of annual DCAT. Operational oversight of capital management is provided by the Finance Committee, consisting of senior finance, risk management and investment executives and chaired by the Chief Financial Officer. The committee oversees capital policies as well as reviews issues and initiatives that affect the capital position of MFC's subsidiaries and the Company as a whole.

## Note 15 ^ Accumulated Other Comprehensive Income (Loss) ("AOCI")

AOCI is a component of shareholders' equity resulting from the adoption of the new accounting standards for financial instruments (see note 2). Amounts previously reported as currency translation account have been reclassified to AOCI.

| Components of AOCI as at | **December 31, 2007** | January 1, 2007 | December 31, 2006 |
|---|---|---|---|
| AOCI on AFS securities | **$ 1,327** | $ 1,761 | $ – |
| AOCI on cash flow hedges | **(36)** | (20) | – |
| AOCI on translation of net foreign operations | **(6,204)** | (3,009) | (3,009) |
| **Total** | **$ (4,913)** | $ (1,268) | $ (3,009) |

## Note 16 ^ Stock-Based Awards

Under MFC's Executive Stock Option Plan ("ESOP"), stock options are granted to selected individuals. Options provide the holder with the right to purchase common shares of MFC at an exercise price equal to the closing market price of 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 73,600,000 common shares have been reserved for issuance under the ESOP.

In 2000, MFC granted deferred share units ("DSUs") to certain employees under the ESOP. These DSUs vested over a three-year period and each DSU entitles the holder to receive one common share on retirement or termination of employment. When dividends are paid on common shares, holders of DSUs are deemed to receive dividends at the same rate, payable in the form of additional DSUs. The number of these DSUs outstanding was 2.7 million as at December 31, 2007 (2006 – 3.3 million).

In addition, pursuant to the Company's deferred compensation program, MFC grants DSUs under the ESOP which entitle the holder to receive cash payment equal to the value of the same number of common shares plus credited dividends on retirement or termination of employment. In 2007, 191,000 DSUs (2006 – 181,000) were granted to certain employees who elected to defer receipt of all or part of their annual bonus. Also in 2007, 260,000 DSUs (2006 – 720,000) were granted to certain employees who elected to defer payment of all or part of their restricted share units ("RSUs"). The DSUs granted in 2006 and 2007 vested immediately.

MFC's Global Share Ownership Plan ("GSOP") allows qualifying employees to choose to apply up to 5 per cent of their annual base earnings applied toward the purchase of common shares. MFC matches a percentage of the employee's eligible contributions up to a maximum amount. MFC's contributions vest immediately. All contributions are used to purchase common shares in the open market.

Under the Stock Plan for Non-Employee Directors, each eligible director may elect to receive his or her annual director's retainer and fees in DSUs or common shares in lieu of cash. Upon termination of Board service, an eligible director who has elected to receive DSUs will be entitled to receive cash equal to the value of the DSUs accumulated in his or her account or, at his or her direction, an equivalent number of common shares. A total of one million common shares have been reserved for issuance under this plan.

MFC previously granted stock options to directors under the Director Equity Incentive Plan ("DEIP"). No stock options were granted under this plan in 2007, as a result of a decision made by the Board of Directors in 2004 to permanently discontinue stock option grants to directors. The number of options outstanding under the DEIP was 82,000 as at December 31, 2007 and December 31, 2006.

For the year ended December 31, 2007, 1.5 million RSUs (2006 – 1.6 million) were granted to certain eligible employees under MFC's Restricted Share Unit Plan. RSUs represent phantom common shares that entitle a participant to receive payment equal to the market value of the same number of common shares, plus credited dividends, at the time the RSUs vest. RSUs vest within three years of the grant date, subject to performance conditions, and the related compensation expense is recognized over this period, except where the employee is eligible to retire prior to the vesting date, in which case the cost is recognized over the period between the grant date and the date on which the employee is eligible to retire. Compensation expense related to RSUs was $73 for the year ended December 31, 2007 (2006 – $79).

| For the years ended December 31, | **2007** | 2006 |
|---|---|---|
| | Number of DSUs (in thousands) | |
| Outstanding, January 1 | **4,721** | 4,100 |
| Issued | **485** | 935 |
| Reinvested | **104** | 80 |
| Redeemed | **(681)** | (394) |
| **Outstanding, December 31** | **4,629** | 4,721 |

Of the DSUs outstanding as at December 31, 2007, 2,741,000 (2006 – 3,331,000) entitle the holder to receive common shares, 1,345,000 (2006 – 1,130,000) entitle the holder to receive payment in cash and 543,000 (2006 – 260,000) entitle the holder to receive payment in cash or common shares, at the option of the holder.

Prior to the merger of the Company with JHF in 2004, stock options were awarded on a discretionary basis under the JHF Long-Term Stock Incentive Plan and Non-Employee Directors' Long-Term Incentive Plan (the "John Hancock Plans"). These stock options vested

50 per cent each year over two years with a five year maximum term. On April 28, 2004, all outstanding JHF mid-term and long-term incentives were converted to Company incentives at a rate of one JHF unit to 1.1853 units of the Company. The John Hancock Plans are now closed to new grants, but will continue to operate until all outstanding awards have been exercised or terminated.

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **For the years ended December 31,** | Number of options (in millions) | Weighted average exercise price | Number of options (in millions) | Weighted average exercise price |
| Outstanding, January 1 | **30** | **$ 22.68** | 34 | $ 20.64 |
| Granted | **3** | **$ 40.38** | 3 | $ 36.96 |
| Exercised | **(6)** | **$ 17.90** | (7) | $ 19.00 |
| Forfeited | **(1)** | **$ 32.96** | – | $ 27.78 |
| **Outstanding, December 31** | **26** | **$ 24.95** | 30 | $ 22.68 |
| **Exercisable, December 31** | **19** | **$ 21.31** | 22 | $ 19.88 |

### Options outstanding

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| **As at December 31, 2007** Exercise price | Number of options (in millions) | Weighted average exercise price | Weighted average contractual remaining life | Number of options (in millions) | Weighted average exercise price |
| $11.20 – $19.52 | **7** | **$ 16.72** | **2.96 years** | **7** | **$ 16.72** |
| $19.53 – $25.45 | **10** | **$ 21.92** | **4.28 years** | **9** | **$ 21.77** |
| $25.46 – $40.38 | **9** | **$ 34.80** | **7.99 years** | **3** | **$ 31.34** |
| **Total** | **26** | **$ 24.95** | **5.20 years** | **19** | **$ 21.31** |

The weighted average fair value of each option granted in 2007 has been estimated at $9.63 (2006 – $8.43) using the Black-Scholes option-pricing model. The pricing model uses the following weighted average assumptions for these options: risk-free interest rate of 4.4% (2006 – 4.2%), dividend yield of 1.9% (2006 – 1.9%), expected volatility of 20% (2006 – 20%) and expected life of 6.5 (2006 – 6.5) years.

The Company recorded compensation expense for stock options granted after January 1, 2002, with an offsetting increase to contributed surplus, of $20 during the year ended December 31, 2007 (2006 – $26).

In aggregate, the Company recorded stock-based compensation expense of $93 for the year ended December 31, 2007 (2006 – $105).

**Diluted earnings per share**

| **For the years ended December 31,** | **2007** | 2006 |
|---|---|---|
| Diluted earnings per common share | **$ 2.78** | $ 2.51 |
| Net income available to common shareholders | **$4,272** | $3,955 |
| Weighted average number of common shares (in millions) | **1,522** | 1,563 |
| Stock-based awards[1] (in millions) | **15** | 16 |
| Weighted average number of diluted common shares (in millions) | **1,537** | 1,579 |

1 The dilutive effect of stock-based awards was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock-based awards are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of MFC common shares for the period. Excluded from the calculation were an average of five million (2006 – three million) anti-dilutive stock-based awards.

## Note 17 ^ Employee Future Benefits

The Company maintains a number of pension and benefit plans, both defined benefit and defined contribution, for its eligible employees and agents. These plans include broad-based pension plans for employees that are primarily funded, supplemental pension plans for executives that are primarily not funded, and other post-employment benefit plans that are also primarily not funded.

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. Different assumptions and methods are prescribed for regulatory funding purposes compared to accounting purposes.

The Company measures its accrued benefit obligation and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations to determine employer required annual contributions for Canadian based pension plans are generally required at least once every three years. The most recent actuarial valuation of the main Canadian staff pension plan was performed

as at December 31, 2006. The date of the next required actuarial valuation of the Canadian staff pension plan for funding purposes is December 31, 2009. Pension plans based in the United States require annual valuations, with the most recent valuations performed as at January 1, 2007.

### Pension and Post-Employment Benefit Plans

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **For the years ended December 31,** | **2007** | 2006 | **2007** | 2006 |
| Changes in plan assets: | | | | |
| Fair value of plan assets, January 1 | **$3,741** | $3,440 | **$ 354** | $ 314 |
| Actual return on plan assets | **207** | 528 | **24** | 39 |
| Employer contributions | **82** | 79 | **67** | 69 |
| Plan participants' contributions | **1** | 1 | **4** | 4 |
| Benefits paid | **(282)** | (324) | **(72)** | (73) |
| Currency impact | (451) | 17 | (55) | 1 |
| **Fair value of plan assets, December 31** [1] | **$3,298** | $3,741 | **$ 322** | $ 354 |

1 As part of the acquisition of JHF in April 2004, non-qualified retirement plans funded through a rabbi trust were acquired. These plans cover various executives. The rabbi trust assets in respect of these plans are not included herein. In the event of insolvency of the Company, the rabbi trust assets can be used to satisfy claims of general creditors. At December 31, 2007, assets in the rabbi trust with respect to these plans were $263 (2006 – $474) and the plan obligations were $313 (2006 – $401). The measurement date of these plans was December 31, 2007.

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **For the years ended December 31,** | **2007** | 2006 | **2007** | 2006 |
| Changes in accrued benefit obligation: | | | | |
| Balance, January 1 | **$ 3,810** | $ 3,955 | **$ 929** | $ 1,007 |
| Service cost | **60** | 65 | **12** | 19 |
| Interest cost | **193** | 197 | **47** | 50 |
| Plan participants' contributions | **1** | 1 | **4** | 4 |
| Amendments[1] | **(42)** | (2) | **–** | – |
| Curtailment (gains) losses[1] | **(14)** | – | **–** | – |
| Actuarial losses (gains) | **41** | (91) | **(21)** | (75) |
| Benefits paid | **(282)** | (324) | **(72)** | (73) |
| Currency impact | (422) | 9 | (110) | (3) |
| **Balance, December 31** | **$ 3,345** | $ 3,810 | **$ 789** | $ 929 |

1 The curtailment and amendment gains are attributable to changes to the retirement plans in the U.S. and Japan that were approved in 2007 and are effective in 2008.

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **As at December 31,** | **2007** | 2006 | **2007** | 2006 |
| Excess of plan liabilities over fair value of plan assets, end of year | **$ (47)** | $ (69) | **$ (467)** | $ (575) |
| Unrecognized net actuarial loss (gain) | **21** | (50) | **(51)** | (42) |
| Unrecognized prior service cost | **(31)** | 12 | **(5)** | (7) |
| **Net accrued benefit liability, December 31** | **$ (57)** | $ (107) | **$ (523)** | $ (624) |

### Amounts recognized in the Consolidated Balance Sheets:

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **As at December 31,** | **2007** | 2006 | **2007** | 2006 |
| Prepaid benefit cost | **$ 498** | $ 524 | **$ –** | $ – |
| Accrued benefit liability | **(555)** | (631) | **(523)** | (624) |
| **Net accrued benefit liability, December 31** | **$ (57)** | $ (107) | **$ (523)** | $ (624) |

As at December 31, 2007, the Company's broad-based funded pension plans consisted of assets of $3,284 (2006 – $3,722) and pension benefit obligations of $2,670 (2006 – $3,053), which results in a pension benefit surplus of $614 (2006 – $669). These plans are subject to regulatory required contributions. For other broad-based but unfunded pension plans, the pension benefit deficit amounted to $43 as at December 31, 2007 (2006 – $49) of which $46 (2006 – $47) has been charged to earnings or otherwise accrued for in the Company's accounts.

The Company's executive supplemental pension plans are primarily not funded and, as at December 31, 2007, consisted of assets of $14 (2006 – $19) and pension benefit obligations of $632 (2006 – $708), which results in a pension benefit deficit of $618 (2006 –$689). Of this deficit, $493 (2006 – $540) has been charged to earnings to date. Further, the rabbi trust assets that support a portion

of these executive pension obligations amounted to $263 as at December 31, 2007 (2006 – $474). These assets form part of the general fund assets of the Company but are held by an external trustee. Other assets that support these obligations also form part of the general fund assets of the Company and are not separately segregated.

Assets and obligations of the various pension plans by category, including rabbi trust assets, were as follows:

| | Pension benefits | |
|---|---|---|
| **As at December 31,** | **2007** | 2006 |
| **Broad-based funded pension plans** | | |
| Fair value of plan assets | **$3,284** | $3,722 |
| Accrued benefit obligation | **2,670** | 3,053 |
| **Excess of fair value of plan assets over plan liabilities** | **$ 614** | $ 669 |
| **Broad-based unfunded pension plans** | | |
| Fair value of plan assets | **$ –** | $ – |
| Accrued benefit obligation | **43** | 49 |
| **Shortfall of fair value of plan assets over plan liabilities** | **$ (43)** | $ (49) |
| **Executive unfunded pension plans** | | |
| Fair value of plan assets | **$ 14** | $ 19 |
| Accrued benefit obligation | **632** | 708 |
| **Shortfall of fair value of plan assets over plan liabilities** | **$ (618)** | $ (689) |
| **Other** | | |
| Rabbi trust assets | **$ 263** | $ 474 |
| **Total** | | |
| Fair value of assets | **$3,561** | $4,215 |
| Accrued benefit obligation | **3,345** | 3,810 |
| **Excess of fair value of assets over plan liabilities** | **$ 216** | $ 405 |

The assets that support the portion of the post-employment benefit plans that are not funded similarly form part of the general fund assets of the Company and are not separately segregated.

The weighted average asset allocation by asset category for the Company's pension plans that are funded was as follows:

| | Actual allocation | |
|---|---|---|
| **As at December 31,** | **2007** | 2006 |
| Equity securities[1] | **60%** | 62% |
| Debt securities | **32%** | 30% |
| Real estate | **2%** | 2% |
| Other | **6%** | 6% |
| **Total** | **100%** | 100% |

1 Pension benefit plans include investments in MFC common shares of $1 (2006 – $3).

Components of the net benefit expense for the pension plans and other post-employment benefit plans were as follows:

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **For the years ended December 31,** | **2007** | 2006 | **2007** | 2006 |
| Defined benefit service cost | **$ 60** | $ 65 | **$ 12** | $ 19 |
| Defined contribution service cost | **61** | 56 | **–** | – |
| Interest cost | **193** | 197 | **47** | 50 |
| Actual positive return on plan assets | **(207)** | (528) | **(24)** | (39) |
| Actuarial losses (gains) | **41** | (91) | **(21)** | (75) |
| Plan amendments | **(42)** | (2) | **–** | – |
| Curtailment (gains) losses | **(14)** | 5 | **–** | – |
| **Pension costs incurred before adjustments** | **$ 92** | $ (298) | **$ 14** | $ (45) |
| Difference between costs arising in the year and cost recognized in respect of: | | | | |
| Return on plan assets[1] | (38) | 277 | (2) | 13 |
| Actuarial (gains) losses[2] | (28) | 111 | 19 | 78 |
| Plan amendments[3] | 48 | 8 | (2) | (2) |
| Curtailment gains[4] | 13 | – | – | – |
| **Net benefit expense** | **$ 87** | $ 98 | **$ 29** | $ 44 |

1 Expected return on plan assets of $271 for the year ended December 31, 2007 (2006 – $277) less deferral of actual return on plan assets of $231 (2006 – $567).
2 Actuarial losses amortized in 2007 of $11 (2006 – $23) less actual actuarial losses incurred of $20 (2006 – gains of $166).
3 Amortization of plan amendment costs in 2007 of $4 (2006 – $4) plus actual plan amendment gains of $42 (2006 – $2).
4 Curtailment gains recognized in 2007 of $1 (2006 – loss of $5) less curtailment gains incurred of $14 (2006 – loss of $5).

### Key Weighted Average Assumptions

The weighted average assumptions used by the Company to determine the accrued benefit obligation and net benefit expense for all plans were as follows:

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **For the years ended December 31,** | **2007** | 2006 | **2007** | 2006 |
| To determine the accrued benefit obligation at end of year: | | | | |
| Discount rate | **5.8%** | 5.6% | **5.9%** | 5.7% |
| Rate of compensation increase | **4.6%** | 3.9% | **3.6%** | 3.6% |
| Initial health care cost trend rate[1] | **n/a** | n/a | **8.6%** | 9.2% |
| To determine the net benefit expense for the year: | | | | |
| Discount rate | **5.6%** | 5.3% | **5.7%** | 5.4% |
| Expected return on plan assets[2] | **7.7%** | 7.9% | **8.3%** | 8.3% |
| Rate of compensation increase | **3.9%** | 3.9% | **3.6%** | 3.6% |
| Initial health care cost trend rate[1] | **n/a** | n/a | **9.2%** | 9.7% |

1 The health care cost trend rate used to measure the U.S. based post-employment obligation was 9.0% grading to 5.0% for 2016 and years thereafter (2006 – 9.5% grading to 5.0% for 2016) and to measure the expense was 9.5% grading to 5.0% for 2016 and years thereafter (2006 – 10.0% grading to 5.0% for 2016). In Canada, the rate used to measure the post-employment benefit obligation was 7.5% grading to 5.0% for 2013 and years thereafter (2006 – 8.0% grading to 5.0% for 2013) and to measure the expense was 8.0% grading to 5.0% for 2013 and years thereafter (2006 – 8.5% grading to 5.0% for 2013).
2 The expected return on pension plan assets for U.S. based plans was 8.25% (2006 – 8.25%). Plans based in Canada had an expected return on plan assets of 6.2% (2006 – 6.9%). Other pension plans had an expected return of 5.6% (2006 – 4.7%).

To develop the expected long-term rate of return on plan assets assumptions, the Company considers the historical returns and the future expectations for each asset class, as well as the target asset allocation of the pension portfolio.

**Sensitivity of Key Assumptions**

Assumptions adopted can have a significant effect on the obligations and expenses reported for pension plans and for the post-employment benefit plans. The sensitivity of the obligations and expenses to changes in the key assumptions are set out in the following table.

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **As at and for the year ended December 31, 2007** | Obligation | Expense | Obligation | Expense |
| Discount Rate: | | | | |
| Impact of a 1% increase | **$ (298)** | **$ (5)** | **$ (75)** | **$ (7)** |
| Impact of a 1% decrease | **$ 370** | **$ 7** | **$ 92** | **$ 1** |
| Expected return on plan assets: | | | | |
| Impact of a 1% increase | **n/a** | **$ (32)** | **n/a** | **$ (3)** |
| Impact of a 1% decrease | **n/a** | **$ 32** | **n/a** | **$ 3** |
| Rate of compensation increase: | | | | |
| Impact of a 0.25% increase | **$ 6** | **$ 1** | **$ –** | **$ –** |
| Impact of a 0.25% decrease | **$ (6)** | **$ (1)** | **$ –** | **$ –** |
| Health care cost trend rate: | | | | |
| Impact of a 1% increase | **n/a** | **n/a** | **$ 53** | **$ 6** |
| Impact of a 1% decrease | **n/a** | **n/a** | **$ (45)** | **$ (6)** |

**Cash Flows – Contributions**

Total cash payments for all employee future benefits, comprised of cash contributed by the Company to its funded pension and post-employment benefit plans, cash payments directly to beneficiaries for its unfunded pension and post-employment benefit plans, and cash contributed to its defined contribution pension plans, were as follows:

| | Pension benefits | | Post-employment benefits | |
|---|---|---|---|---|
| **For the years ended December 31,** | **2007** | 2006 | **2007** | 2006 |
| Defined benefit | **$ 82** | $ 79 | **$ 67** | $ 69 |
| Defined contribution | **61** | 56 | **–** | – |
| **Total** | **$ 143** | $ 135 | **$ 67** | $ 69 |

**Cash Flows – Estimated Benefit Payments**

The future benefit payments under the defined benefit pension plans and post-employment benefit plans are estimated to be as follows:

| **For the years ended December 31,** | Pension benefits | Post-employment benefits |
|---|---|---|
| 2008 | **$ 251** | **$ 62** |
| 2009 | **250** | **62** |
| 2010 | **262** | **63** |
| 2011 | **262** | **63** |
| 2012 | **269** | **63** |
| 2013 – 2017 | **1,339** | **315** |

## Note 18 ^ Variable Interest Entities

### a) Investments that are Variable Interest Entities

**Variable interest entities that are consolidated with the Company's segregated funds**

In its capacities as an investor and as an investment manager, the Company has relationships with various types of entities, some of which are VIEs. The Company's segregated funds are considered the primary beneficiary of certain timberland VIEs. The consolidation of these VIEs in the segregated funds as at December 31, 2007 resulted in an increase in segregated fund assets of $188 (2006 – $213), an increase in segregated fund liabilities of $61 (2006 – $73) and an increase in net assets held by other contract holders of $127 (2006 – $140).

**Variable interest entities that are consolidated in the Company's general fund**

As described below, the Company consolidates a portion of Manulife Finance (Delaware), L.P. into its general fund which results in no quantitative changes to the Company's assets, liabilities or equity.

**Variable interest entities that are not consolidated**

Except as previously noted or as noted in (b) below, the Company has determined that it is not the primary beneficiary of any VIE in which it invests or manages, and accordingly, is not required to consolidate any of them.

The following is a discussion of the entities the Company has significant relationships with and certain summarized financial information for them.

**Collateralized debt obligation funds**

The Company acts as an investment manager to certain asset-backed investment vehicles, commonly known as collateralized debt obligation funds ("CDOs"). The Company has determined that most of the CDOs it manages are VIEs. The Company also invests in the debt and/or equity of these CDOs, and in the debt and/or equity of CDOs managed by others. Any net losses in excess of the CDO equity are borne by the debt owners. Owners of securities issued by CDOs that are managed by the Company have no recourse to the Company's assets in the event of default by the CDO. The Company's risk of loss from any CDO that it manages, or in which it invests, is limited to its investment in the CDO.

The maximum exposure to losses from CDOs managed by the Company is $29 (2006 – $90). This consists of nil (2006 – $54) investments in tranches rated Aa1 or better, $15 (2006 – $18) in tranches rated below BBB and $14 (2006 – $18) in equity tranches.

**Total size of Company-managed CDOs**

| **As at December 31,** | **2007** | 2006 |
|---|---|---|
| **Total assets** | **$ 5,731** | $9,382 |
| Total debt | **$ 9,093** | $9,137 |
| Total other liabilities | **59** | 65 |
| Total liabilities | **$ 9,152** | $9,202 |
| Total equity[2] | **(3,421)** | 180 |
| **Total liabilities and equity[1]** | **$ 5,731** | $9,382 |

1 Includes the Company's investment in the debt and equity of Company-managed VIE and non-VIE CDOs.

2 Declines in assets reflect fair value adjustments to mortgage securities in the CDO funds managed by the Company's subsidiary, Declaration Management & Research LLC. Since the funds' assets are carried at fair value and their debt is carried at par, declines in the assets' fair values generate negative equity in the funds.

**Low-income housing partnerships**

The Company has investments that qualify for low-income housing and/or historic tax credits ("LIH Partnerships"). These investments are primarily through real estate limited partnerships. The Company is usually the sole limited partner or an investor member and it is not the general partner or managing member in any of the LIH Partnerships.

The Company's maximum exposure to losses from its investments in LIH Partnerships is $498 (2006 – $604). This consists of $377 (2006 – $479) of equity investments, $64 (2006 – $77) of mortgages, and outstanding equity capital commitments to the partnerships of $57 (2006 – $48).

**Total size of the LIH Partnerships[1]**

| **As at December 31,** | **2007** | 2006 |
|---|---|---|
| **Total assets** | **$1,179** | $1,435 |
| Total debt | **$ 704** | $ 873 |
| Total other liabilities | **85** | 98 |
| Total liabilities | **$ 789** | $ 971 |
| Total equity | **390** | 464 |
| **Total liabilities and equity[2]** | **$1,179** | $1,435 |

1 Certain data in the table above is reported with a three-month lag due to the delayed availability of financial statements of the LIH Partnerships.

2 Includes the Company's investment in the debt and equity of these LIH Partnerships.

**Timberland investments**

The Company acts as an investment manager of timberland properties with total assets of $7 billion, of which $4 billion relates to funds that the general fund and institutional segregated funds invest in (the "Timber Funds"). In its capacity as investment advisor to the Timber Funds, the Company earns investment advisory fees, and in the majority of cases earns forestry management fees and is eligible for performance advisory fees. The Company has determined that most of the Timber Funds are VIEs.

The Company's maximum exposure to losses from the Timber Funds is $457 (2006 – $430). This consists of $142 (2006 – $141) of equity investments, $282 (2006 – $278) of debt investments, and $33 (2006 – $11) of outstanding equity commitments to these funds.

**Total size of Timber Funds**

| As at December 31, | 2007 | 2006 |
|---|---|---|
| **Total assets** | **$4,107** | $3,968 |
| Total debt | **$1,906** | $1,970 |
| Total other liabilities | **424** | 133 |
| Total liabilities | **$2,330** | $2,103 |
| Total equity | **1,777** | 1,865 |
| **Total liabilities and equity**[1] | **$4,107** | $3,968 |

[1] Includes the Company's investment in the debt and equity of the Timber Funds.

**Other entities**

The Company has investment relationships with a variety of other entities ("Other Entities"), which result from its direct investment in their debt and/or equity. This category includes energy investment partnerships, investment funds organized as limited partnerships, and businesses that have undergone debt restructurings and reorganizations. With the exception of its involvement with the entities described in the following paragraphs, the Company believes that its relationships with these Other Entities are not significant, and accordingly, does not provide any summary financial data for them. The Company's maximum exposure to losses as a result of its involvement with Other Entities is generally limited to amounts invested, which are included on the Company's Consolidated Balance Sheets in the appropriate investment categories. To the extent that non-consolidated Other Entities are used to access capital markets, the Company's borrowings from the Other Entities are included on the Company's Consolidated Balance Sheets in the appropriate liability categories.

ArcLight Energy Partners Fund I, L.P. ("ArcLight"), a private equity fund, invests in the electric power, utility and energy industry sectors. The Company is a limited partner investor – owning approximately 55% of ArcLight's partners' capital as at December 31, 2007 and 2006. As at September 30, 2007, ArcLight had total assets of $665, liabilities of $46, and partners' capital of $619**.** As at December 31, 2006, ArcLight had total assets of $523, liabilities of $73, and partners' capital of $450.

**b) Subsidiaries that are Variable Interest Entities**

**Manulife Financial Capital Trust**

Manulife Financial Capital Trust (the "Trust"), a wholly owned open-end trust, is deemed to be a VIE; however, because the Company is not the primary beneficiary, the Trust is not consolidated. Manulife Financial Capital Securities ("MaCS") issued by the Trust are, at the option of their holders, exchangeable into newly issued Class A Shares Series 2 or Class A Shares Series 4 of MLI. Under certain circumstances and without the consent of the holders, the MaCS will be automatically exchanged into MLI Class A Shares Series 3 or MLI Class A Shares Series 5. The exchange of the MaCS will be effected through the conversion by the Trust of the corresponding principal amount of debentures issued by the Company, which corresponds to the series of the MaCS being exchanged, into Class A Shares of MLI. The MaCS form part of the Company's Tier 1 regulatory capital.

**MIC Financing Trust I**

MIC Financing Trust I ("MIC Trust") was dissolved as of February 14, 2007. It was a wholly owned trust, bifurcated into a silo and a host entity in accordance with VIE accounting guidelines and both of these were classified as VIEs. The silo was comprised of trust preferred securities. The host entity was comprised of the amounts the Company had invested, plus accumulated interest thereon. The Company owned only 1.5% (U.S. $7.5) of the trust preferred securities. The Company did not own, and was not the primary beneficiary of, the remaining U.S. $485 trust preferred securities; therefore, the Company did not consolidate the U.S. $485 trust preferred securities. The Company owned 100% of the host entity and consolidated it into the Company's general funds as a wholly owned subsidiary. This consolidation resulted in no quantitative change to the Company's assets, liabilities or equity. On February 1, 2007, MIC Trust redeemed both its total outstanding U.S. $492.5 trust preferred securities at par plus accrued and unpaid distributions to the date of redemption and the U.S. $15, 8.25% securities held by The Manufacturers Investment Corporation ("MIC"), a wholly owned subsidiary of the Company. MIC redeemed all of the outstanding subordinated debentures issued to MIC Trust due February 1, 2027 at par plus accrued and unpaid interest to the date of redemption and redeemed its preferred purchase contracts. The securities formed part of the Company's Tier 2A regulatory capital.

**Manulife Finance (Delaware), L.P.**

Manulife Finance (Delaware), L.P. ("MFLP"), a wholly owned partnership, is bifurcated into two silos and one host entity in accordance with VIE accounting guidelines. The largest silo is comprised of the debt instruments and the interest rate swaps mentioned below. The smaller silo and the host entity are comprised of the amounts the Company has invested, plus accumulated interest thereon. The Company owns none of, and is not the primary beneficiary of, the largest silo; therefore, the Company does not consolidate the largest silo. The Company owns 100% of the smaller silo and the host entity and consolidates both as wholly owned subsidiaries. The

impact of dividing MFLP into a host and silos under the VIE accounting guidelines and applying consolidation accounting to them resulted in the Company recognizing MFC's notes payable and subordinated debt payable to MFLP, instead of recognizing MFLP's senior and subordinated debentures payable to the investing public, in equal amounts, with no quantitative impact to the Company's assets, liabilities or equity. MFLP has issued $550 of senior debentures which mature December 15, 2026 and $650 of subordinated debentures which mature December 15, 2041. The senior debentures bear interest at the rate of 4.448% per annum, payable semi-annually until December 15, 2016 and thereafter at the 90-day Bankers Acceptance rate plus 1.5%, payable quarterly. The subordinated debentures bear interest at the rate of 5.059% per annum, payable semi-annually until December 15, 2036 and thereafter at the 90-day Bankers Acceptance rate plus 1%, payable quarterly. MFLP may redeem the senior debentures, upon certain tax changes or at any time prior to December 15, 2016, for the amount of principal, unpaid interest and, if applicable, a premium calculated with reference to the Government of Canada yield. MFLP may redeem the senior debentures on December 15, 2016 and on any interest payment date thereafter for the amount of principal and unpaid interest. With regulatory approval, MFLP may redeem the subordinated debentures, upon certain tax changes or at any time prior to December 15, 2036, for the amount of principal, unpaid interest and, if applicable, a premium calculated with reference to the Government of Canada yield. With regulatory approval, MFLP may redeem the subordinated debentures on December 15, 2036 and on any interest payment date thereafter for the amount of principal and unpaid interest. The subordinated debentures form part of the Company's Tier 2B regulatory capital.

In order for MFLP to manage its exposure to the interest rate difference between the debentures issued and the senior and subordinated notes receivable by its subsidiary, Manulife Finance (Delaware) LLC, from Manulife Holdings (Delaware) LLC (see notes 10 and 11), MFLP has entered into interest rate swaps.

## Note 19 ^ Commitments and Contingencies

### a) Legal proceedings

The Company is regularly involved in legal actions, both as a defendant and as a plaintiff. The legal actions naming the Company as a defendant ordinarily involve its activities as a provider of insurance protection and wealth management products, as well as an investment adviser, employer and taxpayer. In addition, government and regulatory bodies in Canada, the United States and Asia regularly make inquiries and, from time to time, require the production of information or conduct examinations concerning the Company's compliance with, among other things, insurance laws, securities laws, and laws governing the activities of broker-dealers. The Company does not believe that the conclusion of any current legal or regulatory matters, either individually or in the aggregate, will have a material adverse effect on its consolidated financial position or results of its operations.

### b) Accident reinsurance disputes

The Company entered into a number of reinsurance arrangements in respect of personal accident insurance and the occupational accident component of workers compensation insurance. Under these arrangements, the Company both assumed risks as a reinsurer, and also passed substantial portions of these risks on to other companies. The Company is engaged in disputes, including a number of legal proceedings, in respect of this business and has provided adequately for the exposure.

### c) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were $2,535 of outstanding investment commitments as at December 31, 2007, of which $283 mature in 30 days, $1,444 mature in 31 to 365 days and $808 mature in 2009 or later. There were $2,211 of outstanding investment commitments as at December 31, 2006, of which $320 matured in 30 days, $1,392 matured in 31 to 365 days and $499 matured in 2008 or later.

### d) Letters of credit

In the normal course of business, third party relationship banks issue letters of credit on the Company's behalf. As at December 31, 2007, letters of credit, for which third parties are beneficiary, in the amount of $470 (2006 – $727) were outstanding. There were no assets pledged against these outstanding letters of credit as at December 31, 2007 and 2006.

### e) Guarantees regarding Manulife Finance (Delaware), L.P.

MFC has unconditionally and irrevocably guaranteed the payment of amounts on the $550 senior debentures due December 15, 2026 and $650 subordinated debentures due December 15, 2041 issued by Manulife Finance (Delaware), L.P., a wholly owned partnership. The Company does not consolidate these debentures (see note 18(b)). The senior debentures pay a fixed interest rate of 4.448% per annum, payable semi-annually, until December 15, 2016 and thereafter will pay a floating rate of interest equal to the 90-day Bankers Acceptance rate plus 1.5%, payable quarterly. The subordinated debentures pay a fixed interest rate of 5.059% per annum, payable semi-annually, until December 15, 2036 and thereafter will pay a floating rate of interest equal to the 90-day Bankers Acceptance rate plus 1%, payable quarterly. MFC's guarantee of the senior debentures is a direct unsecured obligation of MFC and ranks equally with all other unsecured indebtedness of MFC which is not subordinated, and MFC's guarantee of the subordinated debentures is a direct unsecured obligation of MFC and ranks equally with all other subordinated indebtedness of MFC except for other guarantees or obligations of MFC which by their terms are designated as ranking equally in right of payment with or subordinate to the subordinated indebtedness of MFC.

The following tables set forth certain consolidating summary financial information for MFC and Manulife Finance (Delaware), L.P.:

| As at and for the year ended December 31, 2007 | MFC (Guarantor) | Manulife Finance (Delaware), L.P. | MLI Consolidated | Other Subsidiaries of MFC on a Combined Basis | Consolidating Adjustments | Total Consolidated Amounts |
|---|---|---|---|---|---|---|
| **Total revenue** | **$ 84** | **$ 70** | **$ 24,389** | **$ 11,285** | **$ (295)** | **$ 35,533** |
| **Net income available to shareholders** | **4,302** | **8** | **3,651** | **605** | **(4,264)** | **4,302** |
| **Invested assets** | **–** | **–** | **97,494** | **63,806** | **–** | **161,300** |
| **Total other assets** | **26,126** | **1,335** | **9,007** | **11,447** | **(32,757)** | **15,158** |
| **Policy liabilities** | **–** | **–** | **69,612** | **54,823** | **(13)** | **124,422** |
| **Total other liabilities** | **1,791** | **1,195** | **21,355** | **9,267** | **(5,907)** | **27,701** |

| As at and for the year ended December 31, 2006 | MFC (Guarantor) | Manulife Finance (Delaware), L.P. | MLI Consolidated | Other Subsidiaries of MFC on a Combined Basis | Consolidating Adjustments | Total Consolidated Amounts |
|---|---|---|---|---|---|---|
| Total revenue | $ 60 | $ 2 | $ 22,256 | $ 12,055 | $ (179) | $ 34,194 |
| Net income available to shareholders | 3,985 | – | 2,798 | 1,170 | (3,968) | 3,985 |
| Invested assets | 2 | – | 95,356 | 75,962 | – | 171,320 |
| Total other assets | 26,684 | 1,368 | 8,672 | 12,552 | (34,280) | 14,996 |
| Policy liabilities | – | – | 66,760 | 64,080 | (21) | 130,819 |
| Total other liabilities | 1,030 | 1,210 | 22,630 | 11,684 | (6,713) | 29,841 |

### f) Pledged assets

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| **As at December 31,** | Bonds | Other | Bonds | Other |
| In respect of: | | | | |
| Derivatives | **$ 208** | **$ 81** | $ 119 | $ 72 |
| Regulatory requirements | **120** | **31** | 109 | 1 |
| Real estate | **–** | **59** | – | 71 |
| Rabbi trust | **7** | **336** | 19 | 599 |
| Other | **2** | **4** | – | 8 |
| **Total** | **$ 337** | **$ 511** | $ 247 | $ 751 |

### g) Lease obligations

The Company has a number of obligations under long-term capital and operating leases, primarily for the use of office space. The future minimum lease payments by year and in aggregate, under capital and non-cancelable operating leases, are presented below:

| | Capital leases | Operating leases | Total |
|---|---|---|---|
| 2008 | $ 2 | $ 107 | $109 |
| 2009 | 2 | 89 | 91 |
| 2010 | 1 | 63 | 64 |
| 2011 | – | 52 | 52 |
| 2012 | – | 45 | 45 |
| Thereafter | – | 66 | 66 |
| **Total minimum lease payments** | **$ 5** | **$ 422** | **$427** |

### h) Restrictions on dividends and capital distributions

Dividends and capital distributions are restricted under the ICA. The ICA requires Canadian non-operating insurance companies to maintain, at all times, adequate levels of capital which is assessed by comparing capital available to a risk metric in accordance with Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued by OSFI. There are no minimum or target requirements; however, OSFI expects holding companies to manage their capital in a manner commensurate with the group risk profile and control environment. MFC must also maintain minimum levels of capitalization for its subsidiaries based on the local statutory accounting basis in each jurisdiction and local regulations. The most significant of these are the Minimum Continuing Capital and Surplus Requirements for MFC's Canadian insurance subsidiaries and the Risk Based Capital requirements for MFC's U.S. insurance subsidiaries. The Company maintains capital in excess of the minimum required in all jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the U.S., MFC's principal insurance subsidiaries are domiciled in Michigan and Massachusetts. 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 12 months) 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. Under the Massachusetts insurance law, no insurer may pay any shareholder dividend from any source other than statutory unassigned funds without the prior approval of the Massachusetts Commissioner of Insurance (the "MCI"). The Massachusetts insurance holding company act provides that no extraordinary dividend may be paid without 30 days prior written notice to the MCI, and only if the MCI has not disapproved, or has approved, the payment within the 30-day notice period. An extraordinary dividend is any dividend or distribution of cash or other property whose fair market value, together with other dividends or distributions made within the preceding 12 months, exceeds the greater of (i) 10 per cent of an insurance company's surplus as regards to policyholders as of the preceding December 31, or (ii) a life insurance company's statutory net gain from operations for the 12 months ending on the preceding December 31. In addition, both Michigan and Massachusetts require that notification be given to the domiciliary insurance commissioner no later than five days following declaration, and at least 10 days prior to payment, of any dividend or distribution by a Michigan or Massachusetts insurance company.

**i) 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 businesses operating as separate "closed blocks", transfers are governed by the terms of MLI's and John Hancock Mutual Life Insurance Company's plans of demutualization.

## Note 20 ^ Fair Value of Financial Instruments

Financial instruments refer to both on- and off-balance sheet instruments and may be assets or liabilities. These assets or liabilities 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 judgment and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, consumer notes, long-term debt, liabilities for preferred shares and capital instruments and derivative financial instruments are disclosed in notes 5, 9, 10, 11 and 21, respectively.

The carrying 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 fair values due to their short-term nature.

The fair value of bank deposits is estimated at $10,005 as at December 31, 2007 (2006 – $7,847) compared to a carrying value of $10,008 as at December 31, 2007 (2006 – $7,845). 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 21 ^ Derivative and Hedging Instruments

Derivative financial instruments ("derivatives") are financial contracts, the values of which are derived from underlying changes in interest rates, foreign exchange rates other financial instrument, commodity prices or indices.

**Fair value of derivatives**

Under the new CICA Handbook Sections 3855 and 3865, all derivatives including those that are embedded in financial or non- financial contracts that are not closely related to the host contracts are recorded at fair value. Fair values of derivatives are obtained from quoted market prices where applicable or readily available market rates in active markets. Where there is not an active market, the fair value of derivatives is determined by using industry accepted valuation techniques such as discounted cash flow models and/or option pricing models, using observable market-based inputs. Valuation techniques for determination of fair value reflect assumptions related to timing and amounts of estimated future cash flows and discounted rates. These assumptions incorporate the use of externally observable market inputs which include factors such as interest rate yield curves, currency exchange rates, and corresponding market-based rate and price volatility levels.

**Types of derivatives**

Derivatives such as interest rate, cross currency swaps and total return swaps, forward contracts, futures agreements and options are used by the Company to hedge and manage current and anticipated exposures to changes in interest rates, foreign exchange rates, commodity prices and equity market prices, and to replicate permissible investments.

Swaps are over-the-counter contractual agreements between the Company and a third party to exchange a series of cash flows based upon rates applied to a notional amount. For interest rate swaps, counterparties generally exchange fixed or floating interest rate payments based on a notional value in a single currency. Cross currency swaps involve an initial and final exchange of principal amounts between parties as well as the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Total return swaps are contracts that involve the exchange of payments based on changes in the values of a reference asset or group of assets, including any returns such as interest earned on these assets, in return for amounts that are based on reference rates specified in the contract.

Forward and futures agreements are contractual obligations to buy or sell a financial instrument, foreign currency or other underlying variable on a pre-determined future date at a specified price. Forward contracts are over-the-counter contracts negotiated between counterparties, whereas futures agreements are standardized contracts with respect to amounts and settlement dates that are traded on regulated exchanges.

Options are contractual agreements whereby the holder has the right, but not the obligation, to buy (call option) or sell (put option) a security, exchange rate, interest rate, or other financial instrument at a predetermined price/rate within a specified time.

**Hedging relationships**
The Company uses derivatives for economic hedging purposes. In certain circumstances, these hedges also meet the definition of an effective hedge under hedge accounting standards. Hedging relationships eligible for hedge accounting treatment are designated as either fair value hedges, cash flow hedges or as net investment hedges, as described below.

**Fair value hedges**
The Company uses interest rate swaps to manage its exposure to changes in fair value of fixed rate financial instruments caused by changes in interest rates. The Company also uses cross currency swaps and forward and future contracts to manage its exposure to foreign exchange rate fluctuations, interest rate fluctuations, or both.

For the year ended December 31, 2007, the Company recognized losses of $19 related to the ineffective portion of its fair value hedges. These amounts are recorded in investment income.

**Cash flow hedges**
The Company uses interest rate swaps to hedge the variability in its cash flows arising from variable rate financial instruments, forecasted acquisitions of fixed rate financial instruments and anticipated debt issuance. The Company also uses cross currency swaps and forward agreements to hedge currency exposure on certain debt issued and uses total return swaps to hedge the variability in cash flows associated with stock-based compensation awards that will settle in cash.

For the year ended December 31, 2007, the Company recognized gains of nil related to the ineffective portion of its cash flow hedges in investment income. The Company anticipates that net gains of approximately $8 will be reclassified from AOCI to earnings within the next twelve months due to net interest payments. The maximum time frame for which variable cash flows are hedged is 29 years.

The Company did not recognize any amounts previously recognized in AOCI into income as a result of discontinuing a cash flow hedge due to a change in probability that the anticipated transaction will not occur.

**Hedges of net investments in foreign operations**
The Company uses currency forward contracts to manage its foreign currency exposures to net investments in self-sustaining foreign operations having a functional currency other than the Canadian dollar.

For the year ended December 31, 2007, net gains of $345 relating to hedges of investments in foreign operations were included in OCI.

**Derivatives not designated as hedging instruments**
Derivatives used in portfolios supporting policy liabilities are not designated as hedging instruments because the Company has designated the securities in these portfolios as fair value. Accordingly, the changes in fair value of such derivatives and securities are recognized in investment income as they occur. Interest rate and cross currency swaps are used in the portfolios supporting policy liabilities to manage duration and currency risks.

In addition, as outlined in note 2(a), certain reinsurance contracts primarily related to equity market exposures are classified as financial instruments and are measured at fair value. These include reinsurance ceded contracts of $586 and reinsurance assumed contracts of $66. These contracts are classified on the balance sheet as policy liabilities. Claims recovered under reinsurance ceded contracts offset the claim expense paid to the customer and claims paid on the reinsurance assumed contracts are reported as policy benefits.

The Company enters into master netting arrangements that serve to mitigate its exposure to credit loss. As at December 31, 2007, the maximum exposure to credit risk related to derivatives, without taking account the fair value of any collateral held, was $1,385. Without master netting agreements, maximum exposure to credit risk would have been $2,129.

Fair value is summarized by hedging and derivative types in the following tables:

| As at December 31, 2007 | Derivative Assets | Derivative Liabilities |
|---|---|---|
| Fair value hedges | $ 160 | $ 181 |
| Cash flow hedges | 174 | 150 |
| Hedges of net investments in foreign operations | 96 | 36 |
| Derivatives not designated as hedges | 1,699 | 1,499 |
| **Total** | **$ 2,129** | **$ 1,866** |

| | Remaining term to maturity (notional amounts) | | | | Fair value | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **As at December 31, 2007** | Under 1 year | 1 to 5 years | Over 5 years | Total | Positive | Negative | Net | Credit risk equivalent[2] | Risk-weighted amount[3] |
| Interest rate contracts: | | | | | | | | | |
| Swap contracts | **$ 2,789** | **$11,511** | **$23,430** | **$37,730** | **$ 1,081** | **$ (666)** | **$ 415** | **$ 918** | **$ 242** |
| Future contracts | **81** | **–** | **–** | **81** | **–** | **–** | **–** | **–** | **–** |
| Options purchased | **302** | **327** | **105** | **734** | **–** | **–** | **–** | **9** | **2** |
| Sub-total | **$ 3,172** | **$11,838** | **$23,535** | **$38,545** | **$ 1,081** | **$ (666)** | **$ 415** | **$ 927** | **$ 244** |
| Foreign exchange: | | | | | | | | | |
| Swap contracts | **2,815** | **3,401** | **3,304** | **9,520** | **1,025** | **(1,222)** | **(197)** | **952** | **242** |
| Forward contracts | **4,604** | **6** | **–** | **4,610** | **45** | **(19)** | **26** | **66** | **19** |
| Equity contracts | **782** | **112** | **64** | **958** | **2** | **(10)** | **(8)** | **51** | **15** |
| **Total[1]** | **$11,373** | **$15,357** | **$26,903** | **$53,633** | **$ 2,153** | **$(1,917)** | **$ 236** | **$ 1,996** | **$ 520** |
| As at December 31, 2006 | | | | | | | | | |
| Interest rate contracts: | | | | | | | | | |
| Swap contracts | $ 4,195 | $ 9,879 | $26,172 | $40,246 | $ 1,148 | $ (626) | $ 522 | $ 759 | $ 234 |
| Options purchased | 245 | 654 | 211 | 1,110 | 4 | – | 4 | 12 | 4 |
| Options written | 13 | – | – | 13 | – | – | – | – | – |
| Sub-total | $ 4,453 | $10,533 | $26,383 | $41,369 | $ 1,152 | $ (626) | $ 526 | $ 771 | $ 238 |
| Foreign exchange: | | | | | | | | | |
| Swap contracts | 966 | 6,736 | 3,286 | 10,988 | 833 | (1,116) | (283) | 982 | 300 |
| Forward contracts | 4,428 | 87 | 15 | 4,530 | 12 | (71) | (59) | 62 | 20 |
| Equity contracts | 486 | 395 | 361 | 1,242 | 10 | (37) | (27) | 159 | 49 |
| **Total[1]** | $10,333 | $17,751 | $30,045 | $58,129 | $ 2,007 | $ (1,850) | $ 157 | $ 1,974 | $ 607 |

1 Positive fair value includes accrued interest receivable of $24 (2006 – $29) and negative fair value includes accrued interest payable of $51 (2006 – $57).

2 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 take into consideration legal contracts that permit offsetting of positions. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

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

## Note 22 ^ Segmented Information

The Company provides a wide range of financial products and services, including individual life insurance, long-term care insurance, group life and health insurance, pension products, annuities and mutual funds. These services are provided to individual and group customers in the United States, Canada, Asia and Japan. Manulife Financial also provides investment management services with respect to the general fund assets of the Company, segregated and mutual funds as well as to institutional customers. The Company also offers reinsurance services specializing in retrocession and offering products in life, property and casualty.

The Company's reporting segments are U.S. Insurance and U.S. Wealth Management, which combine to form the U.S. Division, as well as the Canadian, Asia and Japan and Reinsurance Divisions and the Corporate and Other segment. 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.

Certain allocation methodologies are employed in the preparation of segmented financial information. Indirect expenses are allocated to business segments using allocation formulas applied on a consistent basis, while capital is apportioned to the Company's business segments on a risk-based methodology. The income statement impact of changes in actuarial methods and assumptions (note 6(f)) is reported in the Corporate and Other segment.

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

| By Segment<br>For the year ended December 31, 2007 | U.S. Insurance | U.S. Wealth Mgmt | Canadian Division | Asia and Japan Division | Reinsurance Division | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| **Premium income** | | | | | | | |
| Life and health insurance | **$ 5,279** | **$ –** | **$ 5,636** | **$ 2,870** | **$ 1,026** | **$ –** | **$ 14,811** |
| Annuities and pensions | **–** | **4,285** | **572** | **76** | **–** | **–** | **4,933** |
| **Total premium income** | **$ 5,279** | **$ 4,285** | **$ 6,208** | **$ 2,946** | **$ 1,026** | **$ –** | **$ 19,744** |
| Investment income | **3,297** | **2,484** | **2,593** | **1,263** | **215** | **489** | **10,341** |
| Other revenue | **627** | **2,733** | **996** | **767** | **20** | **305** | **5,448** |
| **Total revenue** | **$ 9,203** | **$ 9,502** | **$ 9,797** | **$ 4,976** | **$ 1,261** | **$ 794** | **$ 35,533** |
| **Interest expense** | **$ 33** | **$ 171** | **$ 393** | **$ 53** | **$ 2** | **$ 380** | **$ 1,032** |
| Income before income taxes | **$ 1,135** | **$ 1,505** | **$ 1,432** | **$ 999** | **$ 369** | **$ 166** | **$ 5,606** |
| Income taxes | **(380)** | **(405)** | **(326)** | **(172)** | **(106)** | **12** | **(1,377)** |
| **Net income** | **$ 755** | **$ 1,100** | **$ 1,106** | **$ 827** | **$ 263** | **$ 178** | **$ 4,229** |
| Net income (loss) attributed to participating policyholders | **–** | **–** | **3** | **(31)** | **–** | **(45)** | **(73)** |
| **Net income attributed to shareholders** | **$ 755** | **$ 1,100** | **$ 1,103** | **$ 858** | **$ 263** | **$ 223** | **$ 4,302** |
| **Segregated funds deposits** | **$ 1,259** | **$ 22,831** | **$ 6,982** | **$ 6,122** | **$ –** | **$ 33** | **$ 37,227** |
| **Goodwill** | | | | | | | |
| Balance, January 1 | **$ 2,702** | **$ 2,052** | **$ 2,051** | **$ 499** | **$ 78** | **$ 79** | **$ 7,461** |
| Acquisition of subsidiary | **–** | **–** | **64** | **–** | **–** | **–** | **64** |
| Tax benefit of stock options exercised[1] | **–** | **–** | **–** | **–** | **–** | **(3)** | **(3)** |
| Change in foreign exchange rates | **(411)** | **(312)** | **–** | **(54)** | **(12)** | **(12)** | **(801)** |
| **Balance, December 31** | **$ 2,291** | **$ 1,740** | **$ 2,115** | **$ 445** | **$ 66** | **$ 64** | **$ 6,721** |
| **As at December 31, 2007** | | | | | | | |
| **Policy liabilities** | **$ 41,096** | **$ 30,648** | **$ 36,649** | **$ 13,913** | **$ 1,621** | **$ 495** | **$124,422** |
| **Total assets** | **$ 48,713** | **$ 38,642** | **$ 54,804** | **$ 17,731** | **$ 2,832** | **$ 13,736** | **$176,458** |
| **Segregated funds net assets held by policyholders** | **$ 11,387** | **$ 108,878** | **$ 31,391** | **$ 20,727** | **$ –** | **$ 2,598** | **$174,981** |

[1] Tax benefit to the Company relating to exercise of stock options that were issued at the time of the merger with JHF in exchange for JHF stock options.

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 businesses pertain.

| By geographic location<br>For the year ended December 31, 2007 | United States | Canada | Asia and Japan | Other | Total |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| **Premium income** | | | | | |
| Life and health insurance | **$ 5,708** | **$ 5,713** | **$ 2,906** | **$ 484** | **$14,811** |
| Annuities and pensions | **4,285** | **572** | **76** | **–** | **4,933** |
| **Total premium income** | **$ 9,993** | **$ 6,285** | **$ 2,982** | **$ 484** | **$19,744** |
| Investment income | **6,069** | **2,957** | **1,266** | **49** | **10,341** |
| Other revenue | **3,587** | **1,058** | **779** | **24** | **5,448** |
| **Total revenue** | **$ 19,649** | **$10,300** | **$ 5,027** | **$ 557** | **$35,533** |

| By Segment<br>For the year ended December 31, 2006 | U.S. Insurance | U.S. Wealth Mgmt | Canadian Division | Asia and Japan Division | Reinsurance Division | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| **Premium income** | | | | | | | |
| Life and health insurance | $ 5,488 | $ – | $ 5,411 | $ 2,861 | $ 1,010 | $ – | $ 14,770 |
| Annuities and pensions | – | 3,741 | 521 | 72 | – | – | 4,334 |
| **Total premium income** | $ 5,488 | $ 3,741 | $ 5,932 | $ 2,933 | $ 1,010 | $ – | $ 19,104 |
| Investment income | 2,982 | 2,858 | 3,164 | 863 | 208 | 358 | 10,433 |
| Other revenue | 614 | 2,412 | 798 | 515 | 19 | 299 | 4,657 |
| **Total revenue** | $ 9,084 | $ 9,011 | $ 9,894 | $ 4,311 | $ 1,237 | $ 657 | $ 34,194 |
| **Interest expense** | $ 34 | $ 159 | $ 298 | $ 50 | $ 3 | $ 388 | $ 932 |
| Income before income taxes | $ 935 | $ 1,580 | $ 1,170 | $ 970 | $ 403 | $ 278 | $ 5,336 |
| Income taxes | (313) | (444) | (250) | (190) | (109) | (60) | (1,366) |
| **Net income** | $ 622 | $ 1,136 | $ 920 | $ 780 | $ 294 | $ 218 | $ 3,970 |
| Net (loss) income attributed to participating policyholders | – | – | (61) | 46 | – | – | (15) |
| **Net income attributed to shareholders** | $ 622 | $ 1,136 | $ 981 | $ 734 | $ 294 | $ 218 | $ 3,985 |
| **Segregated funds deposits** | $ 1,225 | $ 22,645 | $ 4,619 | $ 4,747 | $ – | $ 51 | $ 33,287 |
| **Goodwill** | | | | | | | |
| Balance, January 1 | $ 2,704 | $ 2,053 | $ 2,051 | $ 499 | $ 78 | $ 116 | $ 7,501 |
| Sale of a subsidiary | – | – | – | – | – | (20) | (20) |
| Tax benefit of stock options exercised[1] | – | – | – | – | – | (16) | (16) |
| Change in foreign exchange rates | (2) | (1) | – | – | – | (1) | (4) |
| **Balance, December 31** | $ 2,702 | $ 2,052 | $ 2,051 | $ 499 | $ 78 | $ 79 | $ 7,461 |
| As at December 31, 2006 | | | | | | | |
| **Policy liabilities** | $ 44,232 | $ 38,222 | $ 32,554 | $ 13,673 | $ 1,884 | $ 254 | $130,819 |
| **Total assets** | $ 52,820 | $ 48,277 | $ 49,533 | $ 17,571 | $ 3,379 | $ 14,736 | $186,316 |
| **Segregated funds net assets held by policyholders** | $ 12,583 | $112,269 | $ 27,448 | $ 17,232 | $ – | $ 2,727 | $172,259 |

1 Tax benefit to the Company relating to exercise of stock options that were issued at the time of the merger with JHF in exchange for JHF stock options.

| By geographic location<br>For the year ended December 31, 2006 | United States | Canada | Asia and Japan | Other | Total |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| **Premium income** | | | | | |
| Life and health insurance | $ 5,965 | $ 5,476 | $ 2,903 | $ 426 | $14,770 |
| Annuities and pensions | 3,741 | 521 | 72 | – | 4,334 |
| **Total premium income** | $ 9,706 | $ 5,997 | $ 2,975 | $ 426 | $19,104 |
| Investment income | 5,973 | 3,534 | 864 | 62 | 10,433 |
| Other revenue | 3,220 | 897 | 526 | 14 | 4,657 |
| **Total revenue** | $ 18,899 | $10,428 | $ 4,365 | $ 502 | $34,194 |

## Note 23 ^ 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 United States generally accepted accounting principles ("U.S. GAAP"). As required by applicable United States federal securities laws, material differences between Canadian and U.S. GAAP are quantified and described below.

### a) Condensed Consolidated Balance Sheets

| As at December 31, | | 2007 | | 2006 | |
|---|---|---|---|---|---|
| | Note 23 Reference | U.S. GAAP | Canadian GAAP | U.S. GAAP | Canadian GAAP |
| **Assets** | | | | | |
| Cash and short-term securities | | **$ 12,475** | **$ 12,354** | $ 10,954 | $ 10,901 |
| Securities | | | | | |
| Bonds and other fixed maturity investments | g (i), h (iv) | **99,400** | **72,831** | 109,460 | 78,085 |
| Stocks | g (ii), h (iv), h (vii) | **17,890** | **11,134** | 18,228 | 11,272 |
| Loans | | | | | |
| Mortgages | g (iii), h (iv) | **26,146** | **26,061** | 28,079 | 28,131 |
| Private placements | g (iv), h (viii) | **–** | **21,591** | – | 25,074 |
| Policy loans | | **5,823** | **5,823** | 6,413 | 6,413 |
| Bank loans | | **2,182** | **2,182** | 2,009 | 2,009 |
| Real estate | g (v) | **4,236** | **5,727** | 4,563 | 5,905 |
| Other investments | g (vi), g (xii), h (iv) | **4,027** | **3,597** | 4,109 | 3,530 |
| **Total invested assets** | | **$172,179** | **$161,300** | $183,815 | $171,320 |
| **Other assets** | | | | | |
| Accrued investment income | h (iv) | **$ 1,422** | **$ 1,414** | $ 1,563 | $ 1,557 |
| Outstanding premiums | | **672** | **672** | 669 | 669 |
| Deferred acquisition costs | g (viii) | **13,156** | **–** | 12,054 | – |
| Reinsurance deposits and amounts recoverable | | **4,492** | **–** | 4,966 | – |
| Goodwill | | **5,839** | **6,721** | 6,415 | 7,461 |
| Intangible assets | | **1,573** | **1,573** | 1,708 | 1,708 |
| Derivatives | g (xii) | **2,125** | **2,129** | 1,357 | 400 |
| Value of business acquired | g (ix) | **3,345** | **–** | 4,101 | – |
| Miscellaneous | h (iv) | **3,424** | **2,649** | 4,226 | 3,201 |
| **Total other assets** | | **$ 36,048** | **$ 15,158** | $ 37,059 | $ 14,996 |
| | | **$208,227** | **$176,458** | $220,874 | $186,316 |
| **Segregated funds net assets**[1] | h (iv) | **162,788** | **–** | 162,536 | – |
| **Total assets** | | **$371,015** | **$176,458** | $383,410 | $186,316 |
| **Segregated funds net assets**[1] | h (iv) | **$ –** | **$175,544** | $ – | $172,937 |
| | | | | | |
| **Liabilities and equity** | | | | | |
| Policy liabilities | g (vii), h (iv) | **$151,788** | **$124,422** | $162,740 | $130,819 |
| Deferred realized net gains | g (v) | **–** | **107** | – | 4,442 |
| Bank deposits | | **10,008** | **10,008** | 7,845 | 7,845 |
| Consumer notes | | **2,131** | **2,085** | 2,860 | 2,860 |
| Long-term debt | | **1,825** | **1,820** | 1,930 | 1,930 |
| Future income tax liability[2] | h (iv) | **2,636** | **2,839** | 2,708 | 2,258 |
| Derivatives | g (xii) | **1,887** | **1,866** | 870 | 910 |
| Other liabilities | g (x), h (iv) | **8,902** | **5,820** | 8,262 | 5,699 |
| | | **$179,177** | **$148,967** | $187,215 | $156,763 |
| Liabilities for preferred shares and capital instruments | | **3,014** | **3,010** | 3,681 | 3,695 |
| Non-controlling interest in subsidiaries | | **298** | **146** | 400 | 202 |
| Segregated funds net liabilities[1] | h (iv) | **162,788** | **–** | 162,536 | – |
| Common shares, preferred shares, retained earnings and contributed surplus | | **28,865** | **29,248** | 29,173 | 28,665 |
| Accumulated other comprehensive income (loss) on available-for-sale securities, cash flow hedges and other | g (xiv) | **2,737** | **1,291** | 3,327 | – |
| on translation of net foreign operations | | **(5,864)** | **(6,204)** | (2,922) | (3,009) |
| **Total liabilities and equity** | | **$371,015** | **$176,458** | $383,410 | $186,316 |
| **Segregated funds net liabilities**[1] | h (iv) | **$ –** | **$175,544** | $ – | $172,937 |

1 U.S. GAAP terminology is separate accounts.
2 U.S. GAAP terminology is deferred income taxes.

## b) Condensed Consolidated Statements of Operations

| For the years ended December 31, | 2007 | | 2006 | |
|---|---|---|---|---|
| | U.S. GAAP | Canadian GAAP | U.S. GAAP | Canadian GAAP |
| **Revenue** | | | | |
| Premium income | **$ 12,888** | **$ 19,744** | $ 12,495 | $ 19,104 |
| Net investment income (investment income) | **10,241** | **10,341** | 10,122 | 10,433 |
| Fee income and other revenue | **6,914** | **5,448** | 5,940 | 4,657 |
| **Total revenue** | **$ 30,043** | **$ 35,533** | $ 28,557 | $ 34,194 |
| **Policy benefits and expenses** | | | | |
| Policyholder benefits | **$ 18,910** | **$ 20,211** | $ 17,764 | $ 19,912 |
| Commissions, investment and general expenses | **4,503** | **8,378** | 4,307 | 7,739 |
| Amortization of deferred acquisition costs and value of business acquired | **1,201** | **–** | 1,168 | – |
| Other | **1,295** | **1,338** | 1,222 | 1,207 |
| **Total policy benefits and expenses** | **$ 25,909** | **$ 29,927** | $ 24,461 | $ 28,858 |
| **Income before income taxes** | **$ 4,134** | **$ 5,606** | $ 4,096 | $ 5,336 |
| Income taxes | **(904)** | **(1,377)** | (926) | (1,366) |
| **Net income** | **$ 3,230** | **$ 4,229** | $ 3,170 | $ 3,970 |
| **Weighted average number of common shares outstanding** (in millions) | **1,522** | **1,522** | 1,563 | 1,563 |
| **Weighted average number of diluted common shares outstanding** (in millions) | **1,537** | **1,537** | 1,579 | 1,579 |
| **Basic earnings per common share** | **$ 2.12** | **$ 2.81** | $ 2.03 | $ 2.53 |
| **Diluted earnings per common share** | **$ 2.10** | **$ 2.78** | $ 2.01 | $ 2.51 |
| **Dividends per common share** | **$ 0.88** | **$ 0.88** | $ 0.73 | $ 0.73 |

## c) Reconciliation of Canadian GAAP to U.S. GAAP

**Net Income Reconciliation**

| For the years ended December 31, | 2007 | 2006 |
|---|---|---|
| **Net income determined in accordance with Canadian GAAP** | **$ 4,229** | $ 3,970 |
| Net investment income | | |
| Bonds excluding other than temporary impairments[1] | **528** | (90) |
| Interest rate related other than temporary impairments | **(836)** | (287) |
| Stocks[2] | **141** | (108) |
| Cash flow hedges[3] | **148** | (12) |
| Real estate | **(270)** | (197) |
| Other | **108** | 42 |
| | **(181)** | (652) |
| Deferred acquisition costs, net of amortization[4] | **2,592** | 2,162 |
| Value of business acquired amortization | **(219)** | (179) |
| Consumer notes fair value adjustment | **29** | – |
| Policy liabilities | **(3,725)** | (2,586) |
| Commissions, investment and general expenses | **14** | (18) |
| Future income taxes on the above noted items[5] | **491** | 473 |
| **Net income determined in accordance with U.S. GAAP** | **$ 3,230** | $ 3,170 |

1 Bonds classified in 2007 as AFS for U.S. GAAP and fair value option ("FVO") for Canadian GAAP include realized gains on U.S. GAAP of $417 and unrealized and realized losses on Canadian GAAP of ($111).

2 Stocks classified in 2007 as AFS for U.S. GAAP and FVO for Canadian GAAP include realized gains on U.S. GAAP of $730 and unrealized and realized gains on Canadian GAAP of $589.

3 Cash flow hedge accounting on forward start interest rate derivatives not elected for Canadian GAAP but elected for U.S. GAAP.

4 Deferred acquisition costs consist of $3,573 (2006 – $3,152) of capitalized expenditures less $981 (2006 – $990) of amortization charged to income.

5 U.S. GAAP terminology is deferred income taxes.

### d) Other comprehensive income reconciliation

| For the years ended December 31, | Canadian GAAP | Differences | 2007 U.S. GAAP | 2006 U.S. GAAP |
|---|---|---|---|---|
| **Net income** | **$ 4,229** | **$(999)** | **$ 3,230** | $ 3,170 |
| **Other comprehensive (loss) income** | | | | |
| Changes in unrealized gains on available-for-sale securities | **(504)** | **(79)** | **(583)** | 465 |
| Adjustments to net unrealized gains (losses) | | | | |
| Actuarial liabilities | **–** | **(75)** | **(75)** | (30) |
| Deferred acquisition costs | **–** | **119** | **119** | (213) |
| Deferred revenue | **–** | **15** | **15** | 6 |
| Value of business acquired | **–** | **(71)** | **(71)** | 1 |
| Changes in gains on derivative investments designated as cash flow hedges | **(25)** | **(38)** | **(63)** | (149) |
| Additional pension obligation | **–** | **(52)** | **(52)** | 281 |
| Income taxes on the above items | **79** | **41** | **120** | (24) |
| Changes in unrealized currency translation gains (losses) of self-sustaining operations [1] | **(3,195)** | **253** | **(2,942)** | 137 |
| Total other comprehensive (loss) income | **$ (3,645)** | **$ 113** | **$ (3,532)** | $ 474 |
| **Total comprehensive (loss) income** | **$ 584** | **$(886)** | **$ (302)** | $ 3,644 |

[1] Included a gain of $224 (2006 – gain of $174), net of tax, arising from hedges of foreign currency exposure of a net investment in a foreign operation.

### e) Information Provided in Connection with the Fixed Investment Option of the Deferred Annuity Contracts Issued by John Hancock Variable Life Insurance Company and the *Signature*Notes Issued by John Hancock Life Insurance Company

The following condensed consolidating financial information, presented in accordance with U.S. GAAP, and the related disclosure have been included in these consolidated financial statements in compliance with Regulation S-X of the United States Securities and Exchange Commission (the "Commission") and in accordance with Rule 12h-5 of the Commission, as these financial statements are incorporated by reference in the registration statements of MFC and its subsidiaries that are described below and which relate to MFC's guarantee of certain securities issued and to be issued by its subsidiaries.

Effective April 28, 2004, a newly formed wholly owned subsidiary of MFC merged with JHF with the result that MFC became the beneficial owner of all of the outstanding common stock of JHF, and JHF became a wholly owned subsidiary of MFC. As a result of the merger, John Hancock Variable Life Insurance Company (the "Variable Company") and John Hancock Life Insurance Company (the "Life Company"), two wholly owned subsidiaries of JHF, became indirect wholly owned subsidiaries of MFC. The results of JHF's operations have not been included in these condensed consolidating financial statements for periods prior to the merger.

The Variable Company sells deferred annuity contracts that feature a market value adjustment and are registered with the Commission. The deferred annuity contracts contain variable investment options and fixed investment period options. The fixed investment period options enable the participant to invest fixed amounts of money for fixed terms at fixed interest rates, subject to a market value adjustment if the participant desires to terminate a fixed investment period before its maturity date. The annuity contract provides for the market value adjustment to keep the parties whole with respect to the fixed interest bargain for the entire fixed investment period. The Variable Company refers to these fixed investment period options that contain a market value adjustment feature as "MVAs".

On December 30, 2002, JHF fully and unconditionally guaranteed the Variable Company's obligation to pay amounts due under any MVA that was outstanding on or following such date on transfer, withdrawal, surrender, maturity or annuitization of such MVA. On June 29, 2005, the Commission declared effective a joint registration statement filed by MFC and the Variable Company relating to MVAs to be sold on or after June 29, 2005, the payment of which will be fully and unconditionally guaranteed by MFC. MFC also guaranteed the payment obligations of the Variable Company under then outstanding MVAs. JHF will continue to guarantee MVAs that were outstanding before June 29, 2005, and JHF and MFC will be jointly and severally liable under such guarantees. However, JHF will not guarantee MVAs issued on or after June 29, 2005.

The Life Company sells medium-term notes to retail investors under its *Signature*Notes program. The *Signature*Notes are also registered with the Commission. On July 8, 2005, the Commission declared effective a joint registration statement filed by MFC and the Life Company relating to *Signature*Notes to be issued by the Life Company on or after July 8, 2005, the payment of which will be fully and unconditionally guaranteed by MFC. MFC also guaranteed the payment obligations of the Life Company under then outstanding *Signature*Notes.

MFC's guarantees of the *Signature*Notes and MVAs are unsecured obligations of MFC, and are subordinated in right of payment to the prior payment in full of all other obligations of MFC, except for other guarantees or obligations of MFC which by their terms are designated as ranking equally in right of payment with or subordinate to MFC's guarantees of the *Signature*Notes and MVAs.

The laws of the State of New York and the Commonwealth of Massachusetts govern MFC's guarantees of the *Signature* Notes and MVAs, respectively, and MFC has consented to the jurisdiction of the courts of such jurisdictions. However, because a substantial portion of MFC's assets are located outside the United States, the assets of MFC located in the United States may not be sufficient to satisfy a judgment given by a federal or state court in the United States to enforce the subordinate guarantees. In general, the federal laws of Canada and the laws of the Province of Ontario, where MFC's principal executive offices are located, permit an action to be brought in Ontario to enforce such a judgment provided that such judgment is subsisting and unsatisfied for a fixed sum of money and not void or voidable in the United States and a Canadian court will render a judgment against MFC in a certain dollar amount, expressed in Canadian dollars, subject to customary qualifications regarding fraud, violations of public policy, laws limiting the enforcement of creditor's rights and applicable statutes of limitations on judgments. There is currently no public policy in effect in the Province of Ontario that would support avoiding the recognition and enforcement in Ontario of a judgment of a New York or Massachusetts court on MFC's guarantees of the *Signature* Notes and MVAs, respectively.

Both MFC and JHF are holding companies. The assets of MFC and JHF consist primarily of the outstanding capital stock of their subsidiaries and investments in other international subsidiaries. Each company's cash flows primarily consist of dividends from its operating subsidiaries, offset by expenses and shareholder dividends and stock repurchases for MFC, and dividends to MFC and operating expenses for JHF. As a holding company, each company's ability to meet its cash requirements, including, but not limited to, paying any amounts due under its guarantees, substantially depends upon dividends from its operating subsidiaries.

These subsidiaries are subject to certain regulatory restrictions under laws in Canada, the United States and certain other countries, which may limit their ability to pay dividends or make contributions or loans to MFC or JHF, as applicable. For example, some of MFC's subsidiaries are subject to restrictions prescribed by the ICA on their ability to declare and pay dividends. The ICA prohibits the declaration or payment of any dividend on shares of an insurance company if there are reasonable grounds for believing the company is, or the payment of the dividend would cause the company to be, in contravention of any regulation under the ICA regarding the maintenance by life insurance companies of adequate capital and adequate and appropriate forms of liquidity or any direction to the company made by the Superintendent of Financial Institutions (Canada) (the "Superintendent") pursuant to subsection 515(3) of the ICA regarding its capital or liquidity. Dividends exceeding retained net income for the two preceding financial years plus net income for the year to the day of declaration of the dividend require approval of the Superintendent. There is currently no direction against paying a dividend that is applicable to any of MFC's subsidiaries that are subject to the ICA. The ICA also requires an insurance company to notify the Superintendent of the declaration of a dividend at least 10 days prior to the date fixed for its payment.

In the United States, insurance laws in Michigan, Delaware, New York, Massachusetts and Vermont, the jurisdictions in which certain U.S. insurance company subsidiaries of MFC and JHF are domiciled, impose general limitations on the payment of dividends and other upstream distributions or loans by these insurance subsidiaries. These laws prohibit the payment of dividends or other distributions or loans to shareholders which may result in the failure to maintain adequate capital and liquidity levels, either by imposing specific financial tests that must be met in order for dividends or other distributions to be paid without regulatory consent or by giving the state insurance regulator broad discretion to disapprove any proposal to pay a dividend or other distribution.

In Asia, the insurance laws of the jurisdictions in which MFC and JHF operate either provide for specific restrictions on the payment of dividends or other distributions or loans by subsidiaries or impose solvency or other financial tests, which could affect the ability of subsidiaries to pay dividends in certain circumstances.

Generally, there can be no assurance that any current or future regulatory restrictions in Canada, the United States or Asia will not impair each of MFC's or JHF's ability to meet its cash requirements, including, but not limited to, paying any amounts due under its guarantee.

The following condensed consolidating financial information, presented in accordance with U.S. GAAP, is provided in compliance with Regulation S-X of the Commission and in accordance with Rule 12h-5 of the Commission.

## Condensed Consolidating Balance Sheets

| As at December 31, 2007 | Manulife Financial Corporation (Guarantor) | John Hancock Financial Services, Inc. | John Hancock Life Insurance Company (Issuer) | John Hancock Variable Life Insurance Company (Issuer) | Other Subsidiaries | Consolidation Adjustments | Consolidated Manulife Financial Corporation |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Invested assets | **$ –** | **$ 589** | **$ 53,820** | **$ 6,512** | **$ 111,326** | **$ (68)** | **$ 172,179** |
| Investments in unconsolidated subsidiaries | **27,002** | **11,287** | **3,138** | **142** | **2,090** | **(43,659)** | **–** |
| Other assets | **528** | **1,110** | **13,415** | **3,042** | **30,940** | **(12,987)** | **36,048** |
| Separate account assets | **–** | **–** | **10,868** | **7,855** | **144,065** | **–** | **162,788** |
| **Total assets** | **$ 27,530** | **$ 12,986** | **$ 81,241** | **$ 17,551** | **$ 288,421** | **$ (56,714)** | **$ 371,015** |
| **Liabilities and equity** | | | | | | | |
| Policy liabilities | **$ –** | **$ –** | **$ 50,765** | **$ 6,543** | **$ 98,438** | **$ (3,958)** | **$ 151,788** |
| Consumer notes | **–** | **–** | **2,131** | **–** | **–** | **–** | **2,131** |
| Other liabilities | **1,098** | **341** | **6,451** | **1,060** | **20,819** | **(6,336)** | **23,433** |
| Long-term debt | **350** | **1,199** | **–** | **–** | **1,942** | **(1,666)** | **1,825** |
| Liabilities for preferred shares and capital instruments | **344** | **–** | **470** | **–** | **2,200** | **–** | **3,014** |
| Non-controlling interest in subsidiaries | **–** | **–** | **–** | **–** | **367** | **(69)** | **298** |
| Separate account liabilities | **–** | **–** | **10,868** | **7,855** | **144,065** | **–** | **162,788** |
| Shareholders' equity | **25,738** | **11,446** | **10,556** | **2,093** | **20,590** | **(44,685)** | **25,738** |
| **Total liabilities and equity** | **$ 27,530** | **$ 12,986** | **$ 81,241** | **$ 17,551** | **$ 288,421** | **$ (56,714)** | **$ 371,015** |

| As at December 31, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Invested assets | $ 2 | $ 121 | $ 64,591 | $ 7,478 | $ 111,737 | $ (114) | $ 183,815 |
| Investments in unconsolidated subsidiaries | 30,050 | 12,896 | 3,744 | 163 | 2,090 | (48,943) | – |
| Other assets | 557 | 1,022 | 14,074 | 3,342 | 30,463 | (12,399) | 37,059 |
| Separate account assets | **–** | **–** | **13,018** | **9,235** | **140,283** | **–** | **162,536** |
| **Total assets** | **$ 30,609** | **$ 14,039** | **$ 95,427** | **$ 20,218** | **$ 284,573** | **$ (61,456)** | **$ 383,410** |
| **Liabilities and equity** | | | | | | | |
| Policy liabilities | $ – | $ – | $ 60,650 | $ 7,456 | $ 98,153 | $ (3,519) | $ 162,740 |
| Consumer notes | – | – | 2,860 | – | – | – | 2,860 |
| Other liabilities | 337 | 86 | 5,652 | 1,041 | 18,174 | (5,605) | 19,685 |
| Long-term debt | 350 | 1,360 | 551 | – | 1,967 | (2,298) | 1,930 |
| Liabilities for preferred shares and capital instruments | 344 | – | 560 | – | 2,777 | – | 3,681 |
| Non-controlling interest in subsidiaries | – | – | – | – | 420 | (20) | 400 |
| Separate account liabilities | – | – | 13,018 | 9,235 | 140,283 | – | 162,536 |
| Shareholders' equity | **29,578** | **12,593** | **12,136** | **2,486** | **22,799** | **(50,014)** | **29,578** |
| **Total liabilities and equity** | **$ 30,609** | **$ 14,039** | **$ 95,427** | **$ 20,218** | **$ 284,573** | **$ (61,456)** | **$ 383,410** |

## Condensed Consolidating Statements of Operations

| For the year ended December 31, 2007 | Manulife Financial Corporation (Guarantor) | John Hancock Financial Services, Inc. | John Hancock Life Insurance Company (Issuer) | John Hancock Variable Life Insurance Company (Issuer) | Other Subsidiaries | Consolidation Adjustments | Consolidated Manulife Financial Corporation |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Premium income | **$ –** | **$ –** | **$ 2,971** | **$ 39** | **$ 9,878** | **$ –** | **$ 12,888** |
| Net investment income | **23** | **59** | **3,442** | **328** | **6,476** | **(87)** | **10,241** |
| Fee income and other revenue | **85** | **–** | **414** | **408** | **6,455** | **(448)** | **6,914** |
| **Total revenue** | **$ 108** | **$ 59** | **$ 6,827** | **$ 775** | **$ 22,809** | **$ (535)** | **$ 30,043** |
| **Policy benefits and expenses** | | | | | | | |
| Policyholder benefits | **$ –** | **$ –** | **$ 4,891** | **$ 397** | **$ 13,635** | **$ (13)** | **$ 18,910** |
| Commissions, investment and general expenses | **40** | **59** | **594** | **33** | **4,155** | **(378)** | **4,503** |
| Amortization of deferred acquisition costs and value of business acquired | **–** | **–** | **148** | **42** | **1,011** | **–** | **1,201** |
| Other | **31** | **60** | **322** | **54** | **972** | **(144)** | **1,295** |
| **Total policy benefits and expenses** | **$ 71** | **$ 119** | **$ 5,955** | **$ 526** | **$ 19,773** | **$ (535)** | **$ 25,909** |
| Income (loss) before income taxes | **$ 37** | **$ (60)** | **$ 872** | **$ 249** | **$ 3,036** | **$ –** | **$ 4,134** |
| Income tax (expense) recovery | **(18)** | **30** | **(257)** | **(97)** | **(562)** | **–** | **(904)** |
| **Income (loss) after income taxes** | **$ 19** | **$ (30)** | **$ 615** | **$ 152** | **$ 2,474** | **$ –** | **$ 3,230** |
| Equity in net income of unconsolidated subsidiaries | **3,211** | **871** | **220** | **4** | **–** | **(4,306)** | **–** |
| **Net income** | **$ 3,230** | **$ 841** | **$ 835** | **$ 156** | **$ 2,474** | **$ (4,306)** | **$ 3,230** |

| For the year ended December 31, 2006 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Premium income | $ – | $ – | $ 2,948 | $ 94 | $ 9,453 | $ – | $ 12,495 |
| Net investment income | 5 | 30 | 3,556 | 367 | 6,239 | (75) | 10,122 |
| Fee income and other revenue | **74** | **3** | **323** | **292** | **5,754** | **(506)** | **5,940** |
| **Total revenue** | **$ 79** | **$ 33** | **$ 6,827** | **$ 753** | **$ 21,446** | **$ (581)** | **$ 28,557** |
| **Policy benefits and expenses** | | | | | | | |
| Policyholder benefits | $ – | $ – | $ 5,057 | $ 295 | $ 12,571 | $ (159) | $ 17,764 |
| Commissions, investment and general expenses | 49 | (1) | 585 | 95 | 3,896 | (317) | 4,307 |
| Amortization of deferred acquisition costs and value of business acquired | – | – | 234 | 103 | 831 | – | 1,168 |
| Other | **27** | **58** | **368** | **33** | **841** | **(105)** | **1,222** |
| **Total policy benefits and expenses** | **$ 76** | **$ 57** | **$ 6,244** | **$ 526** | **$ 18,139** | **$ (581)** | **$ 24,461** |
| Income (loss) before income taxes | $ 3 | $ (24) | $ 583 | $ 227 | $ 3,307 | $ – | $ 4,096 |
| Income tax (expense) recovery | **(7)** | **15** | **(181)** | **(75)** | **(678)** | **–** | **(926)** |
| **Income (loss) after income taxes** | $ (4) | $ (9) | $ 402 | $ 152 | $ 2,629 | $ – | $ 3,170 |
| Equity in net income of unconsolidated subsidiaries | **3,174** | **721** | **255** | **4** | **–** | **(4,154)** | **–** |
| **Net income** | **$ 3,170** | **$ 712** | **$ 657** | **$ 156** | **$ 2,629** | **$ (4,154)** | **$ 3,170** |

## Condensed Consolidating Statement of Cash Flows

| For the year ended December 31, 2007 | Manulife Financial Corporation (Guarantor) | John Hancock Financial Services, Inc. | John Hancock Life Insurance Company (Issuer) | John Hancock Variable Life Insurance Company (Issuer) | Other Subsidiaries | Consolidation Adjustments | Consolidated Manulife Financial Corporation |
|---|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | | |
| Net income | $ 3,230 | $ 841 | $ 835 | $ 156 | $ 2,474 | $ (4,306) | $ 3,230 |
| Adjustments for non-cash items in net income: | | | | | | | |
| Equity in net income of unconsolidated subsidiaries | (3,211) | (871) | (220) | (4) | – | 4,306 | – |
| Increase in policy-related liabilities | – | – | 2,394 | 131 | 7,488 | – | 10,013 |
| Net realized investment gains and other investment items | – | – | (125) | (9) | (1,358) | – | (1,492) |
| Amortization of deferred acquisition costs and value of business acquired, net of capitalized amounts | – | – | (56) | (50) | (2,265) | – | (2,371) |
| Amortization of premium/discount on invested assets | – | – | 280 | 26 | 9 | – | 315 |
| Other amortization | – | (9) | 61 | 9 | 286 | – | 347 |
| Future income tax expense (recovery) | 6 | (41) | 423 | 6 | 51 | – | 445 |
| Stock option expense | – | – | 1 | – | 19 | – | 20 |
| Non-controlling interest in subsidiaries | – | – | – | – | 38 | – | 38 |
| Net income (loss) adjusted for non-cash items | $ 25 | $ (80) | $ 3,593 | $ 265 | $ 6,742 | $ – | $ 10,545 |
| Change in other operating assets and liabilities | 109 | 88 | 796 | 66 | (31) | – | 1,028 |
| **Cash provided by operating activities** | $ 134 | $ 8 | $ 4,389 | $ 331 | $ 6,711 | $ – | $ 11,573 |
| **Investing activities** | | | | | | | |
| Purchase and mortgage advances | $ (35) | $ – | $ (9,084) | $ (1,270) | $ (42,920) | $ – | $ (53,309) |
| Disposals and repayments | – | – | 12,223 | 968 | 39,243 | – | 52,434 |
| Change in investment broker net receivables and payables | – | – | 57 | (6) | (116) | – | (65) |
| Net cash increase (decrease) from sales and acquisitions of subsidiaries | (3) | – | – | – | 128 | – | 125 |
| Capital contribution to unconsolidated subsidiaries | – | – | (17) | – | – | 17 | – |
| Return of capital from unconsolidated subsidiaries | – | – | 31 | – | – | (31) | – |
| Dividends from unconsolidated subsidiary | – | 453 | 200 | – | – | (653) | – |
| **Cash (used in) provided by investing activities** | $ (38) | $ 453 | $ 3,410 | $ (308) | $ (3,665) | $ (667) | $ (815) |
| **Financing activities** | | | | | | | |
| Decrease in securities sold but not yet purchased | $ – | $ – | $ – | $ – | $ (1) | $ – | $ (1) |
| Issue of long-term debt | – | (1) | (558) | – | 560 | – | 1 |
| Repayment of long-term debt | – | (26) | – | – | 37 | (15) | (4) |
| Dividends paid to parent | – | – | (453) | (148) | (51) | 652 | – |
| Return of capital to parent | – | – | – | – | (15) | 15 | – |
| Repayment of capital instruments | – | – | – | – | (570) | – | (570) |
| Net redemptions of structured products | – | – | (4,060) | 30 | (1,587) | – | (5,617) |
| Bank deposits, net | – | – | – | – | 2,164 | – | 2,164 |
| Consumer notes matured, net | – | – | (434) | – | – | – | (434) |
| Preferred share dividends | (30) | – | – | – | (5) | 5 | (30) |
| Common share dividends | 1,359 | – | – | – | (2,700) | – | (1,341) |
| Notes payable to subsidiary | 700 | – | – | – | – | (700) | – |
| Notes receivable from parent | – | – | – | – | (700) | 700 | – |
| (Decrease) increase in notes receivable from affiliates | – | (218) | (1) | – | 127 | 92 | – |
| Increase (decrease) in notes payable to affiliates | 14 | 271 | (24) | – | (169) | (92) | – |
| Funds repaid, net | – | – | – | – | (10) | – | (10) |
| Tax benefit of stock options exercised | – | – | 15 | – | 1 | – | 16 |
| Purchase and cancellation of common shares | (2,245) | – | – | – | – | – | (2,245) |
| Common shares issued on exercise of options | 114 | – | – | – | – | – | 114 |
| Preferred shares (redeemed) issued by a subsidiary | (10) | – | – | – | (89) | 10 | (89) |
| **Cash (used in) provided by financing activities** | $ (98) | $ 26 | $ (5,515) | $ (118) | $ (3,008) | $ 667 | $ (8,046) |

## Condensed Consolidating Statement of Cash Flows (continued)

| For the year ended December 31, 2007 | Manulife Financial Corporation (Guarantor) | John Hancock Financial Services, Inc. | John Hancock Life Insurance Company (Issuer) | John Hancock Variable Life Insurance Company (Issuer) | Other Subsidiaries | Consolidation Adjustments | Consolidated Manulife Financial Corporation |
|---|---|---|---|---|---|---|---|
| **Cash and short-term securities** | | | | | | | |
| Increase (decrease) during the year | **$ (2)** | **$ 487** | **$ 2,284** | **$ (95)** | **$ 38** | **$ –** | **$ 2,712** |
| Currency impact on cash and short-term securities | **–** | **(23)** | **(126)** | **(42)** | **(918)** | **–** | **(1,109)** |
| Balance, January 1 | **2** | **121** | **651** | **217** | **9,393** | **–** | **10,384** |
| **Balance, December 31, 2007** | **$ –** | **$ 585** | **$ 2,809** | **$ 80** | **$ 8,513** | **$ –** | **$ 11,987** |
| **Cash and short-term securities January 1** | | | | | | | |
| Gross cash and short-term securities | **$ 2** | **$ 121** | **$ 774** | **$ 250** | **$ 9,807** | **$ –** | **$ 10,954** |
| Net payments in transit, included in other liabilities | **–** | **–** | **(123)** | **(33)** | **(414)** | **–** | **(570)** |
| **Net cash and short-term securities, January 1** | **$ 2** | **$ 121** | **$ 651** | **$ 217** | **$ 9,393** | **$ –** | **$ 10,384** |
| **End of year** | | | | | | | |
| Gross cash and short-term securities | **$ –** | **$ 585** | **$ 2,950** | **$ 112** | **$ 8,828** | **$ –** | **$ 12,475** |
| Net payments in transit, included in other liabilities | **–** | **–** | **(141)** | **(32)** | **(315)** | **–** | **(488)** |
| **Net cash and short-term securities, December 31, 2007** | **$ –** | **$ 585** | **$ 2,809** | **$ 80** | **$ 8,513** | **$ –** | **$ 11,987** |

| For the year ended December 31, 2006 | Manulife Financial Corporation (Guarantor) | John Hancock Financial Services, Inc. | John Hancock Life Insurance Company (Issuer) | John Hancock Variable Life Insurance Company (Issuer) | Other Subsidiaries | Consolidation Adjustments | Consolidated Manulife Financial Corporation |
|---|---|---|---|---|---|---|---|
| **Operating activities** | | | | | | | |
| Net income | $ 3,170 | $ 712 | $ 657 | $ 156 | $ 2,629 | $ (4,154) | $ 3,170 |
| Adjustments for non-cash items in net income: | | | | | | | |
| Equity in net income of unconsolidated subsidiaries | (3,174) | (721) | (255) | (4) | – | 4,154 | – |
| Increase in policy-related liabilities | – | – | 1,097 | 132 | 5,962 | – | 7,191 |
| Net realized investment gains and other investment items | – | – | (12) | 7 | (1,525) | – | (1,530) |
| Amortization of deferred acquisition costs and value of business acquired, net of capitalized amounts | – | – | 10 | (122) | (1,871) | – | (1,983) |
| Amortization of premium/discount on invested assets | – | – | 461 | 39 | (231) | – | 269 |
| Other amortization | – | (9) | 45 | 6 | 274 | – | 316 |
| Future income tax expense | 1 | 57 | 123 | 52 | 324 | – | 557 |
| Stock option expense | – | – | 2 | – | 24 | – | 26 |
| Non-controlling interest in subsidiaries | – | – | – | – | 10 | 11 | 21 |
| Net income (loss) adjusted for non-cash items | $ (3) | $ 39 | $ 2,128 | $ 266 | $ 5,596 | $ 11 | $ 8,037 |
| Change in other operating assets and liabilities | (9) | (26) | 63 | 49 | (153) | (11) | (87) |
| **Cash provided by (used in) operating activities** | $ (12) | $ 13 | $ 2,191 | $ 315 | $ 5,443 | $ – | $ 7,950 |
| **Investing activities** | | | | | | | |
| Purchase and mortgage advances | $ – | $ – | $ (13,424) | $ (1,988) | $ (50,809) | $ 528 | $ (65,693) |
| Disposals and repayments | – | – | 15,215 | 1,463 | 47,607 | (528) | 63,757 |
| Changes in investment broker net receivables and payables | – | (13) | (176) | 4 | 550 | – | 365 |
| Subscription of preferred shares issued by a subsidiary | (28) | – | – | – | – | 28 | – |
| Net cash decrease from sales and acquisitions of subsidiaries | – | – | – | – | (59) | – | (59) |
| Cash paid for related party real estate | – | – | (175) | – | 175 | – | – |
| Capital contribution to unconsolidated subsidiaries | – | – | (80) | – | – | 80 | – |
| Dividends from unconsolidated subsidiary | 1,755 | 645 | 182 | – | – | (2,582) | – |
| Investment in common shares of related company | **–** | **–** | **–** | **–** | **(1,100)** | **1,100** | **–** |
| **Cash (used in) provided by investing activities** | $ 1,727 | $ 632 | $ 1,542 | $ (521) | $ (3,636) | $ (1,374) | $ (1,630) |

## Condensed Consolidating Statement of Cash Flows (continued)

| For the year ended December 31, 2006 | Manulife Financial Corporation (Guarantor) | John Hancock Financial Services, Inc. | John Hancock Life Insurance Company (Issuer) | John Hancock Variable Life Insurance Company (Issuer) | Other Subsidiaries | Consolidation Adjustments | Consolidated Manulife Financial Corporation |
|---|---|---|---|---|---|---|---|
| **Financing activities** | | | | | | | |
| Decrease in securities sold but not yet purchased | $ – | $ – | $ – | $ – | $ (384) | $ – | $ (384) |
| Issue of long-term debt | 350 | – | – | – | 551 | – | 901 |
| Capital contributions received from parent | – | – | – | – | 80 | (80) | – |
| Repayment of Interco long-term debt | – | 33 | 555 | – | (588) | – | – |
| Repayment of long-term debt | – | – | – | – | (272) | – | (272) |
| Issue of subordinated notes | – | – | – | – | 645 | – | 645 |
| Net redemptions of structured products | – | – | (4,493) | 308 | (778) | – | (4,963) |
| Bank deposits, net | – | – | – | – | 2,276 | 77 | 2,353 |
| Capital from joint venture partner | – | – | – | – | 7 | – | 7 |
| Consumer notes matured, net | – | – | (182) | – | – | – | (182) |
| Preferred share dividends | (30) | – | – | – | (5) | 5 | (30) |
| Common share dividends | (1,133) | – | (645) | (111) | (1,821) | 2,577 | (1,133) |
| Notes payable to subsidiary | 314 | – | – | – | 350 | (664) | – |
| Notes receivable from parent | – | – | – | – | (664) | 664 | – |
| (Decrease) increase in notes receivable from affiliates | (27) | (701) | (131) | – | (11) | 870 | – |
| Increase (decrease) in notes payable to affiliates | (1) | – | – | – | 871 | (870) | – |
| Funds repaid, net | – | – | – | – | (69) | – | (69) |
| Tax benefit of stock options exercised | – | – | 49 | – | 10 | – | 59 |
| Purchase and cancellation of common shares | (1,631) | – | – | – | – | – | (1,631) |
| Common shares issued on exercise of options | 139 | – | – | – | – | – | 139 |
| Preferred shares issued (redeemed) by a subsidiary | – | – | – | – | 28 | (28) | – |
| Preferred shares issued, net | 294 | – | – | – | – | – | 294 |
| Common shares issued | – | – | – | – | 1,100 | (1,100) | – |
| **Cash (used in) provided by financing activities** | $ (1,725) | $ (668) | $ (4,847) | $ 197 | $ 1,326 | $ 1,451 | $ (4,266) |
| **Cash and short-term securities** | | | | | | | |
| Increase (decrease) during the year | $ (10) | $ (23) | $ (1,114) | $ (9) | $ 3,133 | $ 77 | $ 2,054 |
| Currency impact on cash and short-term securities | – | 2 | 20 | – | 1 | – | 23 |
| Balance, January 1 | 12 | 142 | 1,745 | 226 | 6,259 | (77) | 8,307 |
| **Balance, December 31, 2006** | $ 2 | $ 121 | $ 651 | $ 217 | $ 9,393 | $ – | $ 10,384 |
| **Cash and short-term securities January 1** | | | | | | | |
| Gross cash and short-term securities | $ 12 | $ 142 | $ 1,853 | $ 251 | $ 6,721 | $ (77) | $ 8,902 |
| Net payments in transit, included in other liabilities | – | – | (108) | (25) | (462) | – | (595) |
| **Net cash and short-term securities, January 1** | $ 12 | $ 142 | $ 1,745 | $ 226 | $ 6,259 | $ (77) | $ 8,307 |
| **End of year** | | | | | | | |
| Gross cash and short-term securities | $ 2 | $ 121 | $ 774 | $ 250 | $ 9,807 | $ – | $ 10,954 |
| Net payments in transit, included in other liabilities | – | – | (123) | (33) | (414) | – | (570) |
| **Net cash and short-term securities, December 31, 2006** | $ 2 | $ 121 | $ 651 | $ 217 | $ 9,393 | $ – | $ 10,384 |

**f) Derivative instruments and hedging activities**

As discussed in Note 2, the Company adopted CICA Handbook Sections 3855 and 3865 for Canadian GAAP purposes on January 1, 2007. Although these new standards substantially harmonize the Canadian GAAP and U.S. GAAP accounting standards for investments and for derivatives and hedging activities, the Company has designated certain invested assets differently for Canadian GAAP than U.S. GAAP. Given that the determination of actuarial liabilities is dependent upon the carrying value of assets required to support liabilities under Canadian GAAP, in order to mitigate recognition inconsistency, assets supporting actuarial liabilities have been designated as held for "trading" using the fair value option available under Section 3855. Accordingly, the Company does not apply hedge accounting for assets supporting actuarial liabilities under Canadian GAAP. Interest rate and cross currency swaps are used in the portfolios supporting actuarial liabilities to manage duration and currency risks and have not been designated as hedging instruments under Canadian GAAP. Under U.S. GAAP, most assets supporting actuarial liabilities have been designated as AFS and in certain cases may have been designated as hedge items. These differences create reconciling items in 2007 between Canadian GAAP and U.S. GAAP.

Under U.S. GAAP the Company has entered into hedge accounting relationships which are accounted for as follows: 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. Any ineffective portion of the hedge relationship is 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 under a cash flow hedge 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 gains of $17, included in other comprehensive income as at December 31, 2007 (2006 net loss – $4), will be reclassified into earnings within the next 12 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 currency translation account.

**g) Narrative description of material measurement and income recognition differences between Canadian GAAP and U.S. GAAP**

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(i) Bonds and other fixed maturity investments** | Prior to the adoption of Section 3855 on January 1, 2007, bonds were carried at amortized cost, less an allowance for specific losses. Realized gains and losses on sale were deferred and amortized into income over the lesser of 20 years or the remaining term to maturity of the bonds sold.<br>Upon the adoption of Section 3855, Canadian GAAP is substantially harmonized with U.S. GAAP. Refer to Note 2.<br>As outlined in note (f) above, the Company has designated certain investments differently under U.S. GAAP as compared to Canadian GAAP. Under Canadian GAAP, bonds are classified as trading or AFS and are carried at fair values based on prices quoted in active markets. Bonds for which market quotes are not available are categorized as private placements and are carried at amortized cost.<br>Impairment charges are recorded on AFS bonds for other than temporary declines in fair value due to changes in issuer credit. | Bonds that are classified as trading or AFS are carried at fair value, using valuation methods including prices quoted in active markets, and in the absence of such market quotes, using valuation techniques based on analyzing both market observable and non-market observable data.<br>Impairment charges are recorded for AFS bonds for other than temporary declines in fair value due to changes in prevailing interest rates when the Company does not have the intent and ability to hold to recovery, or issuer credit, or both. |
| **(ii) Stocks** | Prior to the adoption of Section 3855 on January 1, 2007, stocks were carried at a moving average market basis whereby carrying values were adjusted towards market value at 5% per quarter. Specific stocks were written down to fair value if an impairment in the value of the entire stock portfolio was considered to be other than temporary. Realized gains and losses were deferred and brought into income at the rate of 5% of the unamortized deferred realized gains and losses each quarter.<br>Upon the adoption of Section 3855, Canadian GAAP is substantially harmonized with U.S. GAAP. Refer to Note 2.<br>Stocks are classified as AFS or trading, and are carried at fair value when based on prices quoted in active markets. When market quotes are not available, AFS stocks are carried at cost. | Stocks may be classified as AFS or trading securities only when prices quoted in active markets are available, otherwise they are categorized as other investments and carried at cost. |
| **(iii) Mortgages** | Prior to the adoption of Section 3855, mortgages were carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses were deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage sold.<br>Upon the adoption of Section 3855, Canadian GAAP is substantially harmonized with U.S. GAAP. Refer to Note 2. | Mortgages are carried at amortized cost less repayments and an allowance for losses. Realized gains and losses are recognized in income immediately. |
| **(iv) Private placements** | Prior to the adoption of Section 3855, private placements were included in bonds and other fixed maturity investments.<br>Private placement loans include fixed income securities for which prices quoted in active markets are not available. Private placement loans are carried at cost less allowance for impairments, if any. | The Company does not classify any of its investments as private placements under U.S. GAAP. |

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(v) 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 to fair value, if the carrying amount of the real estate is deemed not recoverable, taking into account undiscounted expected cash flows, and the impairment is deemed to be other than temporary. Realized gains and losses are recognized in income immediately. |
| **(vi) Other investments** | Other investments consist primarily of investments in Limited Partnerships (LPs) or Limited Liability Companies (LLCs) and are accounted for using the equity method of accounting when the Company has the ability to exercise significant influence (generally indicated by an ownership interest of 20% or more). The Company uses the cost method for its investments in LPs and LLCs when it does not exercise significant influence. | In accordance with EITF D-46, "Accounting for Limited Partnership Investments", the Company accounts for its investments in LPs and LLCs using the equity method of accounting where its ownership interests are more than insignificant. |
| **(vii) Policy liabilities** | Actuarial liabilities for all types of policies are calculated using the Canadian Asset Liability Method ("CALM") and represent the current amount of balance sheet assets 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 a provision 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 premium persistency, 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 a provision for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized at the time new policies are sold. Assumptions are updated regularly and the effects of any changes in assumptions, whether positive or negative, are recognized in income immediately. The margins for adverse deviations are recognized in income over the term of the liabilities as the risk of deviation from estimates declines.<br><br>The future net investment income assumed in the calculation of actuarial liabilities is based on the projection of cash flows on the actual balance sheet assets supporting those liabilities, combined with an assumed re-investment strategy. Actuarial liabilities include allowances for credit losses associated with the assets supporting liabilities, as well as allowances for interest rate mismatch, liquidity, and other investment-related risks. The allowances for investment risks, other than fixed income credit risk, are established through scenario testing.<br><br>The term of the liability used in the valuation may be shorter than the ultimate contractual maturity.<br><br>Actuarial liabilities for guaranteed minimum death, withdrawal, annuitization and maturity benefits under segregated fund contracts are calculated using stochastic modeling techniques, with assumptions regarding the distribution of future segregated fund returns derived primarily from historical data. | There are four main Financial Accounting Standards for valuing actuarial liabilities as follows:<br><br>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, 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 plus 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 (or acquisition in the case of a business combination). 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") or Value of Business Acquired ("VOBA") asset, in which case the DAC or VOBA asset is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial reserve basis may not subsequently be reduced even if the circumstances causing the strengthening are no longer applicable.<br><br>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 limited-payment contracts (including payout annuities), universal life-type contracts and investment contracts. The actuarial liability for limited-payment contracts is determined using an approach similar to that applied under SFAS 60, except that the excess of gross premiums less net premiums is deferred and recognized over the lifetime of the policies. The actuarial liability for universal life-type contracts and investment contracts is equal to the policyholder account value or a similar amount. There is no provision for adverse deviation. If it is determined that expected future income for universal life-type contracts is no longer adequate to recover the existing DAC or VOBA, the DAC or VOBA asset is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial reserve basis may not subsequently be reduced even if the circumstances causing the strengthening are no longer applicable. For contracts subject to SFAS 97 that are acquired in a business combination, the actuarial liabilities may include an adjustment based on the fair value of the liabilities at the date of acquisition. |

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(vii) Policy liabilities (continued)** | | In addition, Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long-Duration Contracts and for Separate Accounts" ("SOP 03-1"), requires the recognition of additional actuarial liabilities for insurance benefit features under universal life-type contracts and for annuitization benefits. The additional actuarial liability is based on the estimated proportion of contract assessments required to fund insurance benefits and annuitization benefits in excess of the policyholder account value. The estimate of the required proportion must consider a range of possible future scenarios and is updated regularly as experience emerges and to reflect changes in assumptions regarding future experience.<br><br>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 dividend fund or non-forfeiture assumptions. There is no provision for adverse deviation. The assumptions are not changed unless it is determined that expected future income is no longer adequate to recover the existing DAC or VOBA, in which case the DAC or VOBA asset is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial reserve basis may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable.<br><br>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 on "available-for-sale" bonds and stocks had been realized. This adjustment to actuarial liabilities directly impacts shareholder equity and is not reflected in net income, consistent with the treatment of the corresponding adjustments to the carrying value of the assets.<br><br>Actuarial liabilities for guaranteed minimum death and annuitization benefits under segregated fund contracts are valued under the rules of SOP 03-1, with fund return assumptions consistent with those used for Canadian GAAP.<br><br>Guaranteed minimum withdrawal and maturity benefits under segregated fund contracts are considered to be embedded derivatives subject to the rules of SFAS 133. Liabilities for these guaranteed benefits are measured at fair value using stochastic techniques, with assumptions regarding the distribution of future segregated fund returns derived from option pricing parameters observed in the market. These liabilities are excluded from actuarial liabilities and included in other liabilities on the Consolidated Balance Sheets. |

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(viii) 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. | 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. DAC associated with SFAS 60 policies are amortized and charged to income in proportion to premium income recognized. For non-participating limited payment insurance policies, the DAC asset is amortized in proportion to the in-force face amount of the policies.<br><br>DAC associated with SFAS 97 and SFAS 120 policies (i.e., universal life-type contracts, investment contracts and participating insurance contracts) are amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contracts. The proportion of gross profits required to amortize the DAC is re-estimated periodically based on actual experience and updated assumptions regarding future experience, and total amortization to date is adjusted to reflect any change in this estimated proportion.<br><br>In addition, EITF D-41 requires that DAC related to SFAS 97 and SFAS 120 contracts should be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on "available-for-sale" bonds and stocks had actually been realized. These amounts are recorded in other comprehensive income. |
| **(ix) Value of business acquired** | The value of in-force policies acquired in a business combination is implicitly recognized as a reduction in actuarial liabilities. | VOBA is determined at the acquisition date and recorded as an asset. The initial determination is based on a projection of future profits, net of the cost of required capital, which are discounted at a risk-adjusted yield. The VOBA asset is allocated among the various product lines, and is amortized and charged to income using the same methodologies used for DAC amortization but reflecting premiums or profit margins after the date of acquisition only.<br><br>Changes to VOBA that would have been necessary had unrealized gains and losses on "available-for-sale" bonds and stocks had actually been realized are recorded in other comprehensive income. |
| **(x) 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 fee income in the same pattern as the amortization of the DAC asset.<br><br>Changes to deferred revenue that would have been necessary had unrealized gains and losses on "available-for-sale" bonds and stocks actually been realized are recorded in other comprehensive income. |
| **(xi) Reinsurance ceded** | Under Canadian GAAP, actuarial liabilities are reported net of amounts expected to be recovered from reinsurers under reinsurance treaties. Cash flows expected to be paid to, and received from, reinsurers are included in the CALM valuation. | Statement of Financial Accounting Standards No. 113, "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts" ("SFAS 113") applies to reinsurance ceded. Under SFAS 113, actuarial liabilities are not reduced to reflect amounts ceded to reinsurers; rather, amounts recoverable from reinsurers are reported separately as an asset on the balance sheet. Amounts recoverable from reinsurers are estimated using methods and assumptions consistent with those used to estimate the actuarial liabilities for the reinsured policies.<br><br>SFAS 113 requires that the estimated net profit or loss from long-duration reinsurance treaties be recognized over the lifetime of the reinsured policies. This treatment may create volatility in net income due to the difference in timing between recognition of claims paid to policyholders and recognition of claims reimbursement received from reinsurers. |

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(xii) Derivatives** | Upon the adoption of Sections 3855 and Section 3865, Canadian GAAP accounting standards for derivatives and hedging activities are substantially harmonized with U.S. GAAP. However, U.S. GAAP reported earnings may continue to exhibit reconciliation differences in any given period relative to Canadian GAAP because the Company designates bonds and stocks backing actuarial liabilities differently under Canadian GAAP than U.S. GAAP, and therefore applies hedge accounting differently.<br><br>The Company elects not to designate bonds and stocks backing actuarial liabilities as hedged items for Canadian GAAP accounting purposes. These assets backing actuarial liabilities are designated as fair value.<br><br>Derivatives in portfolios backing actuarial liabilities are not designated as hedging items. Accordingly, the changes in fair value of such derivatives and assets are recognized in investment income as they occur. Refer to note (f) above. | The Company has elected to designate certain bond and stock assets backing actuarial liabilities categorized as "available-for-sale" as hedged items. Derivatives in portfolios backing actuarial liabilities are designated as hedging items. Accordingly, the changes in fair value of such derivatives and assets are recognized in OCI as they occur and subsequently recorded in investment income on sale or maturity of the bond and stock assets involved. Refer to note (f) above. |
| **(xiii) Consumer notes** | As a result of the adoption of Section 3855, the Company has elected to designate consumer notes as trading under the fair value option. As such, these notes are carried at fair value with subsequent changes in fair value recorded in earnings. Prior to the adoption of Section 3855, consumer notes were carried at amortized cost. | Consumer notes are carried at amortized cost. |
| **(xiv) Employers' accounting for defined benefit pension and other post-retirement plans** | The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services and estimates of expected return on plan assets, salary escalation and retirement ages of employees. Actuarial gains and losses that exceed 10% of the greater of the accrued benefit obligation or the market-related value of the plan assets are amortized to income on a straight-line basis over the estimated average remaining service lives of plan members. The expected return on plan assets is based on an estimate of the long-term expected rate of return on plan assets and a market-related value of plan assets. The market-related value of plan assets is determined using a methodology where the difference between the actual and expected market value of plan assets is recognized over five years. Prepaid benefit costs are included in other assets and accrued benefit liabilities are included in other liabilities. | SFAS 158 requires the funded status of a defined benefit pension or other post-retirement benefit plan to be recognized on the balance sheet as an asset or liability with an offset to other comprehensive income. The funded status is measured as the difference between plan assets at their fair value and the benefit obligation. |

### h) Narrative description of presentation differences between Canadian GAAP and U.S. GAAP

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(i) 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.<br><br>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. |
| **(ii) 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.<br><br>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. |

| | Canadian GAAP | U.S. GAAP |
|---|---|---|
| **(iii) 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 policyholder payments in the Consolidated Statements of Operations. |
| **(iv) Segregated funds 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. | U.S. GAAP equivalent is labeled "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.<br>SOP 03-1 requires General Account classification for Separate Account contracts for which all of the investment risk is not passed along to the Separate Accounts holder. This results in the reclassification of certain segregated funds under Canadian GAAP to the General Account for U.S. GAAP. |
| **(v) 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 Statement of Cash Flows. |
| **(vi) Reinsurance** | Where transfer of risk has occurred, 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 portion accounted for as deposits with reinsurers. |
| **(vii) Stocks** | Investments in stocks in which the market price is not available are classified as stocks and are carried at cost. | Investments in stocks in which the market price is not available are classified as other invested assets and are carried at cost. |
| **(viii) Private placements** | Private placements include fixed income investments and investments in leveraged leases. | Investments in private debt and leveraged leases are categorized as bonds and other fixed maturity investments for U.S. GAAP. |
| **(ix) Consolidation accounting – evaluation of general partners' control over their limited partnerships** | Control over a limited partnership by its general partner (or by corollary, control over a limited liability company by its managing member) is evaluated based on facts and circumstances. Factors which are considered include whether the general partner is subject to removal without cause by any proportion or number of unrelated limited partners, and whether unrelated limited partners acting in any proportion or number have veto rights over significant decisions that would be expected to be made in the ordinary course of the limited partnership's business. | EITF 04-5 presumes that the general partner of a partnership (or managing member of a limited liability company) controls the partnership and should consolidate it, unless limited partners have either substantive kickout rights (defined as the ability of a simple majority of those limited partners not related to the general partner to remove the general partner without cause) or have substantive participating rights (defined as the ability to be actively involved in managing the partnership) or the partnership is a VIE, in which case VIE consolidation accounting rules should be followed. |
| **(x) Investment income and expenses** | Investment income and related investment expenses are presented gross in the Consolidated Statements of Operations. | Investment income and related investment expenses are presented on a net basis in the Consolidated Statements of Operations. |

### i) Future U.S. GAAP Accounting and Reporting Changes

**Non-controlling interests in Consolidated Financial Statements**

In December, 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ("SFAS 160"). SFAS 160 establishes guidance for non-controlling interests in a subsidiary and for deconsolidation of a subsidiary. SFAS 160 will require that "minority interest" be included in shareholder equity and separately reported there, that a consolidated entity's net income include and present separately amounts attributable to both the controlling and non-controlling interests, that continuity of equity accounts for both controlling interests and non-controlling interests be presented on a company's statement of changes in equity, and that changes in a parent's ownership of a subsidiary which do not result in deconsolidation be accounted for as transactions in the Company's own stock. Deconsolidation will result in gain/loss recognition, with any retained non-controlling interest measured initially at fair value. SFAS 160 will be effective for the Company on January 1, 2009, and applied prospectively, except for the presentation and disclosure requirements which will be applied retrospectively. The Company is currently evaluating the impact SFAS 160 will have on its consolidated financial statements.

**Business Combinations**
In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations ("SFAS 141(R)") which replaces SFAS No.141, Business Combinations. SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Some of the more significant requirements under SFAS 141(R) include the following:

- the acquisition date is defined as the date that the acquirer achieves control over the acquiree,
- any consideration transferred will be measured at fair value as of acquisition date,
- identifiable assets acquired, and liabilities assumed and any non-controlling interest in the acquiree will be recorded at their acquisition date fair value, with certain exceptions.

SFAS 141(R) will be effective on a prospective basis for all business combinations for which the acquisition date is on or after January 1, 2009, except for accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would be subject to SFAS 141(R). Early adoption is not permitted.

**Fair value option for financial assets and liabilities**
In February 2007, the FASB issued Statement of Financial Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159's objective is to enable companies to mitigate that earnings volatility which is caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. SFAS 159 provides the option to use fair value accounting for most financial assets and financial liabilities, with changes in fair value reported in earnings. Selection of the fair value option is irrevocable, and can be applied on a partial basis, i.e. to some but not all similar financial assets or liabilities. SFAS 159 will be effective for the Company beginning January 1, 2008, on a prospective basis.

The Company has elected to apply the fair value option to certain available-for-sale bonds backing certain actuarial liabilities. The actuarial liabilities are marked to market through earnings based on fluctuations in the fair value of the underlying bonds. This fair value election will reduce income volatility. The adoption of SFAS 159 will result in an immaterial adjustment to retained earnings as at January 1, 2008 representing unrealized gains recorded in OCI on the bonds currently classified as available-for-sale.

**Fair value measurements**
In September 2006, the FASB issued Statement of Financial Standards No. 157, "Fair Value Measurements" ("SFAS 157"), which establishes a framework for measuring fair value in U.S. GAAP, and is applicable to other accounting pronouncements where fair value is considered to be the relevant measurement attribute. SFAS 157 also requires expanded disclosures about fair value measurements. SFAS 157 will be applicable for the Company's financial statements on January 1, 2008. The Company is currently evaluating the impact of adopting SFAS 157 on the consolidated financial statements.

**j) Recent U.S. GAAP Accounting and Reporting Changes**

**Offsetting of amounts related to certain derivative contracts**
In April 2007, the FASB issued FASB Staff Position FIN39-1, "Amendment of FASB Interpretation No. 39" to amend the reporting standards for offsetting amounts related to derivative instruments with the same counterparty. FSP FIN39-1 specifies that an entity that has in the past elected to offset fair value of derivative assets and liabilities may change its policy election. This guidance is effective for the Company's fiscal year beginning January 1, 2008, but the Company early adopted it in the fiscal quarter ended December 31, 2007. The Company changed its reporting policy from net to gross balance sheet presentation of offsetting derivative balances with the same counterparty, in order to conform its U.S. GAAP presentation to its Canadian GAAP presentation. This reporting policy change was applied retrospectively, resulting in increase of derivative assets equally offset by increase of derivative liabilities at December 31, 2007 and December 31, 2006 of $741 and $592, respectively. Derivative assets are located in other assets, and derivative liabilities are located in other liabilities, in the Condensed Consolidating Balance Sheets above.

**Accounting for defined benefit retirement plans' funded status**
In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 123R" ("SFAS 158"). SFAS 158 requires the Company to recognize in its Consolidated Balance Sheets either an asset for a defined benefit postretirement plan's overfunded status or a liability for its underfunded status. Changes in the funded status of a defined benefit postretirement plan are recognized in comprehensive income in the year the changes occur. The guidance was effective for the Company at December 31, 2006. As a result of the Company's adoption of SFAS 158 as at December 31, 2006, the Company recorded pre-tax other comprehensive income of $106 to recognize the additional funded status of its defined benefit pension and other post-retirement benefit plans not previously recognized.

**Accounting for leveraged leases**
In July 2006, the FASB issued FASB Staff Position No. 13-2, “Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction”. This guidance requires that changes in the projected timing of cash flows relating to income taxes generated by a leveraged lease be considered triggers requiring recalculation of the rate of return and allocation of lease income from the inception of the lease, with gain or loss recognition of any resulting change. Prior to this amendment, only changes to lease assumptions which affected the total amount of estimated net income were considered to be such triggers. The pronouncement was effective for the Company’s fiscal year beginning January 1, 2007 and transition to the new standard resulted in a charge to opening retained earnings at January 1, 2007 of $157, net of income taxes of $106.

**Accounting for uncertainty in income taxes**
In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). This guidance prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The standard was effective for the Company’s fiscal year beginning January 1, 2007 and the adoption did not have a material impact on the consolidated financial statements.

**Accounting for certain hybrid financial instruments**
In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, “Accounting for Certain Hybrid Financial Instruments” (“SFAS 155”). This guidance amends SFAS 133 on derivatives and hedging and SFAS 140 on transfers and servicing of financial assets and extinguishments of liabilities, and resolves issues on the application of SFAS 133 to beneficial interests in securitized financial assets. SFAS 155 removes the requirement to bifurcate certain financial instruments by providing a fair value measurement option for certain hybrid financial instruments containing embedded derivatives. Use of this fair value option requires changes in fair value of the financial instrument be recorded in income. SFAS 155 was effective for all instruments acquired, issued or subject to a re-measurement event occurring on or after January 1, 2007. The adoption of SFAS 155 did not have a material impact on the consolidated financial statements.

**Consolidation accounting for limited partnerships**
In July 2005, the Emerging Issues Task Force issued EITF No. 04-5 – “Investor’s Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights” (“EITF 04-5”). EITF 04-5 presumes that the general partner of a partnership (or managing member of a limited liability company) controls the partnership and should consolidate it, unless limited partners have either substantive kickout rights (defined as the ability of a simple majority of those limited partners not related to the general partner to remove the general partner without cause) or have substantive participating rights (defined as the ability to be actively involved in managing the partnership) or the partnership is a VIE, in which case VIE consolidation accounting rules should be followed. As a result of adopting EITF 04-5 on January 1, 2006, the Company consolidated three partnerships. Consolidation of two partnerships into the Company’s general fund as at December 31, 2006, resulted in increased invested assets of $149 and increased non-controlling interest in subsidiaries of $149. Consolidation of one partnership into the Company’s separate accounts as at December 31, 2006 resulted in increased separate account assets and liabilities of $67 and $67, respectively.

**Deferred acquisition costs**
In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 05-1, “Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts” (“SOP 05-1”). This guidance changes accounting for deferred acquisition costs of internal replacements of insurance and investment contracts. An internal replacement that is determined to result in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract. Unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets from extinguished contracts should no longer be deferred and charged off to expense. This guidance was effective for the Company’s fiscal year beginning January 1, 2007, on a prospective basis. Retrospective adoption was not permitted. Adoption of SOP 05-1 resulted in a reduction of previously deferred acquisition costs of $59, offset against retained earnings as at January 1, 2007.

## Note 24 ^ Comparatives

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

**Exhibit 99.4**

**CERTIFICATION**

I, Dominic D'Alessandro, Chief Executive Officer of Manulife Financial Corporation, certify that:

1. I have reviewed this annual report on Form 40-F of Manulife Financial Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 27, 2008

/s/ Dominic D'Alessandro
Dominic D'Alessandro
President and Chief Executive Officer

**Exhibit 99.5**

**CERTIFICATION**

I, Peter H. Rubenovitch, Chief Financial Officer of Manulife Financial Corporation, certify that:

1. I have reviewed this annual report on Form 40-F of Manulife Financial Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 27, 2008

/s/ Peter H. Rubenovitch
Peter H. Rubenovitch
Senior Executive Vice President and
Chief Financial Officer

**Exhibit 99.6**

**CERTIFICATION**
Pursuant to 18 United States Code s. 1350
As adopted pursuant to
Section 906 of the Sarbanes–Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Manulife Financial Corporation (the "Company") for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies, in all material respects, with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2008

/s/ Dominic D'Alessandro
Name: Dominic D'Alessandro
Title: President and Chief Executive Officer

**Exhibit 99.7**

**CERTIFICATION**
Pursuant to 18 United States Code s. 1350
As adopted pursuant to
Section 906 of the Sarbanes–Oxley Act of 2002

In connection with the Annual Report on Form 40-F of Manulife Financial Corporation (the "Company") for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. The Report fully complies, in all material respects, with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 27, 2008

/s/ Peter H. Rubenovitch

Name: Peter H. Rubenovitch
Title: Senior Executive Vice President and Chief Financial Officer

**Exhibit 99.8**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the use of our Independent Auditors' Report to the Shareholders and our Independent Auditors' Report on Internal Controls under Standards of the Public Company Accounting Oversight Board (United States) dated March 18, 2008, 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, 2007.

We consent to the incorporation by reference of our Independent Auditors' Report to the Shareholders referred to above in the following Registration Statements:

- Registration Statement (Form S-8 No. 333-12610) of Manulife Financial Corporation pertaining to the Manulife Financial Corporation Stock Plan for Non-Employee Directors and Executive Stock Option Plan;
- Registration Statement (Form S-8 No. 333-13072) of Manulife Financial Corporation pertaining to the Manulife Financial Corporation Global Share Ownership Plan;
- Registration Statement (Form S-8 No. 333-91102) of Manulife Financial Corporation pertaining to the Manulife Financial Corporation Director Equity Incentive Plan;
- Registration Statement (Form S-8 No. 333-114951) of Manulife Financial Corporation pertaining to the John Hancock Financial Services, Inc. 1999 Long-Term Stock Incentive Plan, as amended and the John Hancock Financial Services, Inc. Non-Employee Directors' Long-Term Stock Incentive Plan;
- Registration Statement (Form S-8 No. 333-129430) of Manulife Financial Corporation pertaining to the Deferred Compensation Plan for Certain Employees of John Hancock and the Deferred Compensation Plan of the John Hancock Financial Network;
- Registration Statement (Form F-3 Nos. 333-124224 and 333-124224-01) of Manulife Financial Corporation and John Hancock Variable Life Insurance Company pertaining to John Hancock Variable Life Insurance Company's market value adjustment interests under deferred annuity contracts and Manulife Financial Corporation's subordinated guarantee relating thereto; and
- Registration Statement (Form F-3 Nos. 333-124223 and 333-124223-01) of Manulife Financial Corporation and John Hancock Life Insurance Company pertaining to John Hancock Life Insurance Company's SignatureNotes and Manulife Financial Corporation's subordinated guarantee relating thereto.

Ernst & Young LLP

Toronto, Canada
March 18, 2008

Chartered Accountants
Licensed Public Accountants

**Exhibit 99.9**

**CONSENT OF APPOINTED ACTUARY**

I hereby consent to the use and incorporation by reference in this Annual Report on Form 40-F of Manulife Financial Corporation (the "Company") for the year ended December 31, 2007 of my Appointed Actuary's Report to the Shareholders and Directors dated March 18, 2008 (the "Report"), relating to the valuation of the policy liabilities of the Company for its Consolidated Balance Sheets as at December 31, 2007 and 2006 and their change in the Consolidated Statements of Operations for the years then ended.

/s/ Simon R. Curtis

Simon R. Curtis
Executive Vice President and Chief Actuary
Fellow, Canadian Institute of Actuaries
Toronto, Canada

Date: March 27, 2008

# Business of the Annual Meeting

**1. Receipt of the Consolidated Financial Statements**
To receive the consolidated financial statements of Manulife Financial Corporation (the "Company") for the year ended December 31, 2007, together with the reports of the auditor and the actuary on those statements.

**2. Election of the Board of Directors**
The 15 nominees for election to the Company's Board of Directors and their biographies are listed in the section "Nominees for the Board of Directors". All of the nominees are currently Directors of the Company.

Each successful nominee will be elected to the Board of Directors for a term of one year, which expires at the Company's Annual Meeting in 2009.

Directors' attendance at Board and committee meetings held in 2007 is shown in the chart for each Director nominee in the "Nominees for the Board of Directors" section.

**3. Appointment of Auditors**
The Board of Directors propose that the firm of Ernst & Young LLP be appointed as auditor for the 2008 fiscal year. Ernst & Young LLP has served as the Company's auditor for more than five years. For 2007, fees charged by Ernst & Young LLP to the Company and its subsidiaries were $20.8 million, compared with $28.7 million in 2006.

| | Year ended December 31, 2007 ($ in millions) | Year ended December 31, 2006 ($ in millions) |
|---|---|---|
| Audit fees[1] | $ 19.8 | $ 27.6 |
| Audit-related fees[2] | 0.5 | 0.8 |
| Tax fees[3] | 0.5 | 0.2 |
| All other fees[4] | — | 0.1 |
| **Total** | **$ 20.8** | **$ 28.7** |

1 Includes the annual audit, *Sarbanes-Oxley Act of 2002* ("SOX") attestation, reviews of quarterly reports, statutory audits and regulatory filings.
2 Includes consultations concerning financial accounting and reporting standards, due diligence in connection with mergers and acquisitions and audits in connection with proposed or consummated acquisitions.
3 Includes tax compliance, tax planning and tax advice services.
4 Includes work relating to accident and health claims.

The Company has complied with applicable rules regulating the provision of non-audit services to the Company by its external auditor. All audit and non-audit services provided to the Company by Ernst & Young LLP have been pre-approved by the Audit and Risk Management Committee (the "Audit Committee"). The Audit Committee has reviewed the magnitude and nature of these services to ensure that they are compatible with maintaining the independence of the external auditor.

**4. Shareholder Proposals**
The shareholder proposals submitted for consideration by the shareholders at the Annual Meeting are included in Schedule "C".

Note: All figures reported in this Proxy Circular are in Canadian currency, unless otherwise indicated.

# Nominees for the Board of Directors

The following individuals are the nominees for election to the Board. Important information regarding the nominees relating to committee memberships, meeting attendance, public board memberships and equity ownership is provided in the following charts. All successful nominees for the Board of Directors are elected for a term of one year, expiring at the next Annual Meeting.

**Director Nominee Information**



**Arthur R. Sawchuk**
Age: 72
Toronto, ON Canada
Director Since[1]: 1993
Independent[2]

Arthur Sawchuk is Chairman of the Board. Mr. Sawchuk retired from DuPont Canada Inc. as Executive Chairman after almost six years as Chairman, President and Chief Executive Officer and 40 years at DuPont Canada in various managerial positions. Mr. Sawchuk holds a B.Sc. in Mechanical Engineering from the University of Manitoba and is currently a member of the Association of Professional Engineers of Ontario. He also serves as a director of the Canadian Institute for Advanced Research and is a Fellow of the Institute of Corporate Directors.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | Bowater Inc. | 1998 – 2007 |
| Audit and Risk Management | 7 of 7[4] | 100% | Manitoba Telecom Services Inc. | 1997 – Present |
| Conduct Review and Ethics | 3 of 3 | 100% | | |
| Corporate Governance and Nominating (Chair) | 4 of 4 | 100% | | |
| Management Resources and Compensation (Vice Chair) | 7 of 7 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 43,250 | 42,610 | 85,860 | $3,067,778 | $300,000 |
| 2007 | 43,250 | 37,207 | 80,457 | $3,128,168 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 10,000 | $21.825 | 10,000 | $139,050 |



**Gail C.A. Cook-Bennett**
Age: 67
Toronto, ON Canada
Director Since[1]: 1978
Independent[2]

Gail Cook-Bennett is Vice Chair of the Board. Since 1998, Gail Cook-Bennett has served as Chair of the Canada Pension Plan Investment Board, an investment management organization that invests the $119 billion Canada Pension Plan fund to help pay the benefits of 17 million Canadians who participate in the Plan. Gail Cook-Bennett holds a BA (Honours) from Carleton University, and a PhD (Economics) from the University of Michigan. She holds a Doctor of Laws Degree (honoris causa) from Carleton University and is a Fellow of the Institute of Corporate Directors.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | Emera Inc. | 2004 – Present |
| Management Resources and Compensation | 6 of 7 | 85% | Petro-Canada[12] | 1991 – Present |
| Corporate Governance and Nominating[11] | | | Transcontinental Inc. | 1998 – 2004 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 15,000 | 8,546 | 23,546 | $841,299 | $300,000 |
| 2007 | 15,000 | 8,361 | 23,361 | $908,276 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Dominic D'Alessandro**
Age: 61
Toronto, ON Canada
Director Since[1]: 1994
Not Independent (Management)

Since Dominic D'Alessandro's appointment as President and Chief Executive Officer in 1994, the Company has undergone a dramatic expansion of its operations and has emerged as one of the world's leading life insurers. Mr. D'Alessandro holds a B.Sc. in Physics and Mathematics and he is a Chartered Accountant. Mr. D'Alessandro is also very active in community affairs. In recognition of his achievements, Mr. D'Alessandro was voted Canada's Most Respected CEO in 2004 by his peers and was named Canada's Outstanding CEO for 2002. He is an Officer of the Order of Canada. In 2006, Mr. D'Alessandro was named to the Advisory Committee on the Public Service of Canada and appointed to NAFTA's North American Competitiveness Council.

| Board/Committee Membership[13]: | Attendance[3,13]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 7 of 7 | 100% | Hudson's Bay Company | 1996 – 2003 |
| | | | Trans Canada Pipelines, Ltd. | 2000 – 2003 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 520,250 | 1,588,067 | 2,108,317 | $75,330,166 | $8,932,028 |
| 2007 | 562,500 | 1,266,134 | 1,828,634 | $71,097,290 | |

**Options Held: See "Statement of Executive Compensation" Section**



**John M. Cassaday**
Age: 54
Toronto, ON Canada
Director Since[1]: 1993
Independent[2]

John Cassaday is President and Chief Executive Officer of Corus Entertainment Inc., a position he has held since 1999. Corus is a Canadian leader in specialty television and radio and is a global leader in the production of children's animation. Mr. Cassaday has also been Executive Vice President of Shaw Communications, President and Chief Executive Officer of Shaw Media, Star Choice Communications and of CTV Television Network. Mr. Cassaday has an MBA (Dean's List) from The Rotman School of Management at the University of Toronto. Mr. Cassaday is also active in community affairs, principally with the United Way, The Rotman School of Management and St. Michael's Hospital.

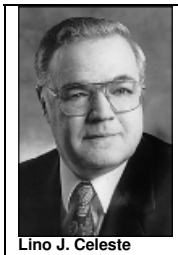
| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | Corus Entertainment Inc. | 1999 – Present |
| Corporate Governance and Nominating | 4 of 4 | 100% | Sysco Corporation | 2004 – Present |
| | | | Loblaw Companies Limited | 1997 – 2004 |
| | | | Masonite International Corporation | 1992 – 2005 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 40,000 | 28,368 | 68,368 | $2,442,789 | $300,000 |
| 2007 | 40,000 | 24,449 | 64,449 | $2,505,777 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Lino J. Celeste**
Age: 70
Saint John, NB Canada
Director Since[1]: 1994
Independent[2]

Lino Celeste is past Chairman of Aliant Inc., the merged Atlantic provinces telephone companies. Prior to assuming the Chairmanship, Mr. Celeste was President and Chief Executive Officer of New Brunswick Telephone Company Limited. Mr. Celeste holds a P.Eng. (Electrical Engineering) from the University of New Brunswick. He also served as a director of New Brunswick Electric Power Commission and as Chairman of the Greater Saint John Community Foundation, a charitable organization.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | None | |
| Audit and Risk Management | 6 of 7 | 85% | | |
| Conduct Review and Ethics | 3 of 3 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 12,600 | 15,655 | 28,255 | $1,009,551 | $300,000 |
| 2007 | 12,600 | 13,405 | 26,005 | $1,011,074 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Thomas P. d'Aquino**
Age: 67
Ottawa, ON Canada
Director Since: 2005
Independent[2]

Thomas d'Aquino is Chief Executive and President of the Canadian Council of Chief Executives ("CCCE"), a research and advocacy group composed of 150 chief executives of Canada's leading enterprises. Mr. d'Aquino holds a BA from the University of British Columbia, an LLB from Queen's University and the University of British Columbia, an LLM from the University of London and Honorary Degrees of Doctor of Laws from Queen's University and Wilfrid Laurier University. Mr. d'Aquino is active on numerous non-profit boards and advisory committees both nationally and internationally. He is Chair of the CCCE's North American Security and Prosperity Initiative. He is currently Chair of Lawrence National Centre for Policy and Management at the Richard Ivey School of Business and he also chairs The National Gallery of Canada Foundation.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | CGI Inc. | 2006 – Present |
| Audit and Risk Management | 4 of 4[14] | 100% | | |
| Conduct Review and Ethics | 1 of 1[14] | 100% | | |
| Management Resources and Compensation | 7 of 7 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 6,190 | 11,454 | 17,644 | $630,420 | $300,000 |
| 2007 | 6,190 | 7,403 | 13,593 | $528,496 | |

**Options Held (Director option grants discontinued in 2004): Nil**



**Richard B. DeWolfe**[15]
Age: 64
Westwood, MA U.S.A.
Director Since: 2004
Independent[2]

Richard DeWolfe is Managing Partner of DeWolfe & Company, LLC, a real estate management and investment consulting firm. Mr. DeWolfe holds a BAS, Marketing and Finance from Boston University. He is also a director of The Boston Foundation; Trustee of Boston University; Trustee of the 17136 Marine Biological Laboratory; and an honorary director of The Boston Center for Community and Justice. He was formerly Chairman and CEO of The DeWolfe Companies, Inc., the largest homeownership organization in New England, which was listed on the American Stock Exchange and acquired by Cendant Corporation in 2002. Mr. DeWolfe was formerly Chairman and Founder of Reliance Relocations Services, Inc. and was formerly Chairman of the Board of Trustees, Boston University.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | John Hancock Financial Services, Inc. | 2002 – 2004 |
| Audit and Risk Management (Chair) | 7 of 7 | 100% | | |
| Conduct Review and Ethics | 3 of 3 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 14,000 | 21,424 | 35,424 | $1,265,700 | $300,000 |
| 2007 | 14,000 | 15,957 | 29,957 | $1,164,728 | |

**Options Held (Director option grants discontinued in 2004): Nil**



**Robert E. Dineen, Jr.**
Age: 67
New York, NY U.S.A.
Director Since[1]: 1999
Independent[2]

Robert Dineen is Of Counsel to Shearman & Sterling LLP, a leading international law firm headquartered in New York where he was a partner from 1974 until his retirement in December 2005. Mr. Dineen holds a BA from Brown University and an LLB from Syracuse University. Mr. Dineen led several of the firm's corporate groups, including groups in Latin America and Asia and its project finance work worldwide. Mr. Dineen has extensive experience in public finance transactions in the oil and gas pipeline business, and as a specialist in U.S. and international private banking and financial transactions.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | Nova Chemicals Corporation | 1998 – Present |
| Audit and Risk Management | 7 of 7 | 100% | | |
| Conduct Review and Ethics | 3 of 3 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 29,000 | 32,429 | 61,429 | $2,194,858 | $300,000 |
| 2007 | 29,000 | 31,729 | 60,729 | $2,361,144 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Pierre Y. Ducros**
Age: 68
Montreal, QC Canada
Director Since[1]: 1999
Independent[2]

Pierre Ducros is President of P. Ducros & Associates Inc. in Montréal. Previously, he was Chairman, President and Chief Executive Officer of DMR Group Inc. which he co-founded in 1973, and Vice-Chairman of the Task Force on The Future of The Canadian Financial Services Sector (MacKay Task Force). Mr. Ducros holds a BA from the Université de Paris at Collège Stanislas in Montréal and a B.Eng. (Communications) from McGill University.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | Cognos Incorporated[16] | 1986 – January 2008 |
| Corporate Governance and Nominating | 4 of 4 | 100% | Emergis Inc. | 1998 – January 2008 |
| | | | Rona Inc. | 2005 – Present |
| | | | Telus | 2005 – Present |
| | | | eNGENUITY Technologies Inc. | 2002 – 2005 |
| | | | Nstein Technologies Inc. | 2002 – 2006 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 55,600 | 28,310 | 83,910 | $2,998,104 | $300,000 |
| 2007 | 55,600 | 26,009 | 81,609 | $3,172,958 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Scott M. Hand**
Age: 65
Toronto, ON Canada
Director Since[1]: 2007
Independent[2]

Scott Hand was the Chairman and Chief Executive Officer of Inco Limited ("Inco") from April 2002 until he retired in January 2007. Prior to that, Mr. Hand was the President of Inco and held positions in Strategic Planning, Business Development and Law. Inco has been a major global Canadian-based resources enterprise and a leading producer and marketer of nickel and other metals. Mr. Hand serves on the boards of Juno Special Situations Corporation (mining resource investment) and Boyd Technologies LLC (paper non-woven materials). He also serves on the boards of the Ontario Heritage Trust and the World Wildlife Fund Canada. Mr. Hand received a JD from Cornell University and a BA from Hamilton College.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 4 of 4[17] | 100% | Fronteer Development Group Inc. | 2007 – Present |
| Audit and Risk Management | 3 of 3[17] | 100% | Inco Limited | 1991 – 2007 |
| Conduct Review and Ethics | 2 of 2[17] | 100% | Independence Community Bank Corp. | 1987 – 2006 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement by 2012[8] |
|---|---|---|---|---|---|
| 2008 | 20,000 | 1,242 | 21,242 | $758,977 | $300,000 |
| 2007 | 10,000 | 0 | 10,000 | $388,800 | |

**Options Held (Director option grants discontinued in 2004): Nil**



**Luther S. Helms**
Age: 64
Scottsdale, AZ U.S.A.
Director Since[1]: 2007
Independent[2]

Luther Helms has been the Managing Director of Sonata Capital Group ("Sonata") since 2000. Sonata is a privately-owned registered investment advisory firm. Mr. Helms has extensive banking and financial services experience, holding various positions at Bank of America Corporation, including Vice Chairman from 1993-1998 and was the Vice Chairman of KeyBank from 1998-2000. Mr. Helms is a director of Lifelock, an identity theft protection company. Mr. Helms has an MBA from the University of Santa Clara and a BA in History and Economics from the University of Arizona.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 4 of 4[17] | 100% | ABM Industries Incorporated | 1995 – Present |
| Audit and Risk Management | 3 of 3[17] | 100% | | |
| Conduct Review and Ethics | 2 of 2[17] | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement by 2012[8] |
|---|---|---|---|---|---|
| 2008 | 2,100 | 2,610 | 4,710 | $168,288 | $300,000 |
| 2007 | 2,100 | 0 | 2,100 | $81,648 | |

**Options Held (Director option grants discontinued in 2004): Nil**



**Thomas E. Kierans**[18]
Age: 67
Toronto, ON Canada
Director Since[1]: 1990
Independent[2]

Thomas Kierans is Chair of Council and Vice President of Social Sciences and Humanities Research Council. Mr. Kierans holds a BA (Honours) from McGill University and an MBA (Finance), Dean's Honours List, from the University of Chicago. Mr. Kierans has also been Chairman of The Canadian Journalism Foundation, Chairman of CSI-Global Education Inc., Chairman of the Canadian Institute for Advanced Research, Chairman of the Board of the Toronto International Leadership Centre for Financial Sector Supervisors, Chairman of Moore Corporation Limited, Chairman of Petro-Canada, President and Chief Executive Officer of the C.D. Howe Institute and President of McLeod Young Weir Limited (later ScotiaMcLeod Inc.).

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 4 of 8 | 50% | Petro-Canada[12] | 1991 – Present |
| Audit and Risk Management | 5 of 7 | 71% | BCE Inc. | 1999 – 2004 |
| Conduct Review and Ethics (Chair) | 1 of 3 | 33% | Inmet Mining Corporation | 1996 – 2004 |
| Corporate Governance and Nominating | 3 of 4 | 75% | IPSCO Inc. | 1993 – 2003 |
| | | | Telesat Canada | 1999 – 2004 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 61,376 | 0 | 61,376 | $2,192,964 | $300,000 |
| 2007 | 61,362 | 0 | 61,362 | $2,385,755 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Lorna R. Marsden**
Age: 66
Toronto, ON Canada
Director Since[1]: 1995
Independent[2]

Lorna Marsden is President Emerita and Professor of York University. Prior to her retirement in May 2007, she was President and Vice Chancellor and a member of the Board of Governors of York University. Dr. Marsden was President and Vice Chancellor of Wilfrid Laurier University and served as a member of the Senate of Canada. Dr. Marsden holds a BA from the University of Toronto and a PhD from Princeton University. She is a recipient of honorary Doctor of Laws degrees from the University of New Brunswick, the University of Winnipeg, Queen's University and the University of Toronto. Dr. Marsden serves as a director of several Canadian companies. Dr. Marsden is also active in non-profit organizations.

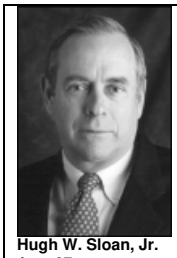
| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | SNC-Lavalin Group Inc. | 2006 – Present |
| Management Resources and Compensation | 7 of 7 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 38,664 | 14,455 | 53,119 | $1,897,942 | $300,000 |
| 2007 | 38,664 | 12,416 | 51,080 | $1,985,990[19] | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Hugh W. Sloan, Jr.**
Age: 67
Bloomfield Village, MI U.S.A.
Director Since[1]: 1985
Independent[2]

Hugh Sloan is Deputy Chairman of Woodbridge Foam Corporation, a manufacturer of automobile parts, where he held various management positions for more than 20 years. Mr. Sloan holds a BA (Honours) from Princeton University. Mr. Sloan serves as a director of a number of Canadian and American corporate, community and charitable organizations. He is a former Staff Assistant to President Richard Nixon and a former Trustee of Princeton University.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | Spartan Motors, Inc. | 2007 – Present |
| Corporate Governance and Nominating | 4 of 4 | 100% | Wescast Industries Inc. | 1998 – Present |
| Management Resources and Compensation (Chair) | 7 of 7 | 100% | Virtek Vision International, Inc. | 2000 – 2005 |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 14,420 | 22,010 | 36,430 | $1,301,644 | $300,000 |
| 2007 | 14,420 | 19,336 | 33,756 | $1,312,433 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |



**Gordon G. Thiessen**
Age: 69
Ottawa, ON Canada
Director Since[1]: 2002
Independent[2]

Gordon Thiessen joined the Board following a distinguished career with the Bank of Canada that began in 1963 and culminated in a seven-year term as the Bank's Governor. He is Chairman of the Canadian Public Accountability Board, the oversight body for the auditing profession in Canada. Mr. Thiessen holds a BA (Honours) and an MA from the University of Saskatchewan and a PhD from the London School of Economics. Mr. Thiessen also serves as a director of the Institute for Research on Public Policy.

| Board/Committee Membership: | Attendance[3]: | | Public Board Membership During Last Five Years: | |
|---|---|---|---|---|
| Board of Directors | 8 of 8 | 100% | IPSCO Inc. | 2001 – 2007 |
| Management Resources and Compensation | 7 of 7 | 100% | | |

**Securities Held:**

| Year | Common Shares[5] | DSUs[6] | Total Common Shares and DSUs | Total Market Value of Common Shares and DSUs[7] | Minimum Ownership Requirement[8] |
|---|---|---|---|---|---|
| 2008 | 1,000 | 23,131 | 24,131 | $862,201 | $300,000 |
| 2007 | 1,000 | 20,868 | 21,868 | $850,228 | |

**Options Held (Director option grants discontinued in 2004):**

| Date Granted | Expiry Date | Number Granted | Exercise Price[9] | Total Unexercised | Value of Options Unexercised[10] |
|---|---|---|---|---|---|
| July 2, 2002 | July 2, 2012 | 6,000 | $21.825 | 6,000 | $83,430 |

1 "Director Since" refers to the year the Director was first elected to either the Board of the Company or Manufacturers Life. When Manufacturers Life demutualized in 1999, it became a wholly-owned subsidiary of the Company.

2 "Independent" refers to the standards of independence established under Section 303A.02 of the New York Stock Exchange Listed Company Manual, Section 301 of SOX and Section 1.2 of Canadian Securities Administrators' National Instrument 58-101 – Disclosure of Corporate Governance Practices. The Board, in its annual review of Director independence, considers employment status of the Director (and his or her spouse and children, if applicable), other board memberships, Company shareholdings and business relationships, to determine whether there are any relationships which might interfere with a Director's ability to make an independent judgment.

3 It is the policy of the Company that Directors attend the Annual Meeting and all meetings of the Board and its committees on which they sit, unless circumstances make it impossible to do so.

4 Arthur R. Sawchuk resigned from the Audit and Risk Management Committee and the Conduct Review and Ethics Committee at the Board meeting on May 3, 2007 to allow the two new Directors elected in 2007 to be appointed pursuant to the Board policy that all new Directors will become members of the Audit Committee. At the invitation of the Chair of each such Committee he continued to attend the Committee meetings.

5 "Common Shares" refers to the number of Common Shares beneficially owned, or over which control or direction is exercised by the Director, as of March 18, 2008 and March 14, 2007, respectively.

6 "DSUs" refers to the number of deferred share units held by the Director as of March 18, 2008 and March 14, 2007, respectively.

7 The "Total Market Value of Common Shares and DSUs" is determined by multiplying the closing price of the Common Shares on the Toronto Stock Exchange ("TSX") on each of March 18, 2008 ($35.73) and March 14, 2007 ($38.88), respectively, times the number of Common Shares and DSUs outstanding as of March 18, 2008 and March 14, 2007.

8 All Directors are required to hold an equity position in the Company having a minimum value of $300,000 within five years of joining the Board. Common and preferred shares and DSUs are considered equity for this purpose, but stock options are not. Directors must take 50% of the Board Retainer in DSUs until the minimum threshold is met (see Schedule "A" Statement of Corporate Governance Practices – Director Share Ownership). The minimum required for Dominic D'Alessandro, as President and CEO, is equal to seven times his base salary (see "Report on Executive Compensation – Executive Share Ownership Guidelines"). Mr. D'Alessandro meets this requirement.

9 The "Exercise Price" is the closing price of the Common Shares on the TSX on the last trading day prior to the grant date.

10 The "Value of Options Unexercised" is calculated on the basis of the difference between the closing price of the Common Shares on the TSX on March 18, 2008 and the Exercise Price of the options multiplied by the number of unexercised options on March 18, 2008.

11 Gail C.A. Cook-Bennett was appointed to the Governance Committee on December 7, 2007. There were no Governance Committee meetings in 2007 following her appointment.

12 Gail C.A. Cook-Bennett and Thomas E. Kierans also serve together on the board (but not on any of the same committees) of Petro-Canada. No other Directors serve on the same board of directors other than the Board of Directors of the Company.

13 Dominic D'Alessandro is not a member of any Board committee. He attends committee meetings at the invitation of the Chair. One Board meeting in 2007 was for independent Directors only.

14 Thomas P. d'Aquino resigned from the Audit and Risk Management Committee and the Conduct Review and Ethics Committee at the Board meeting on May 3, 2007 to allow the two new Directors elected in 2007 to be appointed to these Committees.

15 Richard B. DeWolfe was a director of Response U.S.A., Inc. ("Response") until October 2000. In May 2001, Response commenced proceedings under applicable bankruptcy statutes in the United States.

16 Pierre Y. Ducros was a director of Cognos Incorporated ("Cognos") during the period from November 2005 to July 2006, during which time the United States Securities and Exchange Commission ("SEC") conducted a review of the revenue recognition policy used by Cognos in its periodic reports. During the course of the SEC review, Cognos delayed filing its financial statements. As a result of this filing delay, the Ontario Securities Commission ("OSC") imposed a management and insider cease trade order against Cognos on June 14, 2006. The SEC review was concluded in July 2006 without objection to Cognos' revenue recognition policy. The management and cease trade order imposed by the OSC was lifted on August 4, 2006, two full business days after Cognos filed its delayed financial statements with the OSC.

17 Scott M. Hand and Luther S. Helms were elected to the Board and appointed to the Audit and Risk Management Committee and the Conduct Review and Ethics Committee on May 3, 2007.

18 Thomas E. Kierans was a director of Teleglobe Inc. ("Teleglobe") until April 23, 2002. On May 15, 2002, Teleglobe announced that it had obtained creditor protection under the *Companies Creditors Arrangement Act* (Canada) and that it had initiated ancillary filings in the United States and the United Kingdom.

19 Lorna R. Marsden also owns 20,000 Non-Cumulative Class A Shares, Series 1 of the Company.

# Schedule "A" – Statement of Corporate Governance Practices

**The corporate governance practices of Manulife Financial Corporation (the "Company") meet or exceed the standards set out in the *Insurance Companies Act* (Canada) ("Insurance Companies Act"), Canadian Securities Administrators' Multilateral Instrument 52-109 (the "Certification Instrument"), Canadian Securities Administrators' Multilateral Instrument 52-110 (the "Audit Committee Instrument") and the corporate governance standards and disclosure requirements in Canadian Securities Administrators' National Policy 58-201 and National Instrument 58-101 (the "Governance Instrument"). The Company's corporate governance practices also comply with applicable requirements of the *Sarbanes-Oxley Act of 2002* ("SOX"), including any U.S. Securities and Exchange Commission ("SEC") rules under SOX, as well as the domestic issuer standards of the New York Stock Exchange Corporate Governance Rules (the "NYSE Rules").**

**The following Statement of Corporate Governance Practices highlights various elements of the Company's corporate governance program.**

### Mandate of the Board of Directors

The Board of Directors of the Company is responsible for the stewardship of the Company and for the supervision of the management of the business and affairs of the Company. The Board's general responsibilities are set out in the Board Mandate and the Board Policies. The Mandate of the Board and the Board Policies are attached as Schedule "B". The Mandate of the Board and the Board Policies are on the Corporate Governance page of the Company's website and are available upon request from the Corporate Secretary.

### Independence of the Board

The Board has established the policy that at least a majority of Directors must satisfy the applicable independence requirements of the laws governing the Company, the applicable stock exchanges on which the Company's securities are listed and applicable securities regulatory authorities. The Board annually reviews and makes a determination as to the independence of each Director. The Board reviews the Directors' employment status (and the Director's spouse and children, as applicable), other board memberships, Company shareholdings and business relationships to determine whether there are any relationships which might interfere with a Director's ability to make an independent judgment.

The Board has determined that 14 of the 15 current members of the Board are independent under Section 303A.2 of the NYSE Rules, Section 301 of SOX and Section 1.2 of the Governance Instrument. Dominic D'Alessandro is not independent because he is the Company's President and CEO.

### Independence of the Chair of the Board

- The positions of the Chair and the CEO are separate.
- The Chair is an independent Director.
- The Chair's mandate provides that the Chair is accountable for ensuring that the Board carries out its responsibilities effectively and separately from management.
- The Chair's principal accountabilities include managing the affairs of the Board, developing the composition, structure and renewal of the Board, guiding the Board's deliberations on strategic and policy matters and ensuring proper oversight by the Board is exercised.

### Nomination of Directors

The Corporate Governance and Nominating Committee (the "Governance Committee") is responsible for identifying qualified candidates for nomination to the Board. The Governance Committee:

- Develops and recommends to the Board criteria for the selection of new Directors, periodically reviews the criteria adopted by the Board and recommends changes to such criteria, which includes professional experience and personal characteristics.
- Maintains a Directors' Matrix identifying the desired competencies, expertise, skills, background and personal qualities of the Directors and potential candidates.
- Annually reviews the skills, areas of expertise, backgrounds, independence and qualifications of the members of the Board.
- Identifies and recommends to the Board individuals qualified and suitable to become Board members, taking into consideration any gaps identified in the Directors' Matrix.
- Maintains an evergreen list of suitable candidates for the Board who the Governance Committee believes meet the identified criteria and whose skills and characteristics complement the existing mix. The Chair is responsible for approaching Board candidates. Candidates meet with the Chair and the CEO prior to nomination or appointment to review expected contributions and commitment requirements.
- Directors must retire at 72 and may not be nominated for re-election. The Board may waive this as circumstances may dictate.

The Board will consider a nomination of a candidate for the Company's Board of Directors from a shareholder that is submitted in accordance with the Insurance Companies Act. A proper nomination must be submitted by shareholder proposal, signed by one or more registered or beneficial holders of shares representing in aggregate not less than five percent of the shares of the Company entitled to vote at the meeting to which the proposal is being submitted.

### Majority Election of Directors Policy

The Governance Committee's Majority Election of Directors Policy, provides that Director nominees who do not receive a majority of votes in favour in an uncontested election will be required to immediately submit their resignation to the Governance Committee. The Board will, in the absence of extenuating circumstances, accept the resignation within 90 days of the Annual Meeting and issue a press release confirming the Director's resignation or the reason for not accepting it. In filling the

vacancy resulting from a Director resignation, the Directors may wait until the next Annual Meeting, appoint a new Director whom the Board considers will have the confidence of the shareholders or call a special meeting of shareholders to elect a Director.

**Position Descriptions for Chair, Committee Chairs, CEO and Individual Directors**

The Board has developed position descriptions outlining the accountabilities for the Chair, the Chairs of Board committees, the CEO and the individual Directors. The position descriptions can be found on the Corporate Governance page of the Company's website or can be obtained by contacting the Corporate Secretary.

**Director Education and Orientation**

The Company provides an education program for all Directors, including a detailed orientation program for new Directors, which incorporates the following:

- New Directors are provided with detailed information about the Company, including its business strategies, corporate information, structure and the roles and expectations of the Board and individual Directors.
- New Directors receive a manual which provides information about the Company, the Proxy Circular, Annual Report, Manufacturers Life's Report to Policyholders, organizational information about the Board and its meetings and the Directors' information requirements required pursuant to applicable insurance and securities regulations.
- New independent Directors are initially appointed to the Audit Committee as part of the Directors' orientation to the Company's business. As an Audit Committee member, the Director will be exposed to all aspects of the financial and risk management elements of the Company. This is intended to assist the new independent Directors in learning the business model more quickly. All Directors have a standing invitation to attend committee meetings and new Directors are encouraged to do so to assist in their orientation.
- New Directors meet with the Chair, the CEO and other members of management to discuss the Company's strategies, operations and functions.
- A Directors' Manual providing a comprehensive outline of the duties, responsibilities, structure and the committees of the Board. The Directors' Manual includes the Board Mandate, Board Policies, committee charters, the regulatory compliance program, the incorporating documents, by-laws, administrative resolutions, Directors' policies, Company policies, the Code of Business Conduct and Ethics and a Glossary of Terms.
- Directors' seminars and divisional presentations to the Board to provide in-depth reviews of key businesses and functions. In 2007, seminars included: Longevity; Third Party Asset Management; Manulife and the Canadian Affinity Market; and Shaping the Future for Growth.
- On-site visits to the Company's operations scheduled in conjunction with a Board meeting. On-site meetings incorporate senior management presentations on the business divisions' strategies and operations. In 2007 the Directors visited the Company's United States operations in Boston, Massachusetts and Canadian Operations in Waterloo, Ontario.
- In 2007, all Directors became members of the Institute of Corporate Directors, a recognized educational organization for directors to enhance their knowledge of directors' responsibilities and current governance trends.
- Directors may seek additional professional development education at the expense of the Company. In 2007, certain Directors continued to be members of organizations relating to human resources and women on boards and attended a conference for executives on the life insurance industry.

**Board Access to Management**

The Company provides both formal and informal means for the Board to interact with management. Directors have access to management to discuss matters that they may wish to pursue.

**Board Committee Membership Standards**

The Board relies on its committees to fulfill its mandate and meet its responsibilities. Committees of the Board allow Directors to share responsibility and devote the necessary resources to a particular area or issue. There are currently four standing committees of the Board: the Audit and Risk Management Committee ("Audit Committee"); the Conduct Review and Ethics Committee ("Ethics Committee"); the Governance Committee; and the Management Resources and Compensation Committee ("Compensation Committee"). All committees have the following common characteristics:

- Comprised solely of independent Directors.
- Have a written charter setting out its responsibilities. Each committee tracks its compliance with its charter at each meeting throughout the year. The charters and the scorecards are available on the Company's website or by writing to the Corporate Secretary.
- Report to and seek approvals as required from the Board after each of its meetings. Committees meet without any members of management present ("*in camera*") at each meeting.
- Reviews its performance and its charter annually.
- Has its membership reviewed by the Board and rotated as requirements of the committees and the Directors dictate.

**Audit and Risk Management Committee**

The Board has reviewed the membership of the Audit Committee and has determined that no member serves on more than two other audit committees of publicly traded companies and that no member's ability to serve the Audit Committee is impaired in any way.

Financial statements are presented for review by the Audit Committee at meetings scheduled prior to Board meetings. The Audit Committee provides a report and recommendation to the Board with respect to financial disclosure of the Company.

The Audit Committee has established the Protocol for Approval of Audit and Permitted Non-Audit Services. Under this Protocol, the Audit Committee annually reviews and pre-approves

recurring audit and non-audit services that are identifiable for the coming year. This Protocol also requires that any audit or non-audit services that are proposed during the year be approved by the Audit Committee or by a member appointed by the Audit Committee for this purpose.

The Board annually reviews the membership of the Audit Committee to confirm that all members are financially literate, as required by the Audit Committee Instrument and the NYSE Rules and that at least one member can be designated as a financial expert as required by SOX. The Board has determined that all members are financially literate and that all members possess the necessary qualifications to be designated as Audit Committee Financial Experts.

The Audit Committee has direct communication and *in camera* meetings with each of the internal auditor, the independent auditor, the Appointed Actuary, the General Counsel and the Company's principal regulator, the Office of the Superintendent of Financial Institutions (Canada). The Audit Committee also meets with management.

The Board considers all principal risks facing the Company, as well as the measures either proposed or already implemented to manage these risks. The Audit Committee ensures that comprehensive risk management policies and processes, internal controls and management information systems are in place and updated regularly to mitigate the Company's exposures.

**Conduct Review and Ethics Committee**
The Ethics Committee oversees the procedures relating to conflicts of interest, customer complaints, related party transactions and protection of confidential information.

The Ethics Committee annually reviews the Company's Code of Business Conduct and Ethics, the Related Party Procedures, the Conflict of Interest Procedures, the Confidential Information Procedures and Complaint Handling Practices.

**Management Resources and Compensation Committee**
The Compensation Committee oversees the Company's global human resources strategy and the effective utilization of human resources, focusing on management succession, development and compensation. The Compensation Committee is responsible for:

- Approving the appointment of and providing proper development, compensation and review of senior management.
- Reviewing and approving annually the appointment, succession, remuneration and performance of the senior executives, excluding the CEO. The annual performance assessment and compensation review of the CEO is performed by the Governance Committee.
- Reviewing annually the Company's compensation policies, including base pay, incentive, pension and benefit plans and making recommendations to the Board.

**Corporate Governance and Nominating Committee**
The Governance Committee is responsible for:

- Developing director selection criteria.
- Identifying and recommending to the Board qualified director nominees.
- Overseeing the Company's corporate governance program.
- Developing governance policies, practices and procedures.
- Reviewing the structure, mandate and composition of the Board and Board committees.
- Reviewing the objectives, performance and compensation of the President and CEO.
- Reviewing and evaluating the effectiveness of the Board, the committees, the Chair and the Directors.

**Independent Directors' Meetings**
Each meeting of the Board and of its committees is followed by an *in camera* meeting, at which the independent Chair of the Board or the independent Chair of one of the committees of the Board acts as Chair. Non-independent Directors and management do not attend.

The Board also holds meetings at which non-independent Directors and members of management are not in attendance. In 2007, one meeting of the independent Directors was held.

Shareholders wishing to contact independent Directors of the Company may write to the Chair of the Board, in care of the Corporate Secretary, at the head office of the Company.

**Retention of Outside Advisors by Directors**
The Board and its committees may retain outside advisors at the Company's expense, as they deem necessary.

The Governance, Compensation and Audit Committees retained outside advisors in 2007.

Individual Directors may also retain outside advisors, at the Company's expense, to provide advice on any matter before the Board or a Board committee with the approval of the Governance Committee.

**Director Compensation**
The Board, with the assistance of the Governance Committee and independent external advisors, undertakes a biennial review of Director compensation to ensure that it meets the objective of properly aligning the interests of Directors with the long-term interests of the Company. During 2007, the Board engaged Hugessen Consulting Inc. ("HCI"), a recognized, independent external consultant to provide advice and guidance on Director compensation. Director compensation was amended in 2007 (see Board of Directors' Compensation on page 13).

**Director Share Ownership**
To align Director's compensation with the long-term interests of the Company, Directors are required to hold an equity position in the Company having a minimum value of $300,000 within five years of joining the Board. Common Shares, preferred shares of the Company and DSUs are considered equity for this purpose, while stock options are not. Directors are required to take 50% of their Board Retainer in shares or DSUs until minimum holdings are met. All Directors who have been on the Board for five years have met the minimum equity ownership amount.

No stock options have been granted after 2002 to non-employee Directors and in 2004 the Board of Directors resolved to permanently discontinue stock option grants to non-employee Directors.

**Board Evaluation**
The Governance Committee conducts annual, formal evaluations of the Board, Board committees, the Chairman and the individual Director. The process includes:

- Annual evaluation meetings between the Chair and each Director to discuss Board performance, including a peer review.
- Each Director completes biennial written Board Effectiveness and Director Self-Assessment Surveys.
- The Board and Board committees are assessed against their mandates and charters.
- Contributions of individual Directors are assessed against the applicable position descriptions and the Directors' Matrix setting out the skills each individual Director is expected to bring to the Board.
- The assessments of the Board, the committees and the Directors, focus on identifying areas for improvement.
- The results of the assessments are presented to the Governance Committee and the Board. The Governance Committee identifies areas for improvement, develops action plans and monitors the progress of these plans.
- Annual *in camera* meeting of the independent Directors to review the results of the evaluations and to approve the Governance Committee's plan for improvement.
- Review of overall size and operation of the Board and its committees to ensure that they operate effectively.
- Annual determination of whether a Director's ability to serve the Company is impaired by external obligations or by changes in his or her principal occupation or country of residence.

**CEO Evaluation**
The Governance Committee and the CEO annually set financial and non-financial objectives for the CEO, which are approved by the Board. The CEO's performance is evaluated annually by the Governance Committee based on these objectives and on the Company's performance.

**Ethical Business Conduct**
The Company has adopted the Code of Business Conduct and Ethics ("Code"), which applies to Directors, officers, employees and those who perform services for or on behalf of the Company.

The Code complies with the requirements of the NYSE Rules, the SEC rules and the Governance Instrument.

The Code is available on the Company's website at.

The Board annually reviews the Code and the compliance with the Code with the assistance of the Ethics Committee.

All employees of the Company and the Directors annually review the Code, complete an on-line training course, certify compliance with the Code and disclose any conflicts of interest.

The Board, through the Governance and Compensation Committees, annually reviews the integrity of the CEO and the Executive Officers, and their promotion of a culture of integrity.

**CEO and CFO Certification of Financial Statements**
The CEO and Chief Financial Officer certify the annual financial statements and quarterly financial statements as required by SOX and the Certification Instrument.

The CEO provides an annual certification to the NYSE stating the CEO is not aware of any violations of the governance requirements in the NYSE Rules.

The Company submits Written Affirmations as required by the NYSE Rules.

**Communication Policies**
Policies have been established relating to the treatment and disclosure of information about the Company on a timely, accurate, understandable and broadly disseminated basis. Information relating to the Company is reviewed by the Legal, Investor Relations and Corporate Communications departments, senior management and others as required, for a determination of materiality and, if appropriate, public disclosure.

The Company has reviewed its disclosure policies and practices to ensure full, fair and timely disclosure of information.

The Company communicates with individual shareholders, institutional investors and financial analysts through its Investor Relations department and to the media and employees through its Corporate Communications department.

The Investor Relations department provides an information report at each Board meeting on share performance, issues raised by shareholders and analysts, the Company's institutional shareholder base and a summary of recent Investor Relations activities.

The Company's website,, features webcasts of the quarterly investor conference calls and presentations made by senior management to the investment community, as well as annual reports and other investor information.

Shareholders can access voting results of all shareholder votes at the Company's website or at.

# Risk Management

**Overview**

Manulife Financial's goal in managing risk is to strategically optimize risk taking and risk management to support long-term revenue and earnings growth, and shareholder value growth. We seek to achieve this by capitalizing on business opportunities that are aligned with the Company's risk taking philosophy, risk appetite and return expectations, by identifying, monitoring and measuring all key risks taken, and by proactively executing effective risk control and mitigation programs.

Risks will only be assumed that are prudent in relation to the Company's capital strength and earnings capacity, are aligned with our operational capabilities, meet our corporate ethical standards, allow us to remain diversified across risk categories, businesses and geographies, and for which we expect to be appropriately compensated. Risk must be managed effectively to safeguard our reputation and capital, and to meet the expectations of our shareholders, customers and regulators.

We employ an enterprise-wide approach to all risk taking and risk management activities globally. The enterprise risk management framework sets out policies and standards of practice related to risk governance, risk identification and monitoring, risk measurement, and risk control and mitigation. In order to ensure that we can effectively execute our risk management we continuously invest to attract and retain qualified risk professionals, and to build and maintain the necessary processes, tools and systems.

Individual risk management strategies are also in place for each specific key risk within our broad risk categories: strategic, credit, market and liquidity, insurance and operational. To ensure consistency, these strategies incorporate policies and standards of practice that are aligned with those within the enterprise risk management framework, covering:

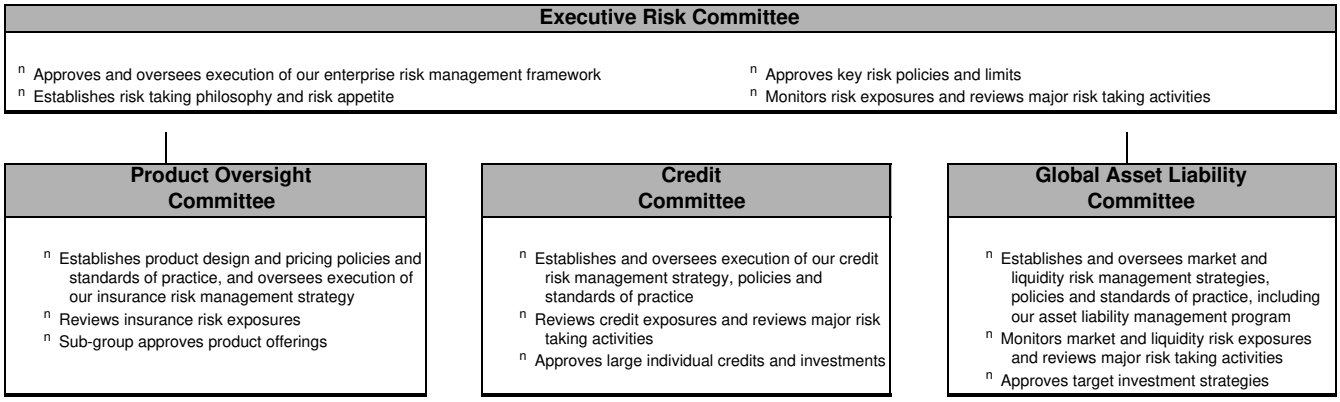
- Assignment of risk management accountabilities across the organization;
- Delegation of authorities related to risk taking activities;
- Philosophy related to assuming risks;
- Establishment of specific risk limits;
- Identification, measurement, monitoring, and reporting of risks; and
- Activities related to risk control and mitigation.

**Risk Governance**

Sound business decisions require a strong risk culture, and well-informed executive management and Board of Directors. The Audit and Risk Management Committee ("ARMC") of the Board of Directors oversees our global risk taking activities and risk management practices. The ARMC approves and periodically reviews our enterprise risk management policy, risk taking philosophy, overall risk appetite, and approves and monitors compliance with all key risk policies and limits. The ARMC regularly reviews with management trends in material risk exposures and major risk taking activities, and the ongoing effectiveness of our risk management practices. The Conduct Review and Ethics Committee of the Board oversees activities and risks specifically related to conflicts of interest, confidentiality of information, customer complaints and related third party transactions, and the Management Resources and Compensation Committee of the Board oversees global human resources strategy, policies, key programs, and all related risks.

The Chief Executive Officer ("CEO") is directly accountable to the Board of Directors for all risk taking activities and risk management practices, and is supported by the Chief Financial Officer ("CFO") and Chief Risk Officer ("CRO") as well as by the Executive Risk Committee ("ERC"). Together, they shape and continuously promote our risk culture throughout our global operations. The ERC, along with other executive-level risk oversight committees, establish risk policy, guide risk taking activity, monitor material risk exposures, and sponsor strategic risk management priorities throughout the organization.

The executive-level risk oversight committees and their mandates are presented below:



Business units across the organization own and take accountability for the risks they assume. Business unit general managers are responsible for ensuring their business strategies align with the Company's risk taking philosophy and culture, for thoroughly evaluating and managing all risk exposures consistent with our enterprise risk policies and standards of practice, and for delivering expected risk-adjusted returns.

Corporate Risk Management ("CRM"), under the direction of the CRO, establishes and maintains our enterprise risk management framework as well as individual risk management strategies for each broad risk category, and oversees the execution of these strategies across the enterprise. CRM proactively partners with business units to ensure a consistent enterprise-wide assessment of risk, risk-based capital, and risk-adjusted returns.

**Risk Identification and Monitoring**

Manulife Financial endeavours to evaluate all potential new business initiatives, acquisitions, product offerings, reinsurance arrangements, and investment and financing transactions on a directly comparable risk-adjusted basis and to identify, monitor, measure, and control the risks assumed using a common set of practices. Our business units identify and assess risks arising from their activities on an ongoing basis, as an integral component of their business management processes. CRM oversees a formal process for monitoring and reporting on enterprise-wide risk exposures relating to specific risk categories, discusses risk exposures with our various risk oversight committees, and submits requests for approval of any policy limit exceptions, as required.

The ERC and the ARMC each review a set of risk reports quarterly that present all key elements of our risk profile and exposures across all risk categories enterprise-wide, incorporating both quantitative risk measures and qualitative assessments. The reports also highlight key risk management activities and facilitate monitoring of compliance with all key risk policy limits. The reports present information gathered through a formal risk identification and assessment process involving business unit general managers and their executive teams, as well as corporate executives overseeing global risk management programs.

The Chief Actuary presents the results of the Dynamic Capital Adequacy Testing to the Board of Directors annually. Our Internal Auditor independently reports the results of internal audits of risk controls and risk management programs to the ARMC semi-annually. Management reviews the implementation of all global risk management programs, and their effectiveness, with the ARMC annually.

**Risk Measurement**

Risk exposures are evaluated using a variety of risk measures. Certain of these risk measures are used across a number of risk categories, while others apply only to a single risk type. Risk measures range from simple key risk indicators and scenario impact analyses, to deterministic stress testing of earnings and shareholders' economic value, as well as sophisticated stochastic scenario modeling of economic capital and earnings at risk. Economic capital and earnings at risk, in particular, provide measures of enterprise-wide risk that can be aggregated, and compared, across all business activities and risk types. Qualitative assessments are performed for those risk types that cannot be reliably quantified.

We measure consolidated internal risk-based capital using a combination of economic capital and Canadian-based Minimum Continuing Capital and Surplus Requirements ("MCCSR"). Economic capital measures the amount of capital needed to meet all obligations with a very high and pre-defined confidence level. We evaluate our consolidated earnings volatility using an earnings at risk metric, which measures the potential variance from expected earnings over a pre-defined period, with a pre-defined confidence level. Both economic capital and earnings at risk are measured enterprise-wide and can be allocated by risk, product line, asset category, and market. We continue to expand the application of economic capital, in the evaluation of risk-adjusted returns for product pricing and investment decision support, throughout our organization.

We stress test our regulatory capital adequacy over a five year projected timeframe, incorporating both existing and projected new business activities, under a number of significantly adverse but "plausible" scenarios through our Dynamic Capital Adequacy Test.

**Risk Control and Mitigation**

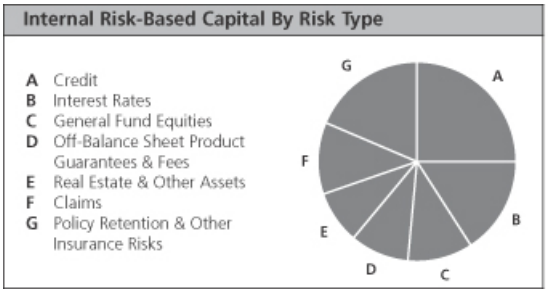
Risk control activities are in place throughout the Company to mitigate risks to within the approved risk limits for each specific risk. Controls, which include policies, procedures, systems and processes, are appropriate and commensurate with the key risks faced at all levels across the Company and are a normal part of day to day activity, business management and decision making.

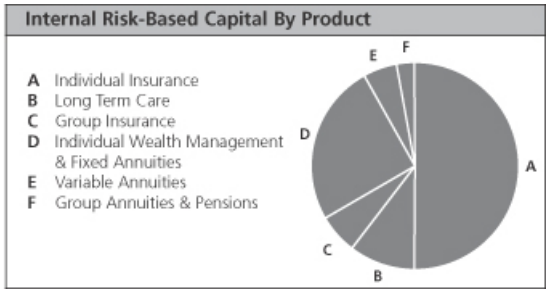
CRM establishes and oversees formal review and approval processes, involving independent individuals, groups or risk oversight committees, for product offerings, reinsurance, investment activities and other material business activities, based on the nature, size and complexity of the risk taking activity involved. Authorities for assuming risk at the transaction level are delegated based on the skill, knowledge and experience of the specific individuals.

Risk mitigation activities, such as product and investment portfolio management, hedging, reinsurance and insurance protection are used to ensure our aggregate risk remains within our risk appetite and limits. Internal controls within the business units and corporate functions are in place to limit our exposure to operational risks.

The Company manages risk taking activities against an overall group appetite for assuming risk that reflects the financial condition, and the business strategies and risk tolerances approved by the Board of Directors. The risk appetite is set in relation to a variety of risk measures including economic capital and earnings at risk, as well as regulatory capital requirements. To ensure exposures to particular risks are appropriate and that the Company remains well-diversified across risk categories, we manage specific risk exposures against enterprise-wide limits established for each of these specific risks. These limits are set in relation to risk measures ranging from economic capital and earnings at risk to risk measures applied only to the particular risk.

The following charts show the composition of the Company's internal risk-based capital by broad risk category and product line.




The following sections describe the key risks we face in each broad risk category and highlight the strategies in place to manage these risks.

**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.**

**Key Risk Factors** Manulife Financial operates in highly competitive markets and competes for customers with both insurance and non-insurance financial services companies. Customer loyalty and retention, and access to distributors, are important to the Company's success and are influenced by many factors, including our product features, service levels, prices relative to our competitors, and our financial strength ratings and our reputation. External business, political, tax, legal and regulatory environments can significantly impact the products and services we can offer, and their price and attractiveness.

**Risk Management Strategy** The CEO and Executive Committee establish and oversee execution of business strategies, and have accountability to identify and manage the risks embedded in these strategies. They are supported by a number of important processes:

- Strategic planning that is integrated with risk assessments and reviewed where appropriate with the Board of Directors;
- Detailed business planning executed by divisional management and reviewed by the CEO;
- Quarterly operational performance reviews of all businesses, along with business risks, with the CEO and annual reviews with the Board of Directors;
- Risk-based capital attribution and allocation that ensures a consistent decision making framework across the organization;
- Review and approval of acquisitions and divestitures by the CEO and where appropriate with the Board of Directors.

**Market and Liquidity Risk**

**Market risk is the risk of loss resulting from adverse investment returns caused by market price volatility, interest rate and credit spread changes, and from adverse foreign currency rate movements. Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands.**

**Risk Management Strategy Overview** Manulife Financial's Global Asset Liability Committee, with the support of a network of business unit asset liability committees, establishes and oversees the execution of the Company's market risk management strategy including our asset liability management program. The programs cover the management of a variety of risks that arise in generating investment returns to support product liabilities, as well as returns on assets in the shareholders' equity account. These risks include performance of non-fixed income investments, such as equities, commercial real estate, timberlands and oil and gas properties, interest rate changes, and foreign exchange rate changes, as well as liquidity risk. These programs are designed to keep potential losses from these risks within acceptable limits. Global investment policies establish enterprise-wide and portfolio level targets and limits, as well as delegated transaction approval authorities. The targets and limits are designed to ensure investment portfolios are widely diversified across asset classes and individual investment risks, and are suitable for the liabilities they support.

General account product liabilities are segmented into groups with similar characteristics that are each supported by a unique portfolio of investments. Investment policies and goals are established for each asset segment, setting out target investment strategies and portfolio management philosophies that best match the premium and benefit pattern, guarantees, policyholder options, and crediting rate strategies for the products they support. These encompass asset mix, quality rating, term profile, liquidity, currency and industry concentration targets, as well as portfolio management styles. Similarly, we establish a target investment strategy and portfolio management philosophy for our shareholders' equity account. Our target investment strategies are established using sophisticated portfolio analysis techniques to optimize returns, subject to considerations related to regulatory and economic capital requirements, and tolerances with respect to risk.

**Market Price and Interest Rate Risk**

**Key Risk Factors** Market price volatility and interest rate changes, including credit spreads, with our product guarantees and policyholder withdrawal options, may lead to asset returns insufficient to support product liabilities, and may impact the value of assets held in our shareholders' equity account. The level of our sales activity and asset retention may also be affected by the performance of markets, interest rates, inflation and general economic conditions as these will influence the performance of our general account investments, segregated funds and mutual funds.

Interest rate risk arises within our general fund primarily due to the uncertainty of future returns on investments made as recurring premiums are received, and to a lesser extent, due to tactical mismatch positions taken between the term profile of our assets and liabilities. Market price and interest rate risk also arises due to minimum rate guarantees and withdrawal options on products where investment returns are generally passed through to policyholders. If the term profile of our assets is shorter than our liabilities, interest rate declines may reduce the future return on invested assets supporting the liabilities. On the other hand, for products that pass through investment returns to policyholders, if rates increase significantly we may need to increase credited rates and reduce margins in order to remain competitive. Declines in market values of equity, commercial real estate, and timberlands will also impact the return on assets supporting liabilities and in our shareholders' equity account.

Market price and interest rate risk arising from our off-balance sheet products is due mainly to the uncertainty of future levels of asset-based fees, as well as death and living benefit guarantees provided on variable annuity and variable insurance products. Guarantees include death, maturity, income and withdrawal guarantees on variable products. A sustained decline in stock markets could reduce asset-based fee revenues and increase the cost of guarantees associated with our variable products.

**Risk Management Strategy** We manage assets supporting products that generally pass through investment returns to policyholders, to achieve a target return designed to maximize dividends or credited rates, subject to established risk tolerances. To support wealth management products with fixed credited rates, we invest in fixed income assets that have a term profile generally matching the term profile of the liabilities, to the extent assets are available in the market at those terms. Several insurance and wealth management products have guaranteed benefits extending well beyond the term for which fixed income assets are generally available in the market. We manage assets supporting these long-dated benefits to achieve a target return sufficient to support these obligations over their lifetime, subject to established risk tolerances by investing a portion in a diversified basket of non-fixed income assets, with the balance invested in fixed income portfolios.

We evaluate market price and interest rate risk exposures using a variety of techniques and measures that are primarily based on projecting asset and liability cash flows under a variety of future interest rate and market return scenarios. These measures include durations, key-rate durations, convexity, cash flow gaps, shareholders' economic value sensitivity to specific stress scenarios, earnings at risk and economic capital.

Interest rate and credit spread risk arising in our general account, is managed against enterprise-wide economic capital and earnings at risk based limits and economic value sensitivity limits for specific segments. We delegate trading authorities to individuals as well as accountabilities for managing and monitoring interest rate risk. Asset duration, key-rate duration and cash flow targets are reviewed, modified and communicated to portfolio managers with a frequency ranging from daily to annually, depending on the type of liabilities and the frequency and size of potential changes in the liability profiles. We monitor actual asset positions against targets and rebalance positions to within established interest rate risk exposure limits with a frequency ranging from daily to quarterly, depending on the potential exposure to changes in the profile of assets and liabilities.

We mitigate market price risk arising from our general account non-fixed income investments by investing in a diversified basket of assets consisting of public and private equities, commercial real estate, timberland, agricultural land and oil and gas properties. We manage total non-fixed income asset investments against an established aggregate limit and against aggregate limits for each asset category. To diversify risk, we manage our public and private equity investments against established targets and limits by industry type and corporate connection, commercial real estate investments to established limits by property type and geography, and timber and agricultural land investments to limits by geography and crop. We proactively manage allocations to non-fixed income assets, reflecting management's risk preferences.

We mitigate both market price and interest rate risk arising from off-balance sheet products through benefit guarantee design, limitations on fund offerings, use of reinsurance and capital markets hedging. We design new product benefit guarantees and fund offerings to meet established extreme event risk exposure limits, based on economic capital. We have reinsurance in place on existing business that transfers investment return related benefit guarantee risk, where appropriate. We also employ dynamic capital markets hedging for a portion of our business.

The Company's aggregate exposure to equities is managed against enterprise-wide economic capital and earnings at risk based limits. These limits cover the combined risk arising from off-balance sheet product death and living benefit guarantees, asset-based fees and general account investments.

**Exposures Arising from General Fund** The following table shows the potential impact on shareholders' economic value as a result of specific stress scenarios applied to our general fund, each one reflecting a shock from December 31st market levels, that reflects a confidence level of approximately 87 per cent over a one-year horizon, according to internal models. We calculate shareholders' economic value as the net present value of future cash flows related to current assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax. The stress scenarios are:

- an immediate and permanent parallel increase of one per cent in interest rates for all maturities across all markets;

- an immediate and permanent parallel decrease of one per cent in interest rates for all maturities across all markets, subject to a minimum interest rate of 0.25 per cent and
- an immediate ten per cent decline in the market value of non-fixed income assets.

Liabilities supported with matching mandates include guaranteed benefit and expense obligations falling within terms for which fixed income assets are generally available in the market. These liabilities represented approximately half of our product liabilities as at December 31, 2007. Our strategy is to support these liabilities with fixed income assets that have a generally matching term profile.

Liabilities supported with target return mandates include guaranteed benefit and expense obligations falling beyond the term for which fixed income assets are generally available in the market as well as liabilities for products where investment returns are generally passed through to policyholders. These liabilities represented approximately half of our product liabilities as at December 31, 2007. Target return mandate segments also include assets in our shareholders' equity account. The underlying economic risk exposure arising from our long-dated guaranteed liabilities is the potential failure to achieve the assumed returns over the entirety of their long investment horizon. For products where investment returns are generally passed through to policyholders, the economic risk arises primarily from embedded minimum guarantees and policyholder withdrawal options.

**Table 1 ^ Impact on Shareholders' Economic Value Arising From General Fund**

| | 1% change in interest rates | | 10% decline in market values** | | | |
|---|---|---|---|---|---|---|
| **As at December 31** (Canadian $ in millions) | Increase | Decrease | Equities | Real Estate | Timber | Other* |
| **2007** | | | | | | |
| **Matching Mandates** | | | | | | |
| Wealth management | **$ 6** | **$ (9)** | | | | |
| Insurance | **95** | **(159)** | | | | |
| **Total** | **$ 101** | **$ (168)** | | | | |
| **Target Return Mandates** | | | | | | |
| Wealth management | **$ (27)** | **$ 3** | **$ (56)** | **$ (39)** | **$ (3)** | **$ (4)** |
| Insurance | **778** | **(1,224)** | **(120)** | **(239)** | **(48)** | **(10)** |
| Shareholders' equity account | **(369)** | **467** | **(292)** | **(2)** | **(22)** | **(64)** |
| **Total** | **$ 382** | **$ (754)** | **$ (468)** | **$ (280)** | **$ (73)** | **$ (78)** |
| 2006 | | | | | | |
| **Matching Mandates** | | | | | | |
| Wealth management | $ 22 | $ (24) | | | | |
| Insurance | 247 | (325) | | | | |
| **Total** | $ 269 | $ (349) | | | | |
| **Target Return Mandates** | | | | | | |
| Wealth management | $ (70) | $ 13 | $ (59) | $ (27) | $ (4) | $ (3) |
| Insurance | 533 | (1,033) | (124) | (211) | (67) | (7) |
| Shareholders' equity account | (396) | 451 | (339) | (15) | (1) | (65) |
| **Total** | $ 67 | $ (569) | $ (522) | $ (253) | $ (72) | $ (75) |

* Other assets include agricultural lands and oil and gas holdings.

** A 10% increase in market values of equities, real estate, timber and other assets would have the exact opposite impact to that displayed above.

As at December 31, 2007, the largest portion of our exposure to interest rate changes arose in our target return segments supporting our guaranteed liabilities falling beyond the term for which fixed income assets are generally available in the market. These segments had exposure to a permanent decline in interest rates primarily due to fixed income asset portfolios with terms shorter than the long-dated liabilities they support. Interest rate exposure also arose as a result of minimum rate guarantees on products where we generally pass through investment returns. The exposures within our insurance liability segments were partially offset by the exposures within our shareholders' equity account. We remain positioned to benefit from interest rate increases.

**Exposures Arising from Variable Products and Other Managed Assets** The following table shows the potential impact on shareholders' economic value, arising from variable products and mutual funds, as well as institutional asset management operations, as a result of an immediate ten per cent decline and ten per cent increase in the market value of equity funds.

**Table 2 ^ Impact on Shareholders' Economic Value from Variable Products and Other Managed Assets**

| Change in Market Values as at December 31 (Canadian $ in millions) | 2007 10% Increase | 2007 10% Decrease | 2006 10% Increase | 2006 10% Decrease |
|---|---|---|---|---|
| Market-based fees | **$ 545** | **$ (540)** | $ 543 | $ (567) |
| Variable product guarantees | **$ 99** | **$ (209)** | $ 104 | $ (167) |

Additional information related to investment related guarantees on variable annuities and segregated funds is shown in the table below.

**Table 3 ^ Variable Annuity and Segregated Fund Benefit Guarantees**

| As at December 31 (Canadian $ in millions) | 2007 Fund value[2] | 2007 Amount at risk[2] | 2007 Expected guarantee cost[3] | 2006 Fund value[2] | 2006 Amount at risk[2] | 2006 Expected guarantee cost[3] |
|---|---|---|---|---|---|---|
| Maturity/income/withdrawal benefits | **$ 60,737** | **$ 863** | | $ 51,188 | $ 429 | |
| Death benefits[1] | **11,063** | **1,230** | | 12,926 | 1,133 | |
| **Total** | **$ 71,800** | **$ 2,093** | **$ (2,268)** | $ 64,114 | $ 1,562 | $ (1,623) |

1 Death benefits include stand-alone guarantees and guarantees in excess of maturity or income guarantees where both are provided on a policy.
2 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. This amount is not currently payable and represents a theoretical value only.
3 Expected guarantee cost is net of reinsurance and fee income allocated to support the guarantees.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. The expected guarantee cost represents the average, across all stochastically modeled investment return scenarios, of the present values of projected future guaranteed benefit payments, net of reinsurance and fee income allocated to support the guarantees, considering future mortality, policy termination and annuitization rates. Fee income supporting guarantees is expected to exceed benefit payments, resulting in a negative expected cost. The increase in the amount at risk and the improved expected cost of guarantees as compared to December 31, 2006 was driven by sales of products with higher guarantees that also have higher margins on an expected basis.

### Foreign Currency Risk

**Key Risk Factors** A substantial portion of the Company's global business is denominated in currencies other than Canadian dollars, mainly U.S. dollars, Hong Kong dollars and Japanese yen. We also invest a substantial portion of our shareholders' equity in non-Canadian denominated assets. If the Canadian dollar strengthened relative to non-Canadian currencies, the translated value of reported earnings from these non-Canadian denominated businesses would decrease and the translated value of our reported shareholders' equity would decline.

**Risk Management Strategy** Manulife Financial has a policy of matching the currency of our assets with the currency of the liabilities they support, to mitigate economic exposure to currency exchange rate changes. To limit the impact of changes in foreign exchange rates on regulatory capital ratios, we have a policy of generally matching the currency of the assets in our shareholders' equity account to the liabilities they support, up to target capital levels. This policy ensures that changes to our reported shareholders' equity are largely offset by changes in our reported capital requirements, stabilizing capital ratios from the impact of foreign exchange rates. However, the policy results in variability in reported shareholders' equity. Currency risk exposure is managed to an established value at risk limit measured relative to the policy position.

The following table shows the impact on shareholders' equity and net income of a 1% change in the Canadian dollar relative to our key operating currencies.

**Table 4 ^ Impact of Changes in Foreign Exchange Rates***

| As at December 31 (Canadian $ in millions) | Shareholders' Equity 2007 | Shareholders' Equity 2006 | Net Income 2007 | Net Income 2006 |
|---|---|---|---|---|
| 1% strengthening relative to U.S. Dollar | **$ (159)** | $ (165) | **$ (31)** | $ (28) |
| 1% strengthening relative to Japanese Yen | **$ (14)** | $ (15) | **$ (6)** | $ (6) |

* A weakening in rates would have the exact opposite impact to that displayed above.

### Liquidity Risk

**Key Risk Factors** Manulife Financial is exposed to liquidity risk in each operating company and in the holding company. In the operating companies, expected cash demands arise day-to-day to fund anticipated policyholder benefits, expenses and investment activities. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders

either terminating policies with material cash surrender values, or not renewing them when they mature, and from an increase in the level of borrowers renewing or extending their loans when they mature.

The ability of MFC, the holding company, to fund its cash requirements depends upon it receiving dividends, distributions and other payments from its operating subsidiaries. These subsidiaries are generally required to maintain solvency and capital standards imposed by their local regulators and, as a result, have restrictions on payments which they may make to MFC.

**Risk Management Strategy** Global liquidity management policies and procedures are designed to ensure we have adequate liquidity available to cover financial obligations as they come due, and to sustain and grow operations in both normal and stressed conditions. They take into account any legal, regulatory, tax, operational or economic impediments to inter-entity funding.

Liquidity risk is reduced by having policy liabilities that are well-diversified by product, market, geographical region and policyholder. We design insurance products to encourage policyholders to maintain their policies in-force, thereby generating a diversified and stable flow of recurring premium income. We design the policyholder termination features of our wealth management products and related investment strategies to mitigate the financial exposure and liquidity risk related to unexpected policyholder terminations. We establish and implement investment strategies that match the term profile of the assets to the liabilities they support, taking into account the potential for unexpected policyholder terminations and resulting liquidity needs. We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. We forecast and monitor actual daily operating liquidity and cash movements in local operations as well as centrally, to ensure liquidity is available and cash is employed optimally.

Global operating and strategic liquidity levels are managed against established minimums. We set minimum operating liquidity as the level of one month's operating cash outflows. Our operating liquidity remains well above minimum requirements. We measure strategic liquidity under both immediate (within one month) and ongoing (within one year) stress scenarios. Our policy is to maintain the ratio of adjusted liquid assets to adjusted policy liabilities at or above a pre-established target. Adjusted liquid assets include cash and short-term securities, and marketable bonds and stocks that are discounted to reflect convertibility to cash, net of maturing debt obligations. Policy liabilities are adjusted to reflect their potential for withdrawal. Our strategic liquidity remains above policy targets.

**Table 5 ^ Strategic Liquidity***

| As at December 31 (Canadian $ in millions) | 2007 Immediate scenario | 2007 Ongoing scenario | 2006 Immediate scenario | 2006 Ongoing scenario |
|---|---|---|---|---|
| Adjusted liquid assets | **$ 81,487** | **$81,571** | $ 89,966 | $ 89,140 |
| Adjusted policy liabilities | **$ 20,597** | **$26,750** | $ 22,507 | $ 28,973 |
| Liquidity ratio | **396%** | **305%** | 400% | 308% |

* During the year, the Strategic Liquidity Ratio was adjusted to more accurately reflect the liquidity assumptions associated with certain pledged assets. Prior year numbers have been revised to conform to the current basis of calculation.

**Credit Risk**

**Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligations.**

**Key Risk Factors** A pronounced and sustained economic downturn could result in borrower or counterparty defaults or downgrades, and could lead to increased provisions or impairments related to our general account invested assets and off-balance instruments, and an increase in provisions for future credit impairments to be included in our actuarial liabilities. Counterparty risk arises primarily from derivatives and reinsurance activities. Any of our reinsurance providers being unable or unwilling to fulfill their contractual obligations related to the liabilities we cede to them could lead to an increase in actuarial reserves.

**Risk Management Strategy** The Credit Committee establishes and oversees execution of our credit risk management strategy. The committee sets out objectives related to the overall quality and diversification of our general account investment portfolio and establishes criteria for the selection of counterparties, including reinsurers and insurance providers. Our policies establish exposure limits by borrower, corporate connection, quality rating, industry, and geographic region, and govern the usage of credit derivatives. Corporate connection limits vary according to risk rating. We invest our general account assets primarily in investment grade bonds and commercial mortgages. We do not actively participate in the credit derivative market, and currently have a minimal exposure to credit default swaps.

All of our credit-granting units follow a defined evaluation process that provides an objective assessment of credit proposals. We assign each investment a risk rating based on a detailed examination of the borrower that includes a review of: business strategy, market competitiveness, industry trends, financial strength, access to funds, and other risks facing the organization. We assess and update risk ratings regularly, based on a standardized 22-point scale consistent with those of external rating agencies. For additional input to the process, we also assess credit risks using a variety of industry standard, market based tools and metrics. We map our risk ratings to pre-established probabilities of default and loss given defaults, based on historical industry and company experience, and resulting default costs, which form key inputs to our product pricing, actuarial liabilities and economic capital.

We establish delegated credit approval authorities and make credit decisions on a case-by-case basis at a management level appropriate to the size and risk level of the transaction, based on the delegated authorities that vary according to risk rating. We refer all major credit decisions to the Credit Committee and the largest credit decisions to the CEO for approval and, in certain cases, to the Board of Directors.

We have in place distinct derivative counterparty exposure limits, based on a minimum acceptable counterparty credit rating of “A” from internationally recognized rating agencies. We measure derivative counterparty exposure as gross potential credit exposure, which takes into consideration mark-to-market value, net of any collateral held, and an allowance to reflect future potential exposure. We measure reinsurance counterparty exposure as both current exposure and potential future exposures reflecting the level of ceded actuarial liabilities. We require all reinsurance and insurance counterparties to meet minimum risk rating criteria.

Regular reviews of the credits within the various portfolios are undertaken to ensure that changes to credit quality are identified, and where appropriate, that corrective action is taken. Prompt identification of problem credits is a key objective. CRM provides independent credit risk oversight by reviewing assigned risk ratings, and monitoring problem and potential problem credits.

An allowance for losses on loans is established when a loan 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 the loan and related investment income. We reduce the carrying value of an impaired loan to its estimated net realizable value at the time of recognition of impairment. We establish an allowance for losses on reinsurance contracts when a reinsurance counterparty becomes unable or unwilling to fulfill their contractual obligations. We base the allowance for loss on current recoverables and ceded actuarial liabilities. There is no assurance that the allowance for losses will be adequate to cover future potential losses or that additional provisions or asset write-downs will not be required.

Actuarial liabilities also include general provisions for credit losses from future asset impairments. We set these taking into account normal historical levels and future expectations, with an allowance for adverse deviations. Fluctuations in credit default rates and deterioration in credit ratings of borrowers may result in losses if actual rates exceed expected rates. As at December 31, 2007 and December 31, 2006, credit loss rates over the next year which exceed the rates provided for in actuarial reserves by 25 per cent would reduce net income by $21 million and $30 million, respectively.

A variety of aggregate credit risk exposure measures are shown in the following table.

**Table 6 Credit Risk Measures**

| **As at December 31** (Canadian $ in millions unless otherwise stated) | **2007** | 2006 |
|---|---|---|
| Net impaired assets | **$ 240** | $ 341 |
| Net impaired assets as a per cent of total invested assets | **0.15%** | 0.20% |
| Allowance for loan losses | **$ 76** | $ 186 |
| Provision for future credit losses included in actuarial liabilities [1] | **$ 1,991** | $ 2,547 |

[1] Excludes allowances for pass-through credit risk pertaining to participating policies and certain other policies. The allowance for expected credit losses implicit in actuarial liabilities for these policies was estimated to be $1,066 million as at December 31, 2007 and $1,289 million as at December 31, 2006.

### Insurance Risk

**Insurance risk is the risk of loss due to actual experience emerging differently than assumed when a product was designed and priced with respect to mortality and morbidity claims, policyholder behaviour and expenses.**

**Key Risk Factors** A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when we design and price products, and when we establish actuarial liabilities. To develop assumptions for future claims, we use both Company and industry experience. To develop assumptions for future policyholder behavior, we use Company experience and predictive models. Predictions, therefore, rely on significant judgment. Actual experience may be materially different than the assumptions we make. Claims may be impacted by the unusual onset of disease or illness, natural disasters, large-scale manmade disasters and acts of terrorism. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced however, by many factors including market and general economic conditions, and the availability and price of other products in the marketplace.

**Risk Management Strategy** The Product Oversight Committee oversees insurance risk management, together with all other elements of our product design and pricing practices, to ensure our product offerings align with our risk taking philosophy and risk limits, while promoting business opportunities. Within the broad framework set out by our Product Design and Pricing Policy, this committee establishes global product design and pricing standards and guidelines.

These cover:

- product design features
- use of reinsurance
- pricing models and software
- internal risk-based capital allocations
- target profit objectives
- pricing methods and assumption setting
- stochastic and stress scenario testing
- required documentation
- review and approval processes
- experience monitoring programs

We designate individual pricing officers in each business unit who are accountable for all pricing activities. The general manager and chief financial officer of each business unit, and CRM, approve the design and pricing of each product, including key claims, policyholder behaviour, investment return and expense assumptions, as well as reinsurance treaties with third parties, ensuring corporate

standards are met. Corporate Actuarial approves all actuarial valuation methods and assumptions and approves reinsurance treaties related to business in-force, as well as all related party reinsurance treaties. We perform annual risk and compliance self-assessments of the product development and pricing activities of all businesses.

We utilize a global underwriting manual to ensure insurance underwriting practices for direct written life business are consistent across the organization while reflecting local conditions. Each business unit establishes underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures.

We apply retention limits per insured life to reduce our exposure to individual large claims which are monitored in each business unit. These retention limits vary by market and jurisdiction. We reinsure exposure in excess of these limits with other companies. Our current global retention limit is U.S. $20 million (U.S. $25 million for joint life policies) and is shared across business units. We apply lower limits in some markets and jurisdictions. We further reduce exposure to claims concentrations by applying geographical aggregate retention limits for certain covers.

As noted above, fluctuations in claims experience may result in losses. As at December 31, 2007 and December 31, 2006 actual mortality and morbidity rates over the next year exceeding the rates provided for in actuarial reserves by five per cent would reduce net income by $127 million and $123 million, respectively. Enterprise-wide, this claims exposure is lessened as a result of operating internationally and insuring a wide range of unrelated risk events, reducing the likelihood of high aggregate claims rates.

**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.**

**Key Risk Factors** Operational risk is naturally present in all of the Company's business activities and encompasses a broad range of risks, including reputation risk, regulatory compliance failures, legal disputes, technology failures, business interruption, information security and privacy, human resource management and employment practices, environmental concerns, processing errors, business integration, theft and fraud, and damage to physical assets. Exposures can take the form of financial losses, regulatory sanctions, loss of competitive positioning, or damage to reputation. Operational risk is also embedded in all the practices we use to manage other risks therefore, if not managed effectively, can impact our ability to manage other key risks such as credit risk, market and asset liability risk and insurance risk.

**Risk Management Strategy** Manulife Financial's corporate governance practices, corporate values, and integrated, enterprise-wide approach to managing risk set the foundation for mitigating operational risks. We strengthen this base by ensuring appropriate internal controls and systems, together with trained and competent people, are in place throughout the organization. We establish and execute enterprise-wide risk management strategies for specific operational risks that could materially impact our ability to do business or impact our reputation. Within established corporate standards, business unit general managers are accountable for the day-to-day management of the operational risks inherent in their operations. Business units and functional areas perform risk control self-assessments to identify, document and assess inherent operational risks and effectiveness of internal controls. They monitor key risk indicators that provide early warnings of emerging control issues and proactively modify procedures.

Through our corporate insurance program, the Company transfers a portion of our operational risk exposure by purchasing global and local insurance covers that provide protection against unexpected material losses resulting from events such as criminal activity, property loss or damage and liability exposures, or that satisfy legal requirements and contractual obligations. We determine the nature and amount of insurance coverage centrally, reflecting enterprise-wide exposures and risk tolerances.

The following is a further description of key operational risk factors with associated management strategies:

**Reputation Risk** Reputation risk is the risk that our corporate image may be eroded by adverse publicity, as a result of our business practices or those of our employees, representatives and business partners, potentially causing damage to our franchise value. Representatives include affiliated broker-dealers, agents, wholesalers and independent distributors, such as broker-dealers and banks, whose services and representations our customers rely on. Business partners, among others, include third parties to whom we have outsourced some of our administrative functions and that we rely on to fulfill various obligations. Manulife Financial's reputation is one of its most valuable assets and must be safeguarded. A loss of reputation is often a consequence of some other risk control failure whether associated with complex financial transactions or relatively routine operational activities. As such, reputation risk cannot be managed in isolation from other risks. Our enterprise-wide Reputation Risk Policy specifies the oversight responsibilities of the Board and the responsibilities of executive management, in managing reputation risk. We apply a set of guiding principles in conducting all our business activities, to protect and enhance our reputation, and place a priority on communication to and education of all employees and representatives. We require reputation risk assessments to be considered as part of business strategy development and execution. While the CEO and executive management are ultimately responsible for our reputation, every one of our employees and representatives has the responsibility to conduct their business activities in a manner that upholds our reputation. This responsibility is communicated to every director, officer and employee through our Code of Business Conduct and Ethics.

**Legal and Regulatory Risk** The Company is subject to extensive regulatory oversight by insurance and/or financial services regulators in the jurisdictions in which it conducts business. While many of these laws, regulations and regulatory policies are intended to protect policyholders, beneficiaries and depositors and investors in our products and services, others also set standards and requirements for the governance of our operations. Failure to comply with applicable statutes or regulations could result in financial penalties or sanctions, and damage to reputation. We are also regularly involved in litigation, both as plaintiff and defendant, which could result in an unfavourable resolution. Global Compliance oversees our regulatory compliance program, supported by designated chief

compliance officers in every division. The program is designed to promote compliance with regulatory obligations worldwide and to help ensure awareness of the laws and regulations that affect us, and the risks associated with failing to comply. Divisional compliance groups monitor emerging legal and regulatory issues as well as proposed regulatory changes and take an active role in attempting to influence these where appropriate. They also prepare us to address new requirements. Global Compliance also independently assesses and monitors the effectiveness of a broad range of regulatory compliance processes and business practices against potential legal, regulatory and reputation risks, and helps to ensure significant issues are escalated and proactively mitigated. Among these processes and practices are: product design, sales and marketing practices, sales compensation practices, asset management practices, fiduciary responsibilities, employment practices, underwriting and claims processing and regulatory filings.

**Technology, Information Security and Business Interruption Risks** Technology is used in virtually all aspects of our business and operations including the creation and support of new products and services. Operational integrity, data integrity and security of information and our systems infrastructure are all relied upon for normal business operations. Disruption to operations due to system failure or information security breaches can have negative consequences for our businesses. Technology related risks are managed through a rigorous systems development protocol and global information security programs. Global Information Systems oversees risks associated with information security, information systems privacy and compliance, business continuity and disaster recovery planning. We have in place a global business continuity policy along with standards of practice to ensure key business functions can continue and normal operations can resume effectively and efficiently, in the event of a major disruption. Each business unit maintains its own business continuity plans and processes and the global program incorporates periodic scenario analysis to validate the assessment of both critical and non-critical units, as well as the establishment and testing of appropriate business continuity plans for all critical units. We establish and regularly test crisis management and communications protocols. We have off-site backup facilities available to minimize recovery time. We subject our outsourcing arrangements, whereby a service provider performs a service activity on behalf of the Company, to review procedures, prior to their approval. We have comprehensive policies and procedures in place to monitor the ongoing results and contractual compliance of such arrangements.

**Human Resource Risks** Attracting and retaining qualified resources is critical to the execution of our business strategies. We face tremendous competition for qualified executives, employees and agents from companies both within the financial services industry and in other industries. We have established and implemented a number of human resource policies, practices and programs in order to manage these risks and Corporate Human Resources manages our global human resource programs. Our executive management is committed to employee training and development, and our compensation program is designed to attract, motivate and retain high-performing employees. We have in place a number of recruiting programs to attract the best and the brightest for every level of the organization.

**Environmental Risk** An environmental issue on a property owned by us or any property with which we are affiliated could result in financial or reputational loss. Manulife Financial's environmental policy reflects the Company's commitment to conducting all business activities in a manner that recognizes the need to preserve the quality of the environment, as well as the requirement to be compliant with all applicable environmental laws and regulations. In providing credit to borrowers, or making equity investments in private firms, we take reasonable steps to help ensure that counterparties are environmentally responsible. In natural resource management operations, we have specific policies and procedures in place to mitigate environmental risks and operate in an environmentally responsible manner. We also have programs in place across the real estate holdings to conserve energy and reduce waste.

**Derivatives Risk** Derivatives are used to manage market risks. We mitigate the unique operational risks associated with the use of derivatives by having in place specific risk management policies and processes including limits on the notional volume of derivative transactions, authorized types of derivatives and applications, delegated authorization and trading limits for specific personnel, as well as the pre-approval of all derivative application strategies and regular monitoring of the effectiveness of derivative strategies.

**Additional Risk Factors That May Affect Future Results**

The Accounting Standards Board of the CICA makes changes to the financial accounting and reporting standards that govern the preparation of our financial statements. These changes may be difficult to anticipate and may materially impact how we record and present our financial condition and results of operations. As discussed under "Critical Accounting and Actuarial Policies", the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the financial statements and accompanying notes. These estimates and assumptions may require revision and actual results may differ materially from these estimates. As well, as noted under "Caution Regarding Forward-Looking Statements", forward-looking statements involve risks and uncertainties and actual results may differ materially from those expressed or implied in such statements. Key risk factors and their management have been described above, summarized by major risk category.

Other factors that may affect future results include changes in government trade policy; monetary policy; fiscal policy; political conditions and developments in or affecting the countries in which we operate; technological changes; public infrastructure disruptions; unexpected changes in consumer spending and saving habits; the possible impact on local, national or global economies from public health emergencies, such as an influenza pandemic, and international conflicts and other developments including those relating to terrorist activities. Although we take steps to anticipate and minimize risks in general, unforeseen future events may have a negative impact on our business, financial condition and results of operations.

We caution that the preceding discussion of risks that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to our Company, investors and others should carefully consider the foregoing risks, as well as other uncertainties and potential events, and other external and Company specific risks that may adversely affect the future business, financial condition or results of operations of our Company.

# Critical Accounting and Actuarial Policies

**The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on historical experience, management's assessment of current events and conditions and activities that the Company may undertake in the future as well as possible future economic events. Actual results could differ from these estimates. The estimates and assumptions described in this section depend upon subjective or complex judgments about matters that may be uncertain and changes in these estimates and assumptions could materially impact the consolidated financial statements.**

**Our significant accounting policies are described in note 1 to the consolidated financial statements. The most significant estimation processes relate to the evaluation of invested asset impairment, determination of policy liabilities, assessment of variable interest entities, determination of pension and other post-employment benefit obligations and expenses, income taxes and impairment testing of goodwill and intangible assets as described below.**

**Evaluation of Invested Asset Impairment**
Available-for-sale fixed income securities which are considered other than temporarily impaired are written down to their estimated fair value with losses recorded in earnings.

Available-for-sale stocks which are considered other than temporarily impaired are also written down to their estimated fair value with losses recorded in earnings.

Provisions for impairments of mortgage loans and private placement loans are recorded with losses reported in earnings, when there is no longer reasonable assurance as to the timely collection of the full amount of the principal and interest.

In assessing whether an impairment is other than temporary and assessing fair values and recoverable values, judgment is exercised relating to matters including economic factors, developments affecting companies in particular industries and specific issues with respect to single issuers and borrowers, for which the ultimate outcome is unknown.

Changes in circumstances may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. Additional information on the process and methodology for determining the allowance for credit losses is included in the discussion of credit risk beginning on page 27.

**Policy Liabilities**
Policy liabilities for Canadian GAAP are valued under standards established by the Canadian Institute of Actuaries. These standards are designed to ensure we establish an appropriate liability on the balance sheet to cover future obligations to all our policyholders. Under Canadian GAAP, the assumptions underlying the valuation of policy liabilities are required to be reviewed and updated on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business. In conjunction with prudent business practices to manage both product and asset related risks, the selection and monitoring of appropriate valuation assumptions are designed to minimize our exposure to measurement uncertainty related to policy liabilities.

**Determination of Policy Liabilities**
Policy liabilities have two major components: a best estimate amount and a provision for adverse deviation. The best estimate amount represents the estimated value of future policyholder benefits and settlement obligations to be paid over the term remaining on in-force policies, including the costs of servicing the policies. The best estimate amount is reduced by the future expected policy revenues and future expected investment income on assets supporting the policies, adjusted for the impact of any reinsurance ceded associated with the policies. Reinsurance is used to transfer part or all of a policy liability to another insurance company at terms negotiated with that insurance company. To determine the best estimate amount, assumptions must be made for a number of key factors, including future mortality and morbidity rates, investment returns, rates of policy termination, operating expenses, certain taxes and foreign currency.

To recognize the uncertainty involved in determining the best estimate actuarial liability assumptions, a provision for adverse deviation ("PfAD") is established. The PfAD is determined by including a margin of conservatism for each assumption to allow for possible deterioration in experience and to provide greater comfort that the policy liabilities will be adequate to pay future benefits. The Canadian Institute of Actuaries establishes suggested ranges for the level of margins for adverse deviation based on the risk profile of the business. We use assumptions at the conservative end of the suggested ranges, taking into account the risk profile of our business. The effect of these margins is to increase policy liabilities over the best estimate assumptions. The margins for adverse deviation decrease the income that is recognized when a new policy is sold and increase the income recognized in later periods, with the margins releasing as the policy risks reduce.

**Best Estimate Assumptions**

We follow established processes to determine the assumptions used in the valuation of our policy liabilities. The nature of each risk factor and the process for setting the assumptions used in the valuation are discussed below.

**Mortality:** Mortality relates to the occurrence of death. Mortality assumptions are based on our internal as well as industry past and emerging experience and are differentiated by sex, underwriting class, policy type and geographic market. To offset some of this risk, we reinsure mortality risk on in-force policies to other insurers and the impact of the reinsurance is directly reflected in our policy valuation. Actual mortality experience is monitored against these assumptions separately for each business. Overall 2007 experience was favourable when compared with our assumptions.

**Morbidity:** Morbidity relates to the occurrence of accidents and sickness for the insured risks. Morbidity assumptions are based on our internal as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market. Actual morbidity experience is monitored against these assumptions separately for each business. Overall 2007 experience was unfavourable when compared with our assumptions.

**Policy Termination and Premium Persistency:** Policy termination includes lapses and surrenders, where lapses represent the termination of policies due to non-payment of premiums and surrenders represent the voluntary termination of policies by policyholders. Premium persistency represents the level of ongoing deposits on contracts where there is policyholder discretion as to the amount and timing of deposits. Policy termination and premium persistency assumptions are primarily based on our recent experience adjusted for expected future conditions. Assumptions reflect differences by type of contract within each geographic market and actual experience is monitored against these assumptions separately for each business. Overall 2007 experience was unfavourable when compared to our assumptions.

**Expenses and Taxes:** Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies, including associated overhead expenses. The expenses are derived from internal cost studies and are projected into the future with an allowance for inflation. For some developing businesses, there is an expectation that unit costs will decline as these businesses mature. Actual expenses are monitored against assumptions separately for each business. Overall maintenance expenses for 2007 were favourable when compared with our assumptions. Taxes reflect assumptions for future premium taxes and other non-income related taxes. For income taxes, policy liabilities are adjusted only for temporary tax timing and permanent tax rate differences on the cash flows available to satisfy policy obligations.

**Investment Returns:** We segment assets to support liabilities by business segment and geographic market and establish investment strategies appropriate to each liability segment. The projected cash flows from these assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return for all future years. The investment strategies for future asset purchases and sales are based on our target investment policies for each segment and the re-investment returns are derived from current and projected market rates for fixed interest investments and our projected outlook for non-fixed interest assets. Investment return assumptions include expected future credit losses on fixed income investments. Credit losses are projected based on our own and industry experience, as well as specific reviews of the current investment portfolio. In 2007, credit loss experience on both bonds and mortgages continued to be favourable when compared to our assumptions. Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from internal cost studies. Overall 2007 investment management expense experience was unfavourable when compared to our assumptions.

**Foreign Currency:** Foreign currency risk results from a mismatch of the currency of the policy liabilities and the currency of the assets designated to support these obligations. Because we have a policy of matching the currency of our assets with the currency of the liabilities they support, there is little exposure related to unfavourable movements in foreign exchange rates in the valuation. Where a currency mismatch exists, the assumed rate of return on the assets supporting the liabilities is reduced to reflect the potential for adverse movements in exchange rates.

**Experience Adjusted Products:** Where policies have features that allow the impact of changes in experience to be passed on to policyholders through policy dividends, experience rating refunds, credited rates or other adjustable features, the projected policyholder benefits are adjusted to reflect the projected experience. Minimum contractual guarantees and other market considerations are taken into account in determining the policy adjustments.

**Provision for Adverse Deviation**

The provision for adverse deviation is the sum of the total margins for adverse deviation for each risk factor. Margins for adverse deviation are established by product type and geographic market for each assumption or factor used in the determination of the best estimate actuarial liability. The margins are established based on the risk characteristics of the business being valued.

In addition to the explicit margin for adverse deviation, the valuation basis for segregated fund liabilities explicitly limits the future revenue recognition in the valuation basis to the amount necessary to offset acquisition expenses, after allowing for the cost of any guarantee features. This limitation is reported as an additional margin and is shown in segregated fund non-capitalized margins.

The provision for adverse deviation and the future revenue deferred in the valuation due to the limitations on recognition of future revenue in the valuation of segregated fund liabilities are shown in the table below.

| As at December 31<br>(Canadian $ in millions) | 2007 | 2006 |
|---|---|---|
| **Best estimate actuarial liability** | **$96,030** | $102,502 |
| **Provision for Adverse Deviation** | | |
| Insurance risks (mortality/morbidity) | **$ 6,167** | $ 5,659 |
| Policyholder behavior (lapse/surrender/premium persistency) | **2,544** | 2,667 |
| Expenses | **918** | 850 |
| Investment risks (non-credit) | **9,932** | 9,169 |
| Investment risks (credit) | **1,161** | 1,581 |
| Segregated fund guarantees | **457** | 435 |
| Other | **443** | 553 |
| **Total Provision for Adverse Deviation (PfAD)** | **$21,622** | $ 20,914 |
| **Segregated funds – additional margins** | **11,548** | 9,798 |
| **Total of PfAD and additional segregated fund margins** | **$33,170** | $ 30,712 |

Reported actuarial liabilities as at December 31, 2007 of $117,652 million (2006 – $123,416 million) are composed of $96,030 million (2006 – $102,502 million) of best estimate actuarial liability and $21,622 million (2006 – $20,914 million) of PfAD.

The increase in PfAD for insurance risks is due in part to a reallocation of future expected mortality improvements offset from expected assumptions to PfADs for North American Individual Insurance businesses, as well as an increase in the morbidity PfAD supporting Long Term Care business driven by business growth.

The increase in PfAD for investment risk (non-credit) reflects an increased margin in the valuation for interest spread risk.

PfADs for investment risk (credit) have decreased due to currency given the relative concentration of higher allowance assets in the U.S., as well as the removal of certain minimum margins on corporate bonds.

Segregated fund margins, namely those classified as non-capitalized margins, have increased from growth and market movement.

### Sensitivity of Policy Liabilities to Changes in Assumptions

When our assumptions are updated to reflect recent and emerging experience or change in outlook, the result is a change in the value of policy liabilities. The sensitivity of the value of policy liabilities to changes in assumptions is shown below, assuming that there is a simultaneous change in the assumption across all business units. In practice, experience for each assumption will frequently vary by geographic market and business and assumption updates are made on a business/geographic specific basis.

### Sensitivity of Policy Liabilities to Changes in Assumptions

| As at December 31,<br>(Canadian $ in millions) | Increase (Decrease) in Policy Liabilities | |
|---|---|---|
| | **2007** | 2006 |
| **Policy Related Assumptions** | | |
| 1% increase in future mortality rates | **$ 56** | $ 76 |
| 1% worsening in future morbidity rates | **211** | 134 |
| 10% adverse change in future termination rates | **841** | 913 |
| 10% increase in future expense levels | **689** | 775 |
| **Asset Related Assumptions** | | |
| 100 basis point decrease in market interest rates | **$ 641** | $ 615 |
| 100 basis point increase in market interest rates | **(528)** | (510) |
| 10% decrease in equity market values | **511** | 572 |
| 10% decrease in real estate and other non-fixed income asset market values | **348** | 269 |

- The sensitivities of policy liabilities to changes in assumptions shown in the table above are adjusted for the related impact on income taxes.
- An increase in mortality rates will generally increase policy liabilities for life insurance contracts and reduce policy liabilities for policies with longevity risk such as payout annuities. For policies where an increase in mortality will increase policy liabilities, the impact of a one per cent increase on life policies alone is $148 million.
- Changes in market interest rates reflect a change to the initial market interest rates, but assume that ultimate long-term fixed income re-investment rates ("URRs") for new investments are unchanged. If the long-term URRs were to be changed by a similar amount to the initial market interest rates, so that the valuation reflected a permanent shift in market interest rates available for all future re-investments, the policy liability increases by $3,743 million for a 100 basis point decrease in interest rates, and decreases by $2,507 million for a 100 basis point increase in interest rates.
- The sensitivities for level of future market interest rates are calculated based on adjusting the interest rates in the current valuation interest scenario used to determine policy liabilities, and do not reflect potential additional costs from full prescribed scenario testing.
- The sensitivities to real estate and other non-fixed income market values reflect the impact of an increase/decrease on all forms of real estate assets as well as any other non-fixed income instruments supporting policy liabilities excluding common and private equities.

### Review of Actuarial Methods and Assumptions

The 2007 review of the actuarial methods and assumptions underlying policy liabilities produced a net increase in the policy liabilities of $32 million. Net of the impacts on participating surplus and minority interests, this resulted in a decrease in 2007 shareholders' income of pre-tax $19 million.

**Impact of 2007 Review by Category of Change**
(Canadian $ in millions)

| | | |
|---|---|---|
| Interest rate risk booking scenario | $ (40) | Increase from reducing the assumed ultimate risk free re-investment rates applied in the scenario used to establish policy liabilities. Under this scenario, risk free interest rates and market spreads are assumed to grade from current market level rates to ultimate re-investment rates over five years. The reduction in the long bond risk free rates underlying the ultimate re-investment rates was to 3.55% in Canada and 3.65% in the U.S., a reduction of 25 bps. Offsetting this increase was a reduction from updating the current market spreads used in the re-investment grading to reflect Q3 2007 market spreads. Going forward this assumption will be updated each quarter, similar to the risk free rates. |
| Other investment return assumption and modeling changes | (228) | The reduction is driven by (i) elimination of a modeling uncertainty provision established in the 2006 basis changes related to new investment modeling processes implemented at that time, (ii) a reduction from removal of minimum asset default margins based on determination that these were not required given the robust way in which the long-term underlying default assumptions are developed, and (iii) updates to expected returns for real estate, equity, and infrastructure assets. |
| Regular review of non-economic assumptions | 659 | Comprises the following items: (i) a net increase from the impact of strengthening future morbidity assumptions, less offsetting expected policy adjustments, on U.S. Long Term Care; (ii) an increase from mortality strengthening in U.S. Annuities and Reinsurance partially offset by a decrease in Japan; (iii) an increase from strengthening related to policy persistency, primarily on U.S. Long Term Care, Canadian Individual Insurance and U.S. Variable Annuities; (iv) an increase from expense assumptions reflecting both higher projected future investment management expenses and increased administrative expense assumptions. |
| Model enhancements | (168) | Comprised of a number of enhancements, including (i) a reduction from refining the modeling of future tax timing benefits across several businesses; (ii) a decrease from product cash flow modeling refinements in Canadian Individual Insurance partially offset by an increase in U.S. Life; (iii) an increase from refining the segregated fund guarantee reserve methodology to replace the averaging methodology currently used with a method consistent with recent actuarial guidance. |
| Overhead expenses | (95) | Net reduction in the proportion of future overhead expenses that are assumed to relate to in-force business. |
| Par Closed Block PfAD levels | (96) | Reduction of margins for par closed block ceded actuarial liabilities. |
| **Total** | **$ 32** | |

Note: For all non-participating policies, excluding certain minor Asian lines of business, the policy liabilities are updated quarterly to reflect the impact of market interest rates and non-fixed income market values. The impact of the update is reflected directly in each reporting segment's earnings.

The change in policy liabilities in respect of the review of assumptions was $(62) million for Q4, and $94 million in Q1 to Q3 2007.

The 2006 review of the actuarial methods and assumptions underlying policy liabilities produced a net reduction in the policy liabilities of $67 million. Net of the impacts on participating surplus and minority interests, this resulted in an increase in 2006 shareholders' income of pre-tax $82 million.

**Impact of 2006 Review by Category of Change**
(Canadian $ in millions)

| | | |
|---|---|---|
| Asset risk | $(146) | Reduction in provisions related to the risk on disposition of assets in the John Hancock private debt portfolio supporting policy liabilities. |
| Interest rate risk booking scenario | 261 | Increase from adoption of a new scenario for determining the margin for adverse deviations required for re-investment risk related to future interest rates. The new scenario assumes faster convergence in North America from current market rates to the conservative assumed ultimate long-term interest rates. The new scenario maintains current levels of conservatism versus the most adverse of the professionally prescribed scenarios; these prescribed scenarios were also changed in 2006. |
| Other investment return assumption impacts | (404) | Decrease from updating the future investment return assumptions for 2006 investment market movements. The reduction is driven by strong non-fixed income returns (equities and real estate) in a number of businesses. |
| Regular review of non-economic assumptions | 506 | Comprises the following items: (i) increase from strengthening related to policy persistency, primarily on U.S. and Canadian Individual Insurance, U.S. Long Term Care, and Life Reinsurance; (ii) increase from expense assumptions primarily reflecting higher projected future investment management expenses; (iii) an increase from mortality assumptions driven by the adverse impact of improving mortality experience on Long Term Care offset by the beneficial impact from improving mortality in a number of insurance businesses; and (iv) a decrease from refinements to Long Term Care claims modeling assumptions. |
| Model enhancements | (284) | Comprises a number of enhancements, including (i) a reduction from refining the modeling of future tax timing benefits across several businesses; (ii) a net decrease from model refinements related to investment risks; and (iii) a net increase from refinements to future investment spread modeling. |
| **Total** | **$ (67)** | |

Note: For all segregated fund insurance and wealth management policies, as well as certain general account wealth management policies in North America, the policy liabilities are updated quarterly to reflect the impact of market interest rates and non-fixed income market values. The impact of the update is reflected directly in each reporting segment's earnings.

**Change in Policy Liabilities**

The change in policy liabilities can be attributed to several sources: new business; acquisitions; in-force movement; and currency impact. Changes in policy liabilities are substantially offset in the financial statements by premiums, investment income, policy benefits and other policy related cash flows. The changes in policy liabilities by business segment are shown below:

**2007 Policy Liability Movement Analysis**

| (Canadian $ in millions) | U.S. Insurance | U.S. Wealth Management | Canadian Division | Asia and Japan Division | Reinsurance Division | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2006 | $ 44,232 | $ 38,222 | $ 32,554 | $ 13,673 | $ 1,884 | $ 254 | $130,819 |
| Impact of adopting new accounting policies for financial instruments | 1,566 | 1,119 | 3,769 | 1,236 | 59 | – | 7,749 |
| Balance, January 1, 2007 | $ 45,798 | $ 39,341 | $ 36,323 | $ 14,909 | $ 1,943 | $ 254 | $138,568 |
| New business | 387 | 2,210 | 373 | (126) | 11 | – | 2,855 |
| In-force movement | 1,957 | (5,263) | (43) | 973 | (118) | 243 | (2,251) |
| Currency impact | (7,046) | (5,640) | (4) | (1,843) | (215) | (2) | (14,750) |
| Total net changes, excluding new accounting policies for financial instruments | $ (4,702) | $ (8,693) | $ 326 | $ (996) | $ (322) | $ 241 | $ (14,146) |
| Balance, December 31, 2007 | $ 41,096 | $ 30,648 | $ 36,649 | $ 13,913 | $ 1,621 | $ 495 | $124,422 |

For new business, the segments with large positive general account premium revenue at contract inception show increases in policy liabilities. For segments where new business deposits are primarily into segregated funds, the increase in policy liabilities related to new business is small since the increase measures only general account liabilities.

The increase in policy liabilities from adopting new accounting policies for financial instruments was offset by an increase in the statement value of the assets supporting policy liabilities.

The reduction in policy liabilities from currency reflects the appreciation of the Canadian dollar. As assets are currency matched to liabilities, the reduction in policy liabilities due to currency is offset by a corresponding reduction from currency in the value of assets supporting those liabilities.

The large reduction of $5,263 million for in-force movements on the U.S. Wealth Management block includes $2,235 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The increase in the Corporate and Other segment includes certain liabilities related to the business segments which will be moved into those segments early in 2008.

Included in the total in-force reduction of $2,251 million is an increase of $32 million from changes in methods and assumptions, as described earlier. This increase results in a decrease in pre-tax earnings.

Of the $604 million net increase in policy liabilities related to new business and in-force movement, $376 million is an increase in actuarial liabilities. The remaining $228 million is an increase in other policy liabilities.

**2006 Policy Liability Movement Analysis**

| (Canadian $ in millions) | U.S. Insurance | U.S. Wealth Management | Canadian Division | Asia and Japan Division | Reinsurance Division | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2006 | $ 41,959 | $ 43,258 | $ 31,291 | $ 13,166 | $ 2,231 | $ 144 | $132,049 |
| New business | 433 | 1,394 | 303 | (146) | 16 | – | 2,000 |
| Acquisitions | – | – | – | 8 | – | – | 8 |
| In-force movement | 1,799 | (6,276) | 960 | 462 | (366) | 111 | (3,310) |
| Currency impact | 41 | (154) | – | 183 | 3 | (1) | 72 |
| Total net changes | $ 2,273 | $ (5,036) | $ 1,263 | $ 507 | $ (347) | $ 110 | $ (1,230) |
| Balance, December 31, 2006 | $ 44,232 | $ 38,222 | $ 32,554 | $ 13,673 | $ 1,884 | $ 254 | $130,819 |

For new business, the segments with large positive general account premium revenue at contract inception show increases in policy liabilities. For segments where new business deposits are primarily into segregated funds, the increase in policy liabilities related to new business is small since the increase measures only general account liabilities.

The increase of $8 million in acquisition results from the acquisition of a block of business from Pramerica in the Philippines in the third quarter of 2006.

The large reduction of $6,276 million for in-force movements on the U.S. Wealth Management block includes $4,534 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The reduction of $366 million for

in-force movement in Reinsurance Division is largely due to provisions set up in 2005 related to Hurricane Katrina that were released to cover claims costs. The increase in the Corporate and Other segment includes a liability established in the 2006 valuation review of methods and assumptions related to implementation of quarterly CALM valuation for insurance business.

Included in the total in-force reduction of $3,310 million is a reduction of $67 million from changes in methods and assumptions, as described earlier. This reduction results in an increase in pre-tax earnings.

Of the $1,310 million net reduction in policy liabilities related to new business and in-force movement, $1,127 million is a decrease in actuarial liabilities. The remaining $183 million is comprised of a $284 million decrease in other policy liabilities and a $101 million re-classification from other liabilities to policy liabilities, both of which impacted the Consolidated Balance Sheet.

**Variable Interest Entities**

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG15"), which was effective for the Company on January 1, 2005. AcG15 sets out the application of consolidation principles to variable interest entities ("VIEs") that are subject to consolidation on the basis of beneficial financial interest as opposed to ownership of voting interests. Where an entity is considered a VIE, the primary beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The primary beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE's expected losses and/or is entitled to a majority of the VIE's expected residual returns, as defined in AcG15. The Company's policy is that when it is the primary beneficiary of a VIE, it consolidates the VIE either into the general fund or the segregated funds based on which has the preponderance of the exposure to the VIE. As outlined in note 18 to the consolidated financial statements, certain VIEs have been consolidated into the general fund, with no financial impact, and certain VIEs have been consolidated on the Segregated Funds Statements of Net Assets. The Company uses a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to then determine who is the primary beneficiary. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG15 and applying them to specific transactions. For further details on the Company's involvement with VIEs, see note 18 to the consolidated financial statements.

**Pensions and Other Post-employment Benefits**

We have a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees and agents after employment. These plans include registered/qualified pension plans, supplemental pension plans and, in some instances, health, dental and life insurance plans. The traditional defined benefit pension plans provide benefits based on years of service and average earnings at retirement. Due to the long-term nature of these plans and of the post-employment benefit plans, the calculation of the benefit expense and accrued benefit obligations depends on various economic assumptions such as discount rates, expected rates of return on plan assets, health care cost trend rates, and compensation increase rates. These assumptions are determined by management and are reviewed annually. Actual experience that differs from the assumed experience will affect the amount of the accrued benefit obligation and benefit expense. The key weighted average assumptions used, as well as the sensitivity of these assumptions, are presented in note 17 to the consolidated financial statements.

**Income Taxes**

The Company is subject to income tax laws in various jurisdictions. These complex tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each timing difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences.

**Goodwill and Intangible Assets**

Goodwill and intangible assets with indefinite lives are tested at least annually for impairment. The test is at the reporting unit level for goodwill and at the Company level for intangible assets with indefinite lives. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. Carrying value is determined as the amount of capital allocated to the reporting unit. Any potential impairment of intangible assets with indefinite lives is identified by comparing the estimated fair value of the asset to its carrying value on the balance sheet. An impairment loss would be recognized and the asset written down to the extent that the carrying value of the asset exceeds the fair value. Fair values are determined using valuation techniques such as market multiples and discounted cash flow models. The process of determining these fair values requires management to make estimates and assumptions including, but not limited to, projected future sales, earnings and capital investment, discount rates and terminal growth rates. Projected future sales, earnings and capital investment are consistent with plans presented to the Board of Directors. These estimates and assumptions may change in the future due to uncertain competitive and economic market conditions or changes in business strategies. The tests performed in 2007 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives.

**Changes in Accounting Policies**

**Stock-based compensation**
In July 2006, the Emerging Issues Committee of the CICA issued a new abstract, EIC 162, "Stock-based Compensation for Employees Eligible to Retire before the Vesting Date". The abstract requires that stock-based compensation be recognized at the grant date for grants to employees who are eligible to retire on the grant date, and over the period from the date of grant to the date of retirement eligibility for grants to employees who will become eligible to retire during the vesting period. This abstract was effective for the year ended December 31, 2006 and was to be applied retroactively.

The Company adopted the provisions of this new abstract in the fourth quarter of 2006 and reported the cumulative effect on prior years as adjustments to January 1, 2006 opening contributed surplus and opening retained earnings. Opening retained earnings decreased by $10 million, made up of $7 million related to stock options and $3 million related to restricted share units. For the year ended December 31, 2006, the effect of adopting this change in policy was a decrease in net income of $6 million (net of a provision for income taxes of $1 million).

**Financial instruments – recognition and measurement, hedges, comprehensive income and equity**
Effective January 1, 2007, the Company adopted CICA Handbook Sections 3855 "Financial Instruments – Recognition and Measurement", 3865 "Hedges", 1530 "Comprehensive Income", 3251 "Equity" and 4211 "Life Insurance Enterprises – Specific Items". Section 4211 replaced Section 4210. As a result, all financial instruments whether assets or liabilities, except for policy liabilities accounted for in accordance with Section 4211, are accounted for under the new sections. Prior to January 1, 2007, life insurance enterprises followed handbook Section 4210 which contained accounting policies specific to life insurance enterprises. The changes in accounting policies were adopted retroactively without restatement.

In accordance with the new handbook sections, effective January 1, 2007 the Company designated all financial assets as trading (under Section 3855's fair value option), AFS or as loans and receivables. Financial instruments designated as fair value option, derivatives and AFS securities, except those that are not traded in an active market, are measured at fair value. Stock securities not traded in an active market are carried at cost. The Company has chosen to designate bond and stock securities which support policy liabilities as trading under the fair value option in order to reduce a recognition inconsistency that would otherwise arise. Bond and stock securities which support surplus are, for the most part, designated AFS. Private placement debt not traded in an active market is classified as loans and carried at amortized cost.

Changes in the fair value of securities designated as fair value option are reported in earnings, while changes in the fair value of AFS securities are reported within other comprehensive income ("OCI"), until the financial asset is disposed of or becomes other than temporarily impaired, at which time such changes are reported in earnings.

With the introduction of the financial instrument standards, the life insurance standard Section 4210 was replaced with Section 4211 which removes the unique investment accounting for insurance enterprises for financial instruments, other than owned real estate. Realized gains and losses on debt and equity investments are no longer deferred and amortized and therefore the balance of the deferred realized net gains at December 31, 2006, for other than real estate, was eliminated through opening retained earnings. In addition, Section 4211 removes the unique move-to-market accounting and impairment accounting for equities. Under Section 4210, equity impairments were not recognized unless the entire equity portfolio was impaired. Under the new sections the Company recognizes other than temporary impairments, on debt or equities classified as AFS, on an individual security basis.

All financial liabilities, other than actuarial liabilities, are measured at fair value when they are classified as fair value option or are derivatives. Other financial liabilities are measured at amortized cost. As the assets supporting consumer notes are managed along with assets supporting policy liabilities, the Company has designated consumer notes as fair value in order to reduce any recognition inconsistency. The subordinated debt securities payable to MIC Financing Trust I, settled on February 1, 2007, were designated as fair value.

Section 3855 does not apply to insurance contracts issued to policyholders by insurance enterprises that are accounted for in accordance with Section 4211 except for certain reinsurance contracts. Reinsurance contracts principally involving the transfer of financial risks are accounted for under Section 3855 and are measured at fair value. The U.S. Wealth Management segment has reinsurance ceded contracts to manage its exposure to equity market segregated fund guarantees. In addition, the Reinsurance Division has entered into similar contracts with other insurance companies. The Company continues to report the carrying amount of these contracts as policy liabilities, consistent with other reinsurance contracts. The change in fair value of these contracts is reported as change in actuarial liabilities. The determination of actuarial liabilities on direct contracts takes into consideration associated reinsurance ceded contracts.

The determination of actuarial liabilities under Section 4211 is dependent upon the carrying value of assets required to support the liabilities. Consequently, the carrying value of actuarial liabilities was updated to reflect the changes as a result of implementing the new investment accounting standards.

Derivatives are classified as fair value option unless they are specifically designated within an effective hedging relationship. For fair value hedges, the effective portion of the change in the fair value of a derivative instrument as at January 1, 2007 is offset by the changes in fair value attributed to the risk being hedged in the underlying asset or liability. For cash flow hedges, the effective portion of the change in the fair value of the derivative instrument is offset in AOCI.

The changes in accounting policies resulted in a charge to opening retained earnings of $176 million, an increase in opening participating policyholders' equity of $13 million and an increase in opening AOCI of $1,741 million. Amounts previously reported as currency translation account have been reclassified to AOCI.

The changes to the opening January 1, 2007 consolidated balance sheet were as follows:

| (Canadian $ in millions) | January 1, 2007 | Accounting Policy Changes | December 31, 2006 | reference |
|---|---|---|---|---|
| **Assets** | | | | |
| **Invested assets** | | | | |
| Cash and short-term securities | **$ 10,898** | $ (3) | $ 10,901 | |
| Securities | | | | |
| Bonds | **80,707** | 2,622 | 78,085 | 1 |
| Stocks | **13,232** | 1,960 | 11,272 | 2 |
| Loans | **61,515** | (112) | 61,627 | 3 |
| Real estate | **5,905** | – | 5,905 | |
| Other investments | **3,464** | (66) | 3,530 | 4 |
| **Total invested assets** | **$ 175,721** | $ 4,401 | $ 171,320 | |
| Other assets | **$ 14,625** | $ 29 | $ 14,596 | |
| Derivatives | **1,978** | 1,578 | 400 | 5 |
| **Total other assets** | **$ 16,603** | $ 1,607 | $ 14,996 | |
| **Total assets** | **$ 192,324** | $ 6,008 | $ 186,316 | |
| **Liabilities and Equity** | | | | |
| Policy liabilities | **$ 138,568** | $ 7,749 | $ 130,819 | 6 |
| Deferred realized net gains | **127** | (4,315) | 4,442 | 7 |
| Bank deposits | **7,843** | (2) | 7,845 | |
| Consumer notes | **2,770** | (90) | 2,860 | 8 |
| Long-term debt | **1,929** | (1) | 1,930 | 9 |
| Future income tax liability | **2,429** | 171 | 2,258 | 10 |
| Derivatives | **1,793** | 883 | 910 | 11 |
| Other liabilities | **5,749** | 50 | 5,699 | |
| | **$ 161,208** | $ 4,445 | $ 156,763 | |
| **Liabilities for preferred shares and capital instruments** | **3,680** | (15) | 3,695 | 12 |
| **Non-controlling interest in subsidiaries** | **202** | – | 202 | |
| **Equity** | | | | |
| Participating policyholders' equity | **155** | 13 | 142 | 13 |
| Shareholders' equity | | | | |
| Preferred shares | **638** | – | 638 | |
| Common shares | **14,248** | – | 14,248 | |
| Contributed surplus | **125** | – | 125 | |
| Retained earnings | **13,336** | (176) | 13,512 | 14 |
| Accumulated other comprehensive income (loss) | | | | |
| on available-for-sale securities and cash flow hedges | **1,741** | 1,741 | – | 15 |
| on translation of net foreign operations | **(3,009)** | – | (3,009) | |
| **Total equity** | **$ 27,234** | $ 1,578 | $ 25,656 | |
| **Total liabilities and equity** | **$ 192,324** | $ 6,008 | $ 186,316 | |

1 Net unrealized gains of $1,155 on AFS and $1,467 on fair value option
2 Net unrealized gains of $1,146 on AFS and $814 on fair value option
3 Hedge accounting adjustments related to loans being designated in prior years as hedged items
4 Adoption of new impairment policy for equities
5 Fair value adjustment
6 Consequential impact of change in accounting policies
7 Elimination of category for other than real estate
8 Unrealized gain related to electing fair value
9 Hedge accounting adjustments related to long-term debt that was in a fair value hedge in 2006
10 Tax effect of opening adjustments
11 Fair value adjustment
12 Subordinated debt payable to MIC Financing Trust I classified as trading
13 Portion of fair value adjustments related to par surplus
14 Result of above items
15 $2,298 related to AFS securities net of income taxes of $537, offset by $31 related to cash flow hedges, net of income taxes of $11

**Accounting for leveraged leases**
Effective January 1, 2007 the Company adopted amended Emerging Issues Committee's EIC 46, "Leveraged Leases", which harmonizes leveraged lease accounting with U.S. GAAP. This guidance requires that changes in the projected timing of cash flows relating to income taxes generated by a leveraged lease be considered triggers requiring recalculation of the rate of return and allocation of lease income from the inception of the lease, with gain or loss recognition of any resulting change. Prior to this amendment, only changes to lease assumptions which affected the total amount of estimated net income were considered to be such triggers. The Company's adoption of EIC 46 resulted in a charge to opening retained earnings at January 1, 2007 of $157 million.

**Capital disclosures**
Effective October 1, 2007, the Company adopted CICA Handbook Section 1535 "Capital Disclosures". This section requires disclosure of the Company's objectives, policies and processes for managing capital, as well as its compliance with any externally imposed capital requirements. Transition to the new standard did not have any financial impact to the Company.

**Future Change in Accounting Policies**

**Financial instruments – disclosure and presentation**
On December 1, 2006, the CICA issued new accounting standards comprising CICA Handbook Sections 3862 "Financial Instruments – Disclosure" and 3863 "Financial Instruments – Presentation". Section 3862 requires extensive disclosures of financial instruments, including their impact on financial position and performance and on the risks associated with recognized and unrecognized financial instruments. Section 3863 carries forward unchanged the presentation requirements of Section 3861. These standards will be effective for the Company's fiscal year beginning January 1, 2008.

**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 primary 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 policy liabilities and differences in reporting policyholder cash flows. These differences are described in more detail in note 23 to the consolidated financial statements.

For U.S. GAAP, asset impairment charges include other than temporary impairments due to interest rate movements where we do not have the intent to hold the asset until recovery. The intent to hold is based on the investment mandate of each of our investment portfolios. For those that we do not intend to hold, assets have been written down to the lower of cost or fair market value.

**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 generally accepted accounting principles ("Hong Kong GAAP").

Under Hong Kong GAAP, real estate classified as investment properties are carried at appraised value, with changes being reported as income, as compared to current Canadian GAAP where real estate is carried on a move to market value basis. In certain interest rate environments, actuarial liabilities determined in accordance with Hong Kong GAAP may be higher than actuarial liabilities computed in accordance with current Canadian GAAP.

**Canadian GAAP and Hong Kong Regulatory Practices**
The Hong Kong Insurance Authority requires that insurance companies have minimum "net assets" for solvency purposes and stipulates minimum criteria for the calculation of actuarial liabilities in arriving at regulatory basis "net assets". Each year, the Company compares the amount of net assets prepared in accordance with Canadian GAAP, as reported in the Company's annual return, with the minimum solvency margin required in Hong Kong as described above. As at December 31, 2007, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required by Hong Kong insurance regulations.

**Controls and Procedures**

**Disclosure Controls and Procedures**
Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws. Our process includes controls and procedures that are designated to ensure that information is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

As of December 31, 2007, management evaluated the effectiveness of its disclosure controls and procedures as defined under the rules adopted by the U.S. Securities and Exchange Commission and the Canadian securities regulatory authorities. This evaluation was performed under the supervision of the ARMC, the CEO and CFO.

Based on that evaluation, the CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2007.

**Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations due to manual controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to ensure that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment, management believes that, as of December 31, 2007, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm that also audited the consolidated financial statements of the Company for the year ended December 31, 2007. Their report, on page 48, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2007.

**Changes in Internal Control over Financial Reporting**

No changes were made in our internal control over financial reporting during the year ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# Principal Subsidiaries

The following is a list of the directly and indirectly held major operating subsidiaries of Manulife Financial Corporation.

| **As at December 31, 2007** (Unaudited, Canadian $ in millions) | **Ownership Percentage** | **Equity Interest** | **Address** | **Description** |
|---|---|---|---|---|
| **MANULIFE FINANCIAL CORPORATION** | | | **Toronto, Canada** | **Publicly traded stock life insurance company** |
| **The Manufacturers Life Insurance Company** | 100 | $15,449 | Toronto, Canada | Leading Canadian-based financial services company that offers a diverse range of financial protection products and wealth management services |
| Manulife Holdings (Alberta) Limited | 100 | | Calgary, Canada | Holding company |
| Manulife Holdings (Delaware) LLC | 100 | | Delaware, U.S.A. | Holding company |
| The Manufacturers Investment Corporation | 100 | | Michigan, U.S.A. | Holding company |
| John Hancock Life Insurance Company (U.S.A.) | 100 | | Michigan, U.S.A. | U.S. based life insurance company that provides individual life insurance, annuities, and group pension products in all states in the U.S. except New York |
| John Hancock Life Insurance Company of New York | 100 | | New York, U.S.A. | Provides group pension, individual annuities and life insurance products in the State of New York |
| John Hancock Investment Management Services, LLC | 95 | | Massachusetts, U.S.A. | Investment advisor |
| Manulife Reinsurance Limited | 100 | | Hamilton, Bermuda | Provides life and financial reinsurance |
| Manulife Holdings (Bermuda) Limited | 100 | | Hamilton, Bermuda | Holding company |
| Manufacturers P&C Limited | 100 | | St. Michael, Barbados | Provides property and casualty and financial reinsurance |
| Manufacturers Life Reinsurance Limited | 100 | | St. Michael, Barbados | Provides life and financial reinsurance |
| Manulife International Holdings Limited | 100 | | Hamilton, Bermuda | Holding company |
| Manulife (International) Limited | 100 | | Hong Kong, China | Life insurance company serving Hong Kong and Taiwan |
| Manulife-Sinochem Life Insurance Co. Ltd. | 51 | | Shanghai, China | Chinese life insurance company |
| Manulife Asset Management (Asia) Limited | 100 | | St. Michael, Barbados | Investment advisor |
| Manulife Asset Management (Hong Kong) Limited | 100 | | Hong Kong, China | Hong Kong investment management and advisory company marketing mutual funds |
| Manulife Bank of Canada | 100 | | Waterloo, Canada | Provides integrated banking products and service options not available from an insurance company |
| Manulife Canada Ltd. | 100 | | Waterloo, Canada | Canadian life insurance company |
| FNA Financial Inc. | 100 | | Toronto, Canada | Holding company |
| Elliott & Page Limited | 100 | | Toronto, Canada | Investment counseling, portfolio and mutual fund management in Canada |
| First North American Insurance Company | 100 | | Toronto, Canada | Canadian property and casualty insurance company |
| NAL Resources Management Limited | 100 | | Calgary, Canada | Management company for oil and gas properties |
| Manulife Securities International Ltd. | 100 | | Waterloo, Canada | Mutual fund dealer for Canadian operations |
| MLI Resources Inc. | 100 | | Calgary, Canada | Holding company for oil and gas assets and Japanese operations |
| Manulife Life Insurance Company | 100 | | Tokyo, Japan | Japanese life insurance company |
| MFC Global Investment Management (Japan) Limited | 100 | | Tokyo, Japan | Japanese investment management and advisory company |
| P.T. Asuransi Jiwa Manulife Indonesia | 100 | | Jakarta, Indonesia | Indonesian life insurance company |
| P.T. Manulife Aset Manajemen Indonesia | 100 | | Jakarta, Indonesia | Indonesian investment management and advisory company marketing mutual funds |
| The Manufacturers Life Insurance Co. (Phils.), Inc. | 100 | | Manila, Philippines | Filipino life insurance company |
| Manulife (Singapore) Pte. Ltd. | 100 | | Singapore | Singaporean life insurance company |
| Manulife (Vietnam) Limited | 100 | | Ho Chi Minh City, Vietnam | Vietnamese life insurance company |
| Manulife Vietnam Fund Management Company Limited | 100 | | Ho Chi Minh City, Vietnam | Vietnamese investment management and advisory company marketing mutual funds |
| Manulife Insurance (Thailand) Public Company Limited | 97.9 | | Bangkok, Thailand | Thai life insurance company |
| Manulife Asset Management (Thailand) Company Limited | 100 | | Bangkok, Thailand | Investment management |
| MFC Global Fund Management (Europe) Limited | 100 | | London, England | Holding company |
| MFC Global Investment Management (Europe) Limited | 100 | | London, England | Investment management company for Manulife Financial's international funds |
| EIS Services (Bermuda) Limited | 100 | | Hamilton, Bermuda | Investment holding company |
| Berkshire Insurance Services Inc. | 100 | | Burlington, Ontario | Insurance broker |
| Berkshire Investment Group Inc. | 100 | | Burlington, Ontario | Mutual fund dealer |
| Berkshire Securities Inc. | 100 | | Burlington, Ontario | Holding company |
| MFC Global Investment Management (U.S.A.) Limited | 100 | | Toronto, Canada | Investment advisor |
| Manulife Asset Management (Singapore) Pte. Ltd. | 100 | | Singapore | Asset management |

| As at December 31, 2007<br>(Unaudited, Canadian $ in millions) | Ownership Percentage | Equity Interest | Address | Description |
|---|---|---|---|---|
| **MANULIFE FINANCIAL CORPORATION** | | | **Toronto, Canada** | **Publicly traded stock life insurance company** |
| **John Hancock Holdings (Delaware) LLC** | 100 | $ 8,804 | Wilmington, Delaware, U.S.A. | Holding company |
| John Hancock Financial Services, Inc. | 100 | | Boston, Massachusetts, U.S.A. | Holding company |
| John Hancock Life Insurance Company | 100 | | Boston, Massachusetts, U.S.A. | Leading U.S. based financial services company that offers a diverse range of financial protection products and wealth management services |
| John Hancock Variable Life Insurance Company | 100 | | Boston, Massachusetts, U.S.A. | U.S. based life insurance company that provides variable and universal life insurance policies, and annuity products in all states in the U.S. except New York |
| P.T. Asuransi Jiwa John Hancock Indonesia | 96.2 | | Jakarta, Indonesia | Indonesian life insurance company |
| John Hancock Subsidiaries LLC | 100 | | Wilmington, Delaware, U.S.A. | Holding company |
| Declaration Management & Research LLC | 100 | | McLean, Virginia, U.S.A. | Provides institutional investment advisory services |
| John Hancock Financial Network, Inc. | 100 | | Boston, Massachusetts, U.S.A. | Financial services distribution organization |
| The Berkeley Financial Group LLC | 100 | | Boston, Massachusetts, U.S.A. | Holding company |
| John Hancock Funds LLC | 100 | | Boston, Massachusetts, U.S.A. | Mutual fund company |
| Hancock Natural Resource Group, Inc. | 100 | | Boston, Massachusetts, U.S.A. | Manager of globally diversified timberland and agricultural portfolios for public and corporate pension plans, high net-worth individuals, foundations and endowments |
| John Hancock International Holdings, Inc. | 100 | | Boston, Massachusetts, U.S.A. | Holding company |
| Manulife Insurance (Malaysia) Berhad | 45.8 | | Kuala Lumpur, Malaysia | Malaysian life insurance company |
| John Hancock International, Inc. | 100 | | Boston, Massachusetts, U.S.A. | Holding company |
| John Hancock Tianan Life Insurance Company | 50 | | Shanghai, China | Chinese life insurance company |