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, 2008 **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	1,610,015,277
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) Annual Information Form, dated March 26, 2009, for the fiscal year ended December 31, 2008;

(b) Management's Discussion and Analysis for the fiscal year ended December 31, 2008; and

(c) Consolidated Financial Statements for the fiscal year ended December 31, 2008 *(Note 22 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, 2008, 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, 2008, 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, 2008, 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, 2008, 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, Harding, 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 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/BusinessEthicsBusinessConductandEthics2008-FullDocument/$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 2008 and 2007.

(Canadian $ in millions)	Year ended December 31, 2008	Year ended December 31, 2007
Audit fees [1]	$ 21.1	$ 19.8
Audit-related fees [2]	0.7	0.5
Tax fees [3]	0.1	0.5
All other fees	0	0
	$ 21.9	$ 20.8

1 Includes the annual audit, *Sarbanes-Oxley Act of 2002* ("SOX") attestation, reviews of quarterly reports, statutory audits and regulatory filings.
2 Includes review of product filing registration statements and due diligence in connection with proposed or consummated acquisitions.
3 Includes tax compliance, tax planning and tax advice services.

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, 2008, 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, 2008, filed as Exhibit 99.3 to this Annual Report on Form 40-F, include the following disclosures related to off-balance sheet arrangements:

Note 8	Securities Lending
Note 18	Variable Interest Entities
Note 19	Commitments and Contingencies
Note 6	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	Thomas P. d'Aquino
Robert E. Dineen, Jr	Robert J. Harding	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 26, 2009.

Manulife Financial Corporation

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

EXHIBIT INDEX

Exhibit	Description
99.1	Annual Information Form, dated March 26, 2009, for the fiscal year ended December 31, 2008
99.2	Management's Discussion and Analysis for the fiscal year ended December 31, 2008
99.3	Consolidated Financial Statements for the fiscal year ended December 31, 2008 *(Note 22 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 2008 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 26, 2009, for the fiscal year ended December 31, 2008*)

Exhibit 99.1

MANULIFE FINANCIAL CORPORATION

ANNUAL INFORMATION FORM

March 26, 2009

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GLOSSARY

For the purpose of this annual information form ("Annual Information Form"), the terms "Company", "Manulife Financial", "we" and "our" refer, 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.

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 to a group of people (group health) 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).

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		
	2008	2007	2006
U.S. dollar			
Balance sheet	1.2246	0.9881	1.1653
Statement of operations	1.0668	1.0739	1.1340
Japanese yen			
Balance sheet	0.013490	0.008844	0.009790
Statement of operations	0.010382	0.009116	0.009752

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", "likely", "suspect", "outlook", "expect", "intend", "estimate", "anticipate", "believe", "plan", "forecast", "objective", "continue" and "endeavour" (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, 2008, in the "Risk Management" note to MFC's consolidated financial statements for the year ended December 31, 2008 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. Following completion of MFC's merger with John Hancock Financial Services, Inc. ("John Hancock") on April 28, 2004, 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, Japan, the Philippines, Singapore, Indonesia, Thailand and Vietnam. The Company operates through branches of subsidiaries in Hong Kong, Taiwan, Macau, Barbados and Bermuda. 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 2008 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 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 2008, the Company was granted seven new licences in China, and by the end of 2008, the Company was operating in 34 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 several acquisitions, most recently in Taiwan, with the acquisition of Fuwha Securities in 2008.

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. 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. In 2008, the Company continued to launch a series of innovative products in Asia and Japan that received favorable market reception. In Hong Kong, the Company was first-to-market with a standalone medical insurance solution with guaranteed coverage well into retirement, giving peace of mind of continuous medical coverage and a guaranteed money back option on surrender. In Japan, the Company introduced an enhancement to the original term life insurance product, developed with broader options for financial protection to meet the growing financial security needs of business executives and this was very well received by corporate policyholders.

In the context of increased equity market volatility, the Company is reviewing its variable annuity product offerings and its risk management practices relating to these products. In particular, in the fourth quarter of 2008, the Company expanded its hedging program that was initiated in November 2007 to cover all new business written in the United States. The Company intends to expand the program further to all new business written in Canada in the second

quarter of 2009. To further reduce the risk of new offerings, the Company has also initiated product pricing and design initiatives such as fee increases, less frequent step-ups, reduction in annuity factors and bonus features, as well as other risk mitigating changes such as lowering equity content of fund offerings and adopting more passively managed funds.

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. Distribution capabilities were expanded further in 2008 with several new agreements entered into, most notably with Edward Jones. In Asia and Japan, Manulife Financial's primary distribution channel is an exclusive agency force numbering over 30,000 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 2008, the Company had expanded its distribution network in Japan to include 40 agreements with banks and securities brokers. Manulife Japan further expanded its distribution capabilities in 2007 by entering the Managing General Agent (MGA) channel, allowing it to deliver its products and services to even more customers, with a focus on the high net worth market segment.

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.

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 United States worked closely together in the development and launch of Canadian Division'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.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

In 2006, Manulife Financial focused on realizing the benefits of the successful integration of Manulife Financial and John Hancock, 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 United States. These initiatives contributed to strong organic growth with premiums and deposits increasing by 6% (12% 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% (19% on a constant currency basis) for the year ended December 31, 2007, compared to the year ended December 31, 2006.

In 2008, the Company's results were impacted by the unprecedented global economic turmoil experienced in the latter half of the year. Despite these significant headwinds, full year sales for 2008 were strong. Record sales levels were achieved in each of the Company's life insurance businesses and despite the unprecedented market volatility, wealth sales were in line with the strong levels of the prior year. However, as discussed further below under "Recent Developments", other important financial measures deteriorated significantly during the latter half of 2008, resulting in a significant reduction in 2008 net income compared to the previous year.

Recent Developments

Recent Economic Factors and Trends

In the past year, there has been significant disruption of credit and equity markets, evidenced by treasury yields approaching zero, historically narrow swap spreads, historically wide corporate credit spreads, severe equity market declines, extreme currency volatility, extreme illiquidity in funding markets, and overall asset illiquidity. Despite massive government intervention in most developed economies, market turmoil continues. Declining real estate values and challenged mortgage markets, and the consequent decline in business and consumer confidence and increased unemployment globally, have precipitated a recession in many of the regions in which we do business, including the United States and Canada.

The ongoing downturn in the financial markets and general economic conditions has severely impacted our business and is likely to continue to adversely impact our business and results. All operating divisions incurred losses related to segregated fund guarantees and/or reduced capitalized future fee income on equity-linked and variable universal life products, reduced fees due to lower levels of assets under management and shared in the credit losses. Our businesses in North America and Asia were all impacted by the global economic downturn.

The recent substantial declines in the global equity capital markets have had an adverse impact on our earnings and capital ratios due primarily to our variable annuity and universal life insurance products, particularly because the guarantee risk in a substantial majority of our in-force business is not reinsured or hedged. Due to unprecedented declines in worldwide equity market conditions, earnings in 2008 were negatively impacted by $3,748 million and balance sheet reserves for segregated fund guarantees were increased to $5,783 million at December 31, 2008 compared with $526 million at December 31, 2007. In addition, our results for 2008 were impacted by declines in values of common equities in the investment portfolios of our operating divisions as well as equity exposure to variable life reserves and declining fee revenue.

Market conditions have reduced our available capital and could cause further deterioration in our capital position. Regulatory capital adequacy is primarily managed at the insurance operating company level (Manufacturers Life and John Hancock Life Insurance Company) and our insurance operating subsidiaries in the United States, Canada and Asia are subject to regulatory capital requirements. Earnings and capital ratios remain sensitive to future market movements. MFC's principal Canadian operating company, Manufacturers Life, is regulated by the Superintendent and is subject to the Superintendent's MCCSR. The supervisory target ratio for MCCSR is set at 150%. As a result of the substantial decline in equity markets, MFC has had to significantly increase its reserves and the capital it holds to support its variable annuity guarantees and other risks, reflecting the sensitivity of required capital to equity market performance. Accordingly, MFC currently endeavours to manage its affairs so that Manufacturers Life has an MCCSR with a margin above 200% to allow for possible further market declines. However, there can be no assurance that Manufacturers Life's MCCSR ratio will be above the internal target. As at December 31, 2008, Manufacturers Life's MCCSR ratio was 235%. Since December 31, 2008, equity markets have continued to be very volatile and stock market indices have fallen to levels well below December 31, 2008 levels. If equity markets remain flat or decline further from the lowest levels since December 31, 2008, Manufacturers Life may operate at capital levels below its internal target.

As a result of the overall negative market conditions, MFC's common share price has fallen and our credit ratings have been downgraded, impacting our ability to raise capital and make acquisitions, and increasing our overall liquidity risk. See "Credit Ratings" below. In addition, the current economic downturn has increased our exposure to borrower and issuer defaults or downgrades and other counterparty risk. For a discussion of the material market, credit, liquidity, strategic, insurance and operational risks relating to our business, and the impact that the negative market conditions has had on these risks, see "Risk Factors".

These market-driven impacts overshadowed other business related results for the fourth quarter and year ended December 31, 2008. Selected 2008 fourth quarter and year end results are set forth below. See our management's discussion and analysis and consolidated financial statements and the notes thereto for the years ended December 31, 2008 and 2007 for a further discussion of our comparative results for 2008.

Selected 2008 Fourth Quarter and Year End Results

Shareholders' net loss for the fourth quarter of 2008 was $1,870 million compared to net income of $1,144 million in the fourth quarter of 2007. Net income for 2008 was $517 million compared to net income of $4,302 million in 2007.

Continued declines in global equity markets reduced fourth quarter earnings by $2,920 million, and also resulted in charges for credit related impairments and downgrades of $128 million. In addition to these two items, changes in actuarial methods and assumptions resulted in income of $321 million and the Company had two offsetting tax related items.

Of the $2,920 million equity related loss, $2,407 million is due to the after tax increase in segregated fund guarantee liabilities, comprised of $1,805 million for the reduction in the market value of the funds being guaranteed and $602 million because the sharp drop in swap interest rates reduced the discount rates used in the measurement of the obligation. The remaining $513 million of the equity related loss is on equity investments supporting non-experience adjusted policy liabilities ($196 million), reduced capitalized future fee income on equity-linked and variable universal life products ($100 million), impairments on equity positions in the Corporate and Other segment ($158 million) and lower fee income ($59 million).

During the fourth quarter, the Company increased tax related provisions on investments in leveraged leases by $181 million and recognized gains of $181 million in Canada due to the impact on actuarial liabilities of expected changes in Canadian tax law for insurance companies in connection with fair value accounting.

Financial Highlights
(unaudited)

	Quarter Ended				Year Ended December 31	
	December 31, 2008	September 30, 2008	December 31, 2007	September 30, 2007	2008	2007
Shareholders' Net Income (Loss) ($ millions)	(1,870)	510	1,144	1,070	517	4,302
Diluted Earnings (Loss) per Common Share ($)	(1.24)	0.33	0.75	0.70	0.32	2.78
Premiums & Deposits ($ millions)	18,468	16,444	17,414	16,797	69,952	69,438
Funds under Management ($ billions)	404.5	385.3	396.3	399.4		
Capital ($ billions)	31.1	28.5	27.5	27.3		

The fourth quarter diluted loss per common share was $1.24 compared to earnings of $0.75 in 2007.

Premiums and deposits as reported in Canadian dollars for the fourth quarter were $18.5 billion, an increase of 6% from the $17.4 billion reported a year earlier. Excluding the impact of foreign currency translations, premiums and deposits decreased by 10% due to lower deposits in the fee based and variable annuity businesses as customers shied away from products exposed to volatile equity markets. These declines were partially offset by in-force business growth in our insurance businesses, and sales growth in Canadian Individual Wealth Management and John Hancock Fixed Products.

Funds under management were $404.5 billion as at December 31, 2008, up $8.2 billion or 2%, from 2007. Excluding the impact of foreign currency translations, funds under management declined by 14% from last year, as business growth was more than offset by the effects of declining equity markets and scheduled maturities of John Hancock Fixed institutional products. Funds under management are comprised of general fund invested assets; net assets held by policyholders in segregated funds; net assets held in proprietary mutual funds; and other funds managed or administered by the Company other than those associated with a contract issued by the Company.

Capital and Liquidity

Total capital was $31.1 billion at December 31, 2008, an increase of $3.6 billion from December 31, 2007. In the fourth quarter of 2008, we completed $4,275 million of financing, consisting of $2,275 million of common shares and $2,000 million of term loans. In the first quarter of 2009 we issued $450 million aggregate principal amount of preferred shares. Due to our current credit ratings and underlying business performance, we believe that we will be able to continue to access the markets for additional capital in 2009. However, increased or sustained volatility or downturns in the market or further credit rating downgrades could make such capital raising more challenging and more expensive.

Credit Ratings

During March 2009, the financial strength and credit ratings of our key operating subsidiaries were downgraded by two notches by Moody's, the financial strength rating moving to Aa3 from Aa1, with a negative outlook. During February 2009, our ratings were downgraded by one notch by S&P and Fitch. S&P lowered the AAA ratings of our operating companies to AA+, with a stable outlook. Fitch lowered our AA+ ratings to AA, with a negative outlook. A.M. Best revised its outlook of our A++ ratings from stable to negative. In November 2008, DBRS confirmed our AA ratings, but lowered their outlook from positive to stable. These ratings remain strong. However, if current adverse conditions continue, we may also experience further downgrades of our financial strength and credit ratings. See "Ratings".

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, 2008, the Company had approximately 24,000 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.

The approximate number of employees for each of the Company's reporting segments as at December 31, 2008 was as follows:

U.S. Insurance	2,789
U.S. Wealth Management	3,097
Canadian Division	7,524
Asia and Japan Division	6,052
Reinsurance Division	212
Corporate and Other	4,264

SELECTED FINANCIAL STATISTICS BY DIVISION/REPORTING SEGMENT

Effective January 1, 2008, the Company changed its approach for allocating investment gains and losses to be more aligned with how the Company manages its assets and related risk positions. Investment gains and losses are now accumulated into two pools, insurance and wealth management, and then allocated pro rata to the reporting segments

based on their respective policy liabilities. Prior to 2008, gains and losses were reported in the segments where the specific assets giving rise to the gains and losses were located and credit gains and losses were reported in the Corporate and Other segment. Investment gains and losses related to product features, such as segregated fund guarantees and future fees assumed in variable universal life and equity-linked policy liabilities, as well as investment gains and losses on full pass-through products, such as participating insurance, are not included in the pools. Prior periods have been restated to conform to this presentation.

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, 2008.

Division/Reporting Segment ($ millions)	Shareholders' Net Income		Premiums and Deposits		Funds Under Management	
	2007	2008	2007	2008	2007	2008
U.S. Insurance	781	779	6,538	7,149	56,451	70,309
U.S. Wealth Management	1,132	(921)	35,314	35,412	175,999	163,936
U.S. Division	1,913	(142)	41,852	42,561	232,450	234,245
Canadian Division	1,110	656	16,121	16,379	86,151	82,262
Asia and Japan Division	851	177	10,406	9,749	43,258	49,971
Reinsurance Division	238	154	1,026	1,091	2,581	2,935
Corporate and Other	190	(328)	33	172	31,904	35,042
Total	4,302	517	69,438	69,952	396,344	404,455

U.S. DIVISION

U.S. Division consists of U.S. Insurance and U.S. Wealth Management reporting segments. U.S. Insurance, which consists of JH Life and JH Long Term Care businesses, offers life, wealth accumulation and long-term care insurance solutions to select markets. U.S. Wealth Management, which consists of JH Retirement Plan Services, JH Variable Annuities, 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 three 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"), and John Hancock Life Insurance Company ("John Hancock Life"). Smaller blocks of business are also maintained in three subsidiaries: John Hancock Variable Life Insurance Company ("John Hancock Variable"), John Hancock Life & Health Insurance Company ("JHLH") and John Hancock Insurance Company of Vermont ("JHVT").

John Hancock USA offers life insurance, 401(k) group annuity pension and individual annuity products in all states except New York, and John Hancock New York offers all of these products in the State of New York. John Hancock Life offers annuity and long-term care products in all states.

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 and variable annuity products offered in the United States.

U.S. Division 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 IMS and John Hancock Advisers are the investment advisors for the mutual funds that make up our investment platforms supporting the variable life, variable annuity, retail mutual fund, and certain JH Retirement Plan Services products. Both companies enter into sub-advisory arrangements with both affiliated and unaffiliated sub-advisors to manage the assets.

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, John Hancock Financial Network ("JHFN"). JHFN is a nationally recognized distribution system made up of financial representatives offering 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. JH Life 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. JH Long Term Care 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 2008, JH Life and JH Long Term Care accounted for 77% and 23% respectively, of U.S. Insurance's total funds under management, and 75% and 25% respectively of its total premiums and deposits.

In 2009, U.S. Insurance intends to strengthen their leadership positions in the Life and Long Term Care businesses through continued innovation and investment in product and service offerings.

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. In 2009, the business will continue to maintain its core strategy of focusing on execution in these key areas.

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 the equity market by investing in segregated funds. JH Life has a history of being able to rapidly develop and launch innovative life insurance products, thereby consistently offering a comprehensive and competitive portfolio of products and solidly positioning the business in its target market.

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. 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. 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 2009, JH Life intends to further solidify and grow key relationships with agents and major third party distributors.

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. Group products are designed for employees of small to large employers. The business also administers long-term care benefits for employees of the United States federal government through a joint venture with Metropolitan Life Insurance Company.

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 full year 2008 sales data published by LIMRA, John Hancock is the number one provider of overall long-term care insurance (individual and group combined) in the United States market. The business has expertise in all aspects of long-term care operations from product development to claims processing and sells its products 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 late 2007 and through most of 2008, key players in the retail United States long-term care insurance industry announced rate increases on both in-force and new business. John Hancock increased premiums on in-force policies to reflect updated lapse experience on the older product generations. The rate increase took effect starting December 2008.

The core retail product portfolio consists of Custom Care II Enhanced, Leading Edge, and state partnership policies. Launched in June 2008, Custom Care II Enhanced replaces Custom Care II, and offers unlimited Consumer Price Index compound inflation protection with the Guaranteed Increase Option (GIO), as well as a suite of built-in consumer protection features and optional riders. The GIO allows for an increase in coverage every three years, without new evidence of insurability. The business is focused on building distributor familiarity and consumer understanding of the CPI inflation protection feature in order to influence purchasing behavior toward this more economical option. Custom Care II Enhanced is expected to lead retail product sales in 2009. Although Leading Edge has comparable features, it is simpler, geared towards a younger target market, and more attractively priced. Partnership policies that are designated as such by the respective states, allow policyholders to protect some or all of their personal assets from Medicaid eligibility requirements when claiming for benefits. In the employer-sponsored long-term care insurance market, the large group product CareChoice 2002 is also in the process of being refreshed with the new CareChoice 2009 product, offering similar features as Custom Care II Enhanced. Corporate Choice and Corporate Solutions continue to be promoted in the small to mid-sized group market segments.

Although the soft industry and declining economic environment present sales challenges, the business is focused on growing market share in the retail segment while maintaining leadership in the group segment. Initiatives to position the business for growth in 2009 include enhanced service levels through automation and proprietary training programs for distributors, and an enhanced claims management infrastructure for policyholders.

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, 2008, JH Variable Annuities, JH Retirement Plan Services, JH Mutual Funds and JH Fixed Products accounted for 30%, 30%, 15% and 25%, respectively, of U.S. Wealth Management's total funds under management. These businesses contributed approximately U.S.$9.5 billion, U.S.$12.2 billion, U.S.$8.5 billion and U.S.$3.1 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, generate retirement income, or preserve wealth. Earnings on these products are subject to taxation only when withdrawn.

Several different base products are offered with varying front end sales loads, surrender charge rates/periods, and up front payment enhancements. All include some type of minimum death benefit guarantee. The vast majority of customers purchasing JH Variable Annuities also purchase a guaranteed minimum withdrawal benefit ("GMWB") rider which provides the policyholder a minimum floor of guaranteed periodic withdrawals over a specified period or life even if policyholder account values have been depleted.

JH Variable Annuities products are principally distributed by an employed wholesaling group that focuses on non-affiliated advisors in three main channels: wirehouse/regionals, financial planners, and banks. The distribution footprint is solid across each channel, with distribution agreements in place at nearly all major variable annuity sellers. Edward Jones, the major new distribution arrangement in 2008, is maturing into a significant contributor to sales. JH Variable Annuities ranked fourth in sales in the non-proprietary market, based on sales for the year as of September 30, 2008, as reported by the Morningstar Annuity Research Center.

The main priority of JH Variable Annuities in 2009 is to deliver competitive customer product value with design features that reflect the heightened volatility prevalent throughout financial markets. Steep market declines and low interest rates have prompted an ongoing, industry-wide re-pricing of variable annuity living benefits. Prices for living benefit riders increased in late 2008 and will very likely increase again in the near future. Benefit features are also under review and expectations are that a combination of lower guaranteed income payments, lower bonus deferral credits, lower exposure to equity investments and increased exposure to efficiently hedged asset classes will occur throughout 2009. Essentially all new living benefit riders issued in 2009 will be actively managed through our proprietary hedging program.

JH Variable Annuities is committed to providing strong, customer-oriented service in order to further develop the reputation of the business as partner of choice among end-consumers and financial advisors alike. The strategy includes continual review, development and enhancement of key processes and systems capabilities as well as the technical expertise and professionalism of staff. JH Variable Annuities will continue to leverage web-based technology to enhance customer access to information and simplify point of sale and ongoing customer service interactions. 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.

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 2008 third quarter LIMRA 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"). Recent product introductions include "JH Signature" and a participant optional rider named Guaranteed Income for Life. JH Signature is an innovative multiple class, flexible pricing compensation structure which allows Plan Sponsors and their Advisors to choose the appropriate class for the plan. The optional Guaranteed Income for Life rider provides a minimum income floor of guaranteed periodic withdrawals for the life of the participant, protecting their retirement income from market downturns. The Guaranteed Income for Life rider is only available on a select list of asset allocation portfolios that diversify participants into both equity and fixed income investments.

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 plan sponsor customers. In recognition of its commitment, JH Retirement Plan Services has received Best in Class rankings in many areas according to the 2008 Chatham Partners Plan Sponsor satisfaction benchmark survey, as well as various awards from such prominent organizations as The League of American Communication Professionals, The Insurance & Financial Communicators Association, and Insight Forum.

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. The 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 11th through 30th 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 and nine Lifecycle asset allocation 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 single 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 contracts, Guaranteed Principal Annuity Plus ("GPA Plus") and recently launched John Hancock Spectrum ("JH Spectrum"), are flexible premium contracts offering interest rate guarantee periods ranging from one to seven 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 (for GPA Plus) or a premium enhancement (for JH Spectrum), 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 and JH Spectrum offer 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 an employed wholesaling group, 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.

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 and John Hancock New York, as appropriate. Variable rate products enable clients to participate in the financial markets, through both segregated and mutual fund investment vehicles. The segregated account products primarily invest in the John Hancock Trust ("JHT") and John Hancock Funds II ("JHF II") platforms and the mutual fund products are offered through the John Hancock Funds ("JHF") and John Hancock Funds III ("JHF III") platforms. In addition, U.S. Division maintains certain segregated accounts offered by JH Fixed Products.

The JHT and JHF II Platforms

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

Management believes that clients consider investment performance a key criterion in selecting a segregated fund. The division's investment platforms provide 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 platforms remain comprehensive and competitive, the division, in conjunction with a majority independent Board of Trustees, continually reviews and adjusts the investment offerings. 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 asset allocation professionals. The Lifestyle Portfolios are offered in JHT and JHF II, and the Lifecycle Portfolios are offered in JHF II.

In addition to the JHT and JHF II platforms, JH Retirement Plan Services also offers a retail investment platform. The retail fund platform is subject to the same rigorous selection and review process as the JHT and JHF II investment platforms and enables 401(k) pension plan sponsors the option of selecting a retail mutual fund managed directly by an adviser.

The JHF and JHF III Platforms

JH Mutual Funds offers products through the mutual fund platforms known as JHF and JHF III. These platforms provide 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 JHF and JHF III platforms include open-end funds, closed-end funds and separately managed accounts. They are subject to the same rigorous selection and review process as the JHT and JHF II platforms. JH Mutual Funds also offers 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-advantaged College Savings Plan and offers many of the same funds that are available in the JHT and JHF II platforms. The John Hancock Freedom 529 Plan is subject to the same selection and review process as the JHT and JHF II platforms.

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.

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 and the strength of the John Hancock brand.

U.S. Wealth Management's competitive strengths include product 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 interest rates, product offerings, customer service and financial strength. In the institutional market for payout annuities, fee-based and spread-based fixed products, 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. Management believes that it will be able to compete successfully in chosen markets as a result of the John Hancock brand name, investment management expertise, national distribution, flexible product design and competitive pricing.

In addition, 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 Canadian life insurance-based financial services organizations and offers a diverse portfolio of products, services and distribution channels to meet the needs of a broad marketplace. Its individual insurance products include life and living benefits 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. Individual wealth management product offerings include variable and fixed annuities, mutual funds and a suite of savings and loan banking products. 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 Businesses, which in 2008 accounted for 15%, 35% and 50%, 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.

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 primary method of distribution, selling both the Company's products and products of other life insurance companies. Over 6,000 independent advisors, 24,700 general agency brokers and more than 16,800 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 approximately 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 continually testing the market with innovative product and marketing 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 2008, the Company continued to rank as the number one provider of individual fixed and immediate annuities in Canada as measured by total assets, and maintained the number one position in segregated fund sales, 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. Immediate annuities and registered retirement income funds ("RRIF's"), 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. 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 129 funds and the ability to hold a combination of fixed and segregated fund assets within the same contract. Manulife Investments also offers a family of 64 Manulife Financial mutual funds, with assets under management of $8.4 billion as at December 31, 2008, as reported by The Investment Funds Institute of Canada ("IFIC").

Annuity products are distributed through independent advisors, advisors in general agencies and licensed representatives in stock brokerage firms; mutual funds are sold through advisors regulated by the Mutual Fund

Dealers Association ("MFDA"). The Company had relationships with 6,000 independent advisors, 24,700 general agency brokers and more than 16,800 stockbrokers with investment dealer firms as at December 31, 2008. During 2008, IWM completed the integration of Manulife Securities International Limited and Berkshire Securities, which had been purchased in 2007, into a single operating platform, servicing both full service securities advisors as well as mutual fund-only advisors. Branded as Manulife Securities, the dealership operations support more than 1,400 independent advisors regulated by either the MFDA or the Investment Industry Regulatory Organization of Canada ("IIROC") across 724 locations.

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 $12 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.

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. Based on data published in the 2007 Fraser Group Universe Report, Group Benefits was the third largest provider of group benefits in Canada with 21.5% of the market share, less than 1% behind the market leader. In 2008, premiums and deposits generated by Group Benefits exceeded $5.9 billion and Manulife Financial placed second in sales market share according to data published by LIMRA.

Marketing, product and distribution are focused on four market segments: large, medium-sized and 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; product innovation; and cross selling with Group Savings and other Canadian Division businesses. In 2008, Group Benefits signed an agreement with Investors Group Insurance Services Inc. giving their sales force of more than 4,200 advisors access to sell Manulife Financial's group products for small to medium-sized businesses effective November 1, 2008, expanding and diversifying the business' market presence across Canada.

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. Group Benefits launched on-line claims submission capabilities in 2008, an innovative offering in the group insurance industry. This feature allows plan members to electronically submit health and dental claims from a broad range of service providers over the internet.

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 2008, Group Savings generated more than $2 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.

Retirement savings are a key focus for employers, legislators and individuals and with the changing demographics of the Canadian marketplace and the aging of the baby boomer generation, retiring plan members are also an increasingly attractive target market. The business is focused on the development and enhancement of products to support the accumulation of retirement assets, and then using those assets to provide income in 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 75% of the mutual fund market controlled by the top ten companies, according to information released by IFIC. Similarly, the top five companies in the segregated fund market control over 80% 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.

The Company continues to 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 the Canadian market. Effectively managing product risks and returns continues to be a key priority, with increased focus on investment-related risks during the prevailing economic downturn. While it is expected that the current economic environment will impact growth rates in the short-term, management believes Canadian Division will maintain a leadership position in the marketplace by continuing to focus on its core strengths of independent multi-channel distribution, product innovation and service excellence to meet the needs of its customers, while leveraging the strength of the Manulife brand and the Company's financial ratings.

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 subsidiaries in the Philippines, Singapore, Indonesia, Japan, Vietnam and Thailand and through branches of a subsidiary in Hong Kong, Macau and Taiwan. Since the Macau operations are managed in Hong Kong, they are reported as part of the Hong Kong operations. In China, the Company operates through a joint venture. In Malaysia, the Company operates through a publicly traded corporation which is 46% owned by the Company.

An exclusive agency force, consisting of approximately 33,000 agents, serves over 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 primarily denominated in both

Hong Kong and U.S. dollars, including whole life, universal variable life, term life, endowment, critical illness and medical insurance. Products are sold primarily in the middle and upper-income markets, with the goal of broadening this target segment to increase market share in the high income group by offering products with greater benefit features. Based on new annualized premiums during 2008, the Company was the seventh largest provider of individual life and health insurance products in Hong Kong as at September 30, 2008, 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, 2008, the Company had approximately 3,700 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 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, mainly 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 strong asset growth of 167% over the past five years (2003 to 2008), the Company maintained its position as the second largest MPF service provider in the market (as measured by assets under management). The Group Pension business is built primarily on service rendered by the tied agency force and fund spectrum built on a multi-manager platform. The Group Pension business' comprehensive E-admin service suite has also contributed to its strong market position amongst small to medium-size employers; while its focused marketing to individual MPF accounts continues to attract substantial net cash flow.

Wealth Management Operations

Hong Kong sells three types of Wealth Management products, namely investment-linked insurance plans, mutual funds and began selling variable annuities in 2007. Overall sales of Wealth Management products (mainly investment-linked insurance plans) were down significantly in 2008 after record sales in 2007. The spreading impact of the subprime crisis and credit crunch and prolonged volatility in investment markets led to lower risk appetite among individual investors and overseas institutions. Sales growth is expected to be challenging until some stability returns to financial markets. Management will focus on taking advantage of recently expanded distribution opportunities and marketing initiatives and product development will focus on preparing for a market upturn.

Japan

While Japan is a large and wealthy market, there are a significant number of major international and domestic companies competing to provide insurance products to a market that is declining in size, aging rapidly, and is already saturated. In the face of these challenges, the Company's strategy is to diversify its portfolio of innovative products, and rapidly grow the number of distributors and distribution channels through which it operates. In 2008, the Company enjoyed considerable success in executing its strategy, and improving its market position.

The Company successfully launched a Whole Life Cancer product and a new Increasing Term product through its Managing General Agent ("MGA") channel that specializes in the corporate market. The MGA channel, which was launched in 2007, achieved 12.6 billion yen in sales by bringing to market competitive products and services, while expanding the number of large agencies through which it does business. Sales from this channel accounted for 53% of Manulife Japan's total insurance sales in 2008.

The Company's captive agency, Plan Right Advisor ("PA") channel continued to broaden its product line, leveraging the corporate products developed for the MGA channel. While the number of agents in the channel remained fairly stable in 2008 (3,701 as at December 31, 2008) product line expansion contributed to a 9% increase in sales over 2007. Going forward, the Company's emphasis will be to continue this trend, with new product introductions and increased training contributing to increased agent productivity and improved business persistency.

In spite of difficult market conditions, the bank and securities distribution channel successfully diversified its distributor base and product offerings. As part of the deregulation of insurance sales through banks, the Company launched a single premium investment linked Long Term Care product through selected banks in early 2008. The Company also expanded the distribution of variable annuity products to more regional banks while maintaining its strategic alliance with Mitsubishi UFJ Financial Group (MUFG). As of the end of 2008, the Company had expanded its distribution network in Japan to include 40 agreements with banks and securities brokers.

Seeking further diversification and additional products to attract investment customers in Japan, the Company launched a new subsidiary, Manulife Investments Japan, to sell mutual funds starting in October 2008. Management anticipates that in the long term, this product line will become a significant contributor to the Company's Japan operations.

Funds under management increased by U.S.$2.7 billion to U.S.$18.2 billion as at December 31, 2008, from U.S.$15.5 billion as at December 31, 2007. Positive net policyholder cash flows from sales of variable annuity and universal life insurance products were partially offset by the negative impact of the decline in equity markets coupled with maturities and lapses on the block of policies acquired from Daihyaku Mutual Life Insurance Company in 2001.

Other Markets

In the Philippines, Singapore, Indonesia, Taiwan, China, Vietnam, Malaysia and Thailand ("Other Asia Territories"), 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, variable annuity 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, Vietnam and Taiwan. Products are primarily marketed through exclusive agents. However, bank distribution represents a material portion of sales in Indonesia, Singapore, Malaysia and the Philippines.

Other Asia Territories' operations are becoming increasingly important contributors to the Company's overall results, a trend that management expects to continue. Compared to a year ago, Other Asia Territories grew 12% in insurance sales, where Singapore, China and Indonesia were the largest contributors with year-over-year growth of 75% (2007: 11%), 27% (2007: 31%) and 14% (2007: 20%) respectively. Strong insurance sales growth was mainly driven by the strong agency and bancassurance sales and new product launches in Indonesia and Singapore and the expansion of sales office in China.

Impacted by the volatile financial markets, wealth management sales from Other Asia Territories experienced a 47% decline from a year earlier, where Indonesia's mutual fund sales, Singapore's single premium unit-linked and variable annuity sales and Thailand's mutual fund sales were the most affected. In Singapore, single premium unit-linked sales were further negatively impacted by a local regulatory change in April 2008. Despite these challenges, the Company continues to position the wealth management business to take advantage of a future market turnaround. In 2008, the Company expanded its network of asset management companies across Asia with the establishment of a new asset management company in Malaysia and the acquisition of an established asset management company in Taiwan.

The Company continues to pursue its goal of increasing the number and productivity of its agents. Agent count increased by 24% from 21,201 as at December 31, 2007 to 26,190 as at December 31, 2008. Consistent with the Company's multi-channel distribution strategy, the Company continues to diversify and seek new alternative distribution opportunities that offer significant opportunities for growth. Across the region, the Company is strengthening its existing relationships with its key distribution partners and continues to explore new possibilities. In the Philippines, the Company is building on its joint venture and strategic alliance with China Bank. In Indonesia, the Company started selling regular premium agency products through banks which is yielding increased business volumes and has introduced telemarketing sales in Vietnam.

Other Asia Territories together contributed approximately 18% (2007: 18%) of total funds under management and 21% (2007: 26%) of premiums and deposits for the division, where Singapore, Indonesia and Taiwan are the largest contributors.

In China, Manulife-Sinochem Life Insurance Co. Ltd. ("MSL") operated in a total of 34 cities at the end of 2008, the most of any foreign life insurance company in China and has received approval to open an additional branch office in Chongqing. It markets whole life insurance, term and endowment insurance, annuities, accident and health insurance in Shanghai, Beijing and other provinces such as Guangdong, Zhejiang, Jiangsu, Sichuan, Shandong and Fujian, with over 900 staff and 10,000 agents serving more than 432,000 customers. With a growing economy and a low penetration rate for insurance products, management believes that the Chinese market offers significant long-term potential.

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, high savings ratio and the relatively under-penetrated state of the insurance markets and increasing savings and wealth management opportunities. 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, competition is mainly from large domestic insurers. In Japan and other Asian markets, Manulife Financial competes with both large domestic insurers and 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.

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. In simple terms, reinsurance is the transfer of some or all of the risks related to policies issued by an insurance company to a reinsurer. Retrocession is reinsurance whereby a reinsurer assumes risk from other reinsurers.

Through offices in Canada, the United States, Belgium, Barbados, Germany, Singapore and Japan, 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 catastrophe 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 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 profitable 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.

The continued contraction of the life retrocession market due to pricing pressures and increases in insurer/reinsurer retention is expected to negatively impact the Life business line's new business volumes in the future. Conversely, it is expected that insurers and reinsurers will be negatively impacted by turbulent financial markets and prompted to seek solutions to their capital concerns. The Company's life retrocession market leadership position along with its capital strength mean the Life business line is well positioned to respond to client needs and provide mutually attractive solutions on in-force and excess-of-retention opportunities. Further, the Company will continue to work with clients in developing customized non-traditional reinsurance solutions meeting their risk and capital management requirements.

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.

The property and casualty catastrophe retrocession market began to stabilize in the fall of 2008 with some hardening of rates. The Property and Casualty business line successfully filled its capacity limits in 2008 and has taken advantage of current market conditions to improve the quality of its portfolio for 2009. With excellent, long-standing client relationships and the Company's financial strength, Property and Casualty business line is well positioned to continue to find and act on profitable market opportunities.

International Group Program

The Company reinsures a portion of the group insurance contracts issued to subsidiaries and affiliates of multinational organizations by IGP's global network of life insurance companies. IGP pools the profit and loss experience of these contracts for its multinational clients. Management expects IGP to maintain its leading position in the North American market 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 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 agricultural land. MFC Global has a physical presence in key financial centres around the world, including the United States, Canada, Hong Kong, Japan, the United Kingdom, Australia, and throughout South-east 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, private placements 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, 2008		December 31, 2007	
($ millions)	Carrying Value	% of Total	Carrying Value	% of Total
Cash and short term investments	17,269	9	12,354	8
Bonds	83,148	44	72,831	45
Stocks	8,354	4	11,134	7
Mortgages				
Commercial [1]	22,134	12	19,213	12
Residential	6,427	4	4,712	3
Agricultural	2,402	1	2,136	1
Private Placements	25,705	14	21,591	13
Policy Loans	7,533	4	5,823	4
Bank Loans	2,384	1	2,182	1
Real Estate	7,274	4	5,727	4
Other investments	4,871	3	3,597	2
Total invested assets [2]	187,501	100.0	161,300	100.0

(1) Includes multi-unit residential.
(2) For additional information on invested assets, see Note 4(a) to MFC's Audited Annual Financial Statements for the year ended December 31, 2008 filed on SEDAR.

The consolidated general fund invested assets were denominated 64% in U.S. dollars, 28% in Canadian dollars, 3% in Japanese yen and 5% in other currencies as at December 31, 2008. 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, the use of derivatives as well as market, liquidity, currency and credit risks. 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, 2008, the Company held $83.1 billion of bonds and $25.7 billion of private placements, representing in total 58% of the carrying value of consolidated general fund invested assets, with 71% of the bond and private placement portfolios rated "A" or higher and 95% rated "BBB" (investment grade) or higher. Investment grade bonds and private placements include the securities of approximately 3,000 different issuers, with no corporate issuer representing more than 0.8% of such holdings. Below investment grade bonds and private placements include the securities of more than 300 different issuers, with no issuer representing more than 5% of such holdings. Net impaired bonds and private placements had a carrying value of $282 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, 2008 Carrying Value	December 31, 2008 % of Total	December 31, 2007 Carrying Value	December 31, 2007 % of Total
1	AAA	21,880	20.1	20,536	21.8
1	AA	21,897	20.1	20,690	21.9
1	A	33,167	30.5	27,128	28.8
2	BBB	26,195	24.1	21,882	23.1
3 & below	BB & lower and unrated	5,714	5.2	4,186	4.4
Total		108,853	100.0	94,422	100.0

(1) NAIC designations are assigned no less frequently than annually.
(2) Sources: S&P; Moody's; DBRS; Fitch; 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, 2008. The remainder was primarily composed of corporate bonds. As at December 31, 2008, the bond and private placement portfolio was 68% denominated in U.S. dollars, 21% in Canadian dollars, 4% in Japanese yen and 7% 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, 2008 Carrying Value	December 31, 2008 Fair Value	December 31, 2007 Carrying Value	December 31, 2007 Fair Value
Due in one year or less	5,254	5,240	4,483	4,482
Due after one year through five years	25,026	24,759	20,163	20,156
Due after five years through ten years	26,939	26,378	22,609	22,598
Due after ten years	51,634	51,041	47,167	47,168
Total	108,853	107,418	94,422	94,404

Mortgages

As at December 31, 2008, mortgage investments represented 17% 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 51% located in Canada and 49% located in the United States. Commercial mortgages constituted 71% 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, 2008 Carrying Value	December 31, 2008 % of Total	December 31, 2007 Carrying Value	December 31, 2007 % of Total
Consolidated Company				
Multi-unit residential [1]	4,436	14	4,126	16
Retail	6,343	20	5,586	22
Office	5,030	16	3,883	15
Industrial	3,646	12	3,225	12
Other Commercial	2,679	9	2,393	9
Other Residential	6,427	21	4,712	18
Agricultural	2,402	8	2,136	8
Total	30,963	100	26,061	100
Canada				
Multi-unit residential [1]	2,323	8	2,484	10
Retail	2,261	7	2,377	10
Office	1,472	5	1,486	6
Industrial	1,543	5	1,692	6
Other Commercial	1,721	5	1,504	5
Other Residential	6,426	21	4,710	18
Agricultural	109	—	99	—
Total	15,855	51	14,352	55
United States				
Multi-unit residential [1]	2,108	6	1,639	6
Retail	4,003	13	3,142	12
Office	3,558	11	2,397	9
Industrial	2,103	7	1,533	6
Other Commercial	958	4	889	4
Other Residential	—	—	—	—
Agricultural	2,293	8	2,037	8
Total	15,023	49	11,637	45
Other Countries				
Multi-unit residential [1]	5	—	3	—
Retail	79	—	67	—
Office	—	—	—	—
Other Commercial	—	—	—	—
Other Residential	1	—	2	—
Total	85	—	72	—

(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, 2008 Carrying Value	December 31, 2008 % of Total	December 31, 2007 Carrying Value	December 31, 2007 % of Total
Canada				
Ontario	7,245	23	6,947	27
Western Canada	5,888	19	5,095	19
Quebec	1,531	5	1,317	5
Other Canada	1,191	4	993	4
	15,855	51	14,352	55
United States				
Pacific	4,114	13	3,269	13
Mid-Atlantic	2,350	8	1,810	7
New England	1,189	4	864	3
Central Northeast	1,553	5	1,092	4
South Atlantic	2,599	9	2,127	8
Other	3,218	10	2,475	10
	15,023	49	11,637	45
Other Countries	85	—	72	—
Total	30,963	100	26,061	100

Mortgages are originated through a network of 16 branches across Canada and the United States. In 2008, 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 25% of the total mortgage portfolio as at December 31, 2008. The Company also had privately insured mortgages representing 0.9% of the total mortgage portfolio as at December 31, 2008. 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, 2008, 0.06% of the Company's Canadian mortgage portfolio and 0.25% of the U.S. mortgage portfolio were considered delinquent.

Stocks

As at December 31, 2008, stocks represented 4% 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 37% in Canadian issuers, 31% in U.S. issuers, 26% in Asian issuers and 6% in other issuers. The largest single issuer in the stock portfolio represented 6% of the portfolio.

Real Estate

Real estate represented 4% of the consolidated general fund invested assets as at December 31, 2008. As at December 31, 2008, the real estate carrying value was $7.3 billion, with 63% located in the United States, 29% in Canada and 8% in Japan and other Asian countries.

The real estate portfolio is diversified by property types, with 87% in commercial properties and 13% in timber and agriculture. The commercial portfolio focuses on major urban centres. Office properties are the largest component, representing 80% of the portfolio as at December 31, 2008, 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, 2008 was 93%.

The real estate portfolio, as at December 31, 2008, had a market value surplus of $2,065 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 2008, approximately 65% 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, 2008. 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 $4.0 billion of unconsolidated joint ventures, partnerships, funds, limited liability corporations and $593 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, 2008, net impaired assets were $936 million, representing 0.5% 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 on loans of $208 million as at December 31, 2008.

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 increased by $4.6 billion to $95.6 billion driven by net sales of $13.6 billion and the positive impact of currency translation of $16.8 billion more than offsetting the $25.8 billion impact of declines in global equity and credit markets.

Third Party Assets

As at December 31 ($ in millions)	2008	2007	Change $	Change %
Managed on behalf of				
Operating Division clients	69,088	64,728	4,360	7
Institutional clients	26,284	26,247	237	1
Total third party assets	95,572	90,975	4,597	5

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 risk control and mitigation programs.

An explanation of Manulife Financial's risk management approach, 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 entitled "Risk Management" and "Critical Accounting and Actuarial Policies" in MFC's Management's Discussion

and Analysis for the year ended December 31, 2008 and in Note 8 (Risk Management) to MFC's consolidated financial statements for the year ended December 31, 2008, available on SEDAR at www.sedar.com, which sections and Note 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. These risk factors should be considered in conjunction with the other information in this Annual Information Form and the documents incorporated by reference herein.

Management has identified the following risks and uncertainties to which our business, operations and financial condition are subject. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial may also impair our business, results of operations, financial condition and capital position.

General - Financial Markets and Economy

The ongoing downturn in the financial markets and general economic conditions has severely impacted our business and is likely to continue to adversely impact our business results

In the past year, there has been unprecedented disruption of credit and equity markets, evidenced by treasury yields approaching zero, historically narrow swap spreads, historically wide corporate credit spreads, severe equity market declines, extreme currency volatility, extreme illiquidity in funding markets, and overall asset illiquidity. Despite massive government intervention in most developed economies, market turmoil continues. Declining real estate values and challenged mortgage markets, and the consequent decline in business and consumer confidence and increased unemployment globally, have precipitated a recession in many of the regions in which we do business, including the United States and Canada.

In addition to the direct effects of these conditions which are described in detail below, these conditions have also had and will likely continue to have indirect effects on the Company. For example:

- MFC's common share price has fallen, impacting our ability to raise capital and make acquisitions, and affecting the perceived strength of our franchise.
- The insurance industry in general, and the Company in particular, are exposed to fluctuations in the equity markets, particularly as a result of potential costs relating to certain guaranteed annuity products that are tied to the value of equity markets. The cash impact of equity market declines on these guarantees and on our invested assets is uncertain because of the long term nature of our business. However, the uncertainty has decreased confidence in our business and industry and could adversely affect sales levels and has adversely affected and could continue to adversely affect costs such as borrowing costs.
- Our credit ratings have been downgraded and our ability to raise financing has been affected, which has increased and will likely continue to increase our costs of borrowing.
- The general confidence in equity markets and consumer spending have declined, which has decreased demand for our products.

If the state of the financial markets and general economic conditions do not improve, it is unlikely that our sales levels will be consistent with those achieved in recent years. As well, our results of operations and financial condition will likely be adversely impacted by higher borrowing and transaction costs associated with less liquid markets and lower credit ratings and higher levels of asset impairment and additional accounting charges related to guarantees tied to equity markets.

Market Price Risk and Interest Rate Risk

Market risk is the risk of loss resulting from adverse investment returns caused by market price volatility, interest rate and credit spread changes.

The recent substantial decline in the global equity capital markets has had, and further capital market declines would continue to have, an adverse impact on our earnings and capital ratios due primarily to our variable annuity and to a lesser extent universal life insurance products

Market price risk arising from our variable annuity and universal life insurance products is due mainly to the death and living benefit guarantees we provide on variable annuity products and death benefits we provide on universal life insurance products, as well as asset-based fees which are generally based on the value of assets under management. In the latter half of 2008, volatility in the global equity markets increased dramatically and equity values decreased substantially, which resulted in significant increases in our exposure arising from variable annuity guarantees, and we have been required to set aside reserves to meet the required payments under these guarantees.

The guarantee risk in a substantial majority of our in-force business is not reinsured or hedged. Accordingly, further declines in the equity capital markets would require us to set aside additional reserves to satisfy these liabilities and could have a material adverse effect on our earnings and capital ratios. We initiated a hedging strategy for new business in late 2007 and intend to hedge the substantial majority of the new business we write. However, depending on market conditions, including continued equity market volatility or a decline in interest rates, the cost of hedging may increase or become uneconomic, in which case we may reduce or discontinue sales of certain of these products.

Guaranteed benefits are contingent and only payable upon death, maturity, permitted withdrawal or annuitization, if fund values remain below guaranteed values. As at December 31, 2008, net of amounts reinsured, the market value of the funds underlying the guarantees was $74,422 million and the amount of the guarantees was $101,231 million. During 2008 MFC established additional reserves and as at December 31, 2008, reserves for these liabilities amounted to $5,783 million, compared to $526 million as at December 31, 2007. Although these guaranteed benefits are generally not currently payable, the accounting valuation of and the amount of required capital to support these guarantees is extremely sensitive to short-term changes in market levels. If equity markets deteriorate further, additional liabilities will be accrued. If equity markets do not recover by the dates the liabilities are due, the accrued liabilities will need to be paid out in cash.

Market conditions have reduced our available capital and could cause further deterioration in our capital position

Our earnings and capital ratios remain sensitive to future market movements. MFC's principal Canadian operating company, Manufacturers Life, is regulated by the Superintendent and is subject to the Superintendent's MCCSR. The supervisory target ratio for MCCSR is set at 150%. As a result of the substantial decline in equity markets, MFC has had to significantly increase its reserves and the capital it holds to support its variable annuity and universal life insurance guarantees and other risks, reflecting the sensitivity of required capital to equity market performance. Accordingly, MFC currently endeavours to manage its affairs so that Manufacturers Life has an MCCSR ratio with a margin above 200% to allow for possible further market declines. However, there can be no assurance that Manufacturers Life's MCCSR ratio will be above the internal target. As at December 31, 2008, Manufacturers Life's MCCSR ratio was 235%. Since December 31, 2008, equity markets have continued to be very volatile and stock market indices have fallen to levels well below December 31, 2008 levels. If equity markets remain flat or decline further from the lowest levels since December 31, 2008, Manufacturers Life may operate at capital levels below its internal target.

In the United States, the Company's U.S. life insurance subsidiaries are subject to minimum regulatory capital requirements known as Risk Based Capital ("RBC") requirements. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The Company maintains capital in excess of the minimum required in each jurisdiction. As a result of the recent market volatility including the substantial decline in equity markets, MFC has taken measures to support the RBC ratios of its U.S. life insurance subsidiaries.

Depressed equity markets will likely reduce returns and fee income

We invest in equity securities to meet our future long-dated general fund obligations to policyholders and to earn returns for our shareholders' account. In addition, some of our customers buy products such as mutual funds and variable annuities and insurance, and we charge fees based on the value of the funds that they have invested with us. Recent declines in equity markets have reduced the value of our general fund invested assets, resulting in a charge against income. Declines in equity markets have also reduced our funds under management which in return has reduced our fee income. If equity markets do not recover, our investment returns and fee income will likely remain below levels earned in recent years. Further declines in equity markets will cause additional charges for policy reserves, additional other than temporary asset impairment charges, and will further reduce fee income, which would adversely affect our results of operations and financial condition.

Changes in market interest rates are likely to continue to impact our earnings

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. As the term profile of our assets, including derivatives, is shorter than our liabilities, general interest rate declines, including corporate and swap credit spreads, 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. Also, widening corporate credit spreads reflect a general increase in credit risk that can precede increased levels of impairment, which could significantly reduce our earnings.

Access to capital may be negatively impacted

Continued disruptions, uncertainty or volatility in the financial markets may also limit our access to capital required to operate our business. Such market conditions may limit our ability to satisfy regulatory capital requirements and to access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue different types of capital than we would otherwise, less effectively deploy such capital, issue shorter term securities than we prefer, or securities that bear an unattractive cost of capital which could decrease our profitability and significantly reduce our financial flexibility.

Available for sale investments are recorded at fair value, but losses arising on those investments may not have been recorded in income

Some of our investments are classified as available for sale. Available for sale assets are recorded at fair value, but unrealized gains and losses are recorded in a separate component of equity and are not charged to income. Unrealized gains are recorded in income when the related asset is sold. Unrealized losses are recorded in income either when the related asset is sold or when the related asset is considered impaired and the impairment is not considered to be temporary. During the year ended December 31, 2008, $1,952 million of unrealized losses were recorded on available for sale securities. Should market levels fail to recover, additional impairments may be judged to be other than temporary and part or all of these unrealized losses may be charged against future income as a result.

The decline in the economic conditions has had, and could have further adverse impacts on our investments in real estate and private equity investments

Our invested assets include real estate and private equity investments. A prolonged economic recession is likely to result in higher vacancy, lower rental rates and lower demand for real estate investments, all of which would negatively impact the value of our investments. A prolonged recession could also prevent companies in which we have made private equity investments from achieving their business plans and could cause the value of these investments to fall, or even cause the companies to fail entirely. The timing and amount of income from private equity investments is difficult to predict, and investment income from these investments can vary from quarter to quarter. Declines in the value of real estate or private equity investments would have an adverse effect on our results of operations and financial condition.

Manulife's invested assets include oil and gas assets. Reductions in the value of these investments could negatively impact our results of operations

The value of oil and gas assets could be negatively impacted by a number of factors including, but not limited to changes in commodity prices; unanticipated operating results or production declines; the impact of weather conditions on seasonal demand and ability to execute the capital program; incorrect assessments of the value of acquisitions; and uncertainties associated with estimating oil and natural gas reserves. As well, changes in government regulation of the oil and gas industry, including environmental regulation and changes in the royalty rates resulting from provincial royalty reviews, could adversely affect the value of our oil and gas investments and have an adverse effect on our results of operations and financial condition.

Our valuation of financial instruments may include methodologies, estimations and assumptions which are subjective in nature. Changes to investment valuations may arise in the future which materially adversely affect our results of operations or financial condition

The fair value for certain of our investments that are not actively traded is determined using models and other valuation techniques. These values therefore incorporate considerable judgment and involve making estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

We are currently experiencing a period of market disruption, including rapidly widening credit spreads and illiquidity, volatile markets and for some instruments significantly reduced trading activity. It has been and will likely continue to be difficult to value certain of our securities if trading continues to be less active and/or market data

remains harder to observe. Consequently, valuations may include inputs and assumptions that are less observable or require greater estimation thereby resulting in values which may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value that become recognizable in future periods could have a material adverse effect on our results of operations and financial condition.

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.

Continuation of the current economic downturn could result in further borrower and issuer defaults or downgrades, and could lead to increased provisions or impairments related to our general fund invested assets and an increase in provisions for future credit impairments to be included in our actuarial liabilities.

Our invested assets primarily include investment grade bonds, private placements, commercial mortgages, asset backed securities, and consumer loans. These assets are generally carried at fair value, but only changes in value that arise from a credit related impairment are recorded as a charge against income. An impairment is recorded when it is deemed probable that the Company will not be able to collect all amounts due according to contractual terms of the instrument, or when fair value has declined significantly below cost or for a prolonged period of time and there is not objective evidence to support recovery in value depending on the instrument. Since the beginning of the current market disruption credit related impairments have increased. For the year ended December 31, 2008, net credit related impairments amounted to $697 million. It is likely that impairments will continue to be incurred at higher levels than we have experienced in recent years, resulting in an adverse effect on our results of operations and financial condition.

The return assumptions incorporated in actuarial liabilities include an expected level of future asset impairments. There is a risk that actual impairment will exceed the assumed level of impairment in the future and earnings could be adversely impacted.

As at December 31, 2008, net impaired assets accounted for 0.50% of total invested assets, compared to 0.15% in 2007.

If a counterparty fails to fulfill its obligations we may be exposed to risks we had sought to mitigate

Counterparty risk arises primarily from derivative and reinsurance arrangements and, to a lesser extent, from other activities such as securities lending.

The Company uses derivative financial instruments to mitigate exposures to foreign currency, interest rate and other market risks arising from on-balance sheet financial instruments, guarantees related to variable annuity products, selected anticipated transactions and certain other guarantees. The Company may be exposed to counterparty risk if a counterparty fails to pay amounts owed to us or otherwise perform its obligations to us. Counterparty risk increases during economic downturns because the probability of default increases for most counterparties. Most of the counterparties in our derivative transactions are financial institutions, which have been adversely affected by this downturn. If any of these counterparties default, we may not be able to recover the amounts due from that counterparty. As at December 31, 2008, the Company had a gross derivative asset in the amount of $7,883 million. The largest single counterparty exposure as at December 31, 2008 was $100 million, compared to $170 million as at December 31, 2007. In 2007, we initiated a hedging program for our variable annuities. This program is expected to grow and our counterparty risk may increase as we increase the use of derivatives under this program.

The Company reinsures a portion of the business we enter into; however, we remain legally liable for contracts that we have reinsured. In the event that any of our reinsurance providers were unable or unwilling to fulfill their contractual obligations related to the liabilities we cede to them, we would need to increase actuarial reserves. An allowance for losses on reinsurance contracts is established when it is considered likely that a reinsurer will not honour its contractual obligations. The allowance for loss is based on current recoverables and ceded actuarial liabilities.

We participate in a securities lending program whereby blocks of securities are loaned to third parties, primarily major brokerage firms and commercial banks. Collateral, which exceeds the market value of the loaned securities, is retained by the Company until the underlying security has been returned. If any of our securities lending counterparties default and the value of the collateral is insufficient, we would incur losses. As at December 31, 2008, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately $1,213 million, compared to $3,692 million at December 31, 2007.

The determination of allowances and impairments on our investments is subjective and changes could materially impact our results of operations or financial position

The determination of allowances and impairments is based upon a periodic evaluation of known and inherent risks associated with the respective security.

Management considers a wide range of factors about the security and uses its best judgment in evaluating the cause of the decline in estimating the appropriate value for the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations in the impairment evaluation process include, but are not limited to: (i) the severity of the impairment; (ii) the length of time and the extent to which the market value of a security has been below its carrying value; (iii) the implication when the issuer is experiencing significant financial difficulties; (iv) the potential for impairments in an entire industry sector or sub-sector; (v) the potential for impairments in certain economically depressed geographic locations; (vi) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vii) our ability and intent to hold the security for a period of time sufficient to allow for the recovery of its value to an amount equal to or greater than cost or amortized cost; (viii) unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities; and (ix) other subjective factors, including concentrations and information obtained from regulators and rating agencies.

Such evaluations and assessments are revised as conditions change and new information becomes available. We update our evaluations regularly and reflect changes in allowances and impairments as such evaluations warrant. The evaluations are inherently subjective, and incorporate only those risk factors known to us at the time the evaluation is made. There can be no assurance that management has accurately assessed the level of impairments that have occurred. Additional impairments will likely need to be taken or allowances provided for in the future as conditions evolve. Historical trends may not be indicative of future impairments or allowances.

Liquidity Risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands.

Adverse capital and credit market conditions may significantly affect our liquidity risk

Extreme disruption in the capital and credit markets has exerted downward pressure on availability of liquidity and credit capacity. Asset liquidity has been reduced and we may not be able to liquidate certain asset classes for cash without taking significant losses. Providers of credit are preserving their capital and this has materially reduced access to wholesale borrowing in the debt capital markets and to borrowing from banks using credit facilities. We are dependent on cash flow from operations, a pool of highly liquid money market securities and holdings of sovereign bonds to provide liquidity. Should large and unexpected cash outflows occur, exceeding our worst case stress testing, we may be forced to sell assets at a loss or raise additional funds at significant cost in order to meet our liquidity needs.

The principal sources of our liquidity are cash and our assets that are readily convertible into cash, including insurance and annuity premiums, fee income earned on assets under management, deposit funds, and cash flow from our investment portfolio. We also fund ongoing liquidity needs through the issuance of long-term debt, common and preferred shares and other capital securities. We need liquidity to meet our payment obligations including those related to insurance and annuity benefits, cashable liabilities, our operating expenses, interest on our debt and dividends on our equity capital, and to replace certain maturing liabilities.

In the event we seek additional financing, the availability and terms of such financing will depend on a variety of factors including market conditions, the availability of credit to the financial services industry, our credit ratings and credit capacity, as well as the possibility that customers or lenders could develop a negative perception of our long- or short-term financial prospects if we incur large investment losses or if the level of our business activity decreases due to a market downturn.

Our requirements to pledge collateral or make payments related to declines in value of specified assets may adversely affect our liquidity

In the normal course of business, we are required to pledge assets to comply with jurisdictional regulatory and other requirements including collateral pledged in relation to derivative contracts and assets held as collateral for repurchase funding agreements. The amount of collateral we may be required to post under these agreements, and the amount of payments we are required to make to our counterparties, may increase under certain circumstances, including a sustained or continued decline in the value of our derivative contracts. Such additional collateral requirements and payments could have an adverse effect on our liquidity. As at December 31, 2008, total pledged

assets were $4,481 million, compared to $848 million in 2007. The increase in pledged assets was primarily driven by the decline in asset values and the mark to market of our derivatives, and by an increase in derivative transactions. Assets pledged as collateral are not available to support our liquidity needs.

As a holding company, MFC depends on the ability of its subsidiaries to transfer funds to it to meet MFC's obligations and pay dividends

MFC is a holding company with no significant operations. MFC's principal asset is the stock of its regulated insurance subsidiaries. These subsidiaries are subject to regulatory restrictions under the laws of their respective jurisdiction of incorporation and in which they operate, which may limit their ability to pay dividends or make distributions to MFC.

The payment of dividends by MFC and Manufacturers Life is subject to restrictions set out in the ICA. 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.

In the United States, insurance laws in Michigan, New York, Massachusetts, and Vermont, the jurisdictions in which certain of MFC's U.S. insurance company subsidiaries are domiciled, impose general limitations on the payment of dividends and other upstream distributions by these insurance subsidiaries. These laws prohibit the payment of dividends or other distributions 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 we operate either provide for specific restrictions on the payment of dividends or other distributions by subsidiaries or impose solvency or other financial tests, which could affect the ability of subsidiaries to pay dividends in certain circumstances.

Limits on the ability of the insurance subsidiaries to pay dividends or make distributions could have a material adverse effect on MFC's liquidity, including its ability to pay dividends to shareholders and service its debt.

Foreign Currency Risk

Foreign currency risk is the risk of loss resulting from adverse foreign currency rate movements.

Fluctuations in foreign currency exchange rates and foreign securities markets could negatively affect our profitability

A substantial portion of our business is transacted 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 dollar denominated assets. Our financial results are reported in Canadian dollars. As a result, if the Canadian dollar strengthens relative to these non-Canadian currencies, the translated value of reported earnings from these non-Canadian dollar denominated businesses would decrease and the translated value of our reported shareholders' equity would decline. Exchange rate fluctuations are beyond our control and can be significant.

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.

Competitive factors may adversely affect our market share and profitability

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include an investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. The current economic environment has reduced customer demand, further increasing competition. Our competitors compete with us for customers, access to distribution channels such as brokers and independent agents and for our employees. In some cases, competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively or offer features that make their products more attractive. These competitive pressures could result in increased pricing pressures on a number of our products and services and may harm our ability to maintain or increase our profitability. Because of the highly competitive nature of the financial services industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressure will not have a material adverse effect on our business, results of operations and financial condition.

Our insurance businesses are heavily regulated, and changes in regulation may reduce our profitability and limit our growth

Our insurance operations are subject to a wide variety of insurance and other laws and regulations.

In Canada, MFC and its principal operating subsidiary, Manufacturers Life, are governed by the ICA. The ICA is administered and the activities of the Company are supervised by OSFI. The Company is also subject to regulation and supervision under the insurance laws of each of the provinces and territories of Canada. Regulatory oversight is vested in various governmental agencies having broad administrative power with respect to, among other things, dividend payments, capital adequacy and risk-based capital requirements, asset and reserve valuation requirements, permitted investments and the sale and marketing of insurance contracts. These regulations are intended to protect policyholders and beneficiaries rather than investors.

In the United States, state insurance laws regulate most aspects of our business, and our U.S. insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled and the states in which they are licensed.

State laws in the United States grant insurance regulatory authorities broad administrative powers with respect to, among other things: licensing companies and agents to transact business; calculating the value of assets to determine compliance with statutory requirements; mandating certain insurance benefits; regulating certain premium rates; reviewing and approving policy forms; regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements; regulating advertising; protecting privacy; establishing statutory capital and reserve requirements and solvency standards; fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts; approving changes in control of insurance companies; restricting the payment of dividends and other transactions between affiliates; and regulating the types, amounts and valuation of investments.

Currently, the U.S. federal government does not directly regulate the business of insurance. However, federal legislation and administrative policies in several areas can significantly and adversely affect insurance companies. These areas include financial services regulation, securities regulation, pension regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct federal regulation of insurance have been proposed, including the National Insurance Act of 2007. In view of recent events involving certain financial institutions, it is possible that the U.S. federal government will heighten its oversight of insurers such as us, including possibly through a federal system of insurance regulation. We cannot predict whether this or other proposals will be adopted, or what impact, if any, such proposals or laws could have on our business, results of operations and financial condition.

Insurance guaranty associations in Canada and the United States have the right to assess insurance companies doing business in their jurisdiction for funds to help pay the obligations of insolvent insurance companies to policyholders and claimants. Because the amount and timing of an assessment is beyond our control, the liabilities that we have currently established for these potential liabilities may not be adequate.

Our international operations are subject to regulation in the jurisdictions in which they operate. Many of our independent sales intermediaries also operate in regulated environments. Insurance regulators in Canada, the United States and in Asia regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and, thus, could have a material adverse effect on our results of operations and financial condition.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance costs and other expenses of doing business, thus having a material adverse effect on our results of operations and financial condition.

From time to time, regulators raise issues during examinations or audits of Manulife Financial that could have a material adverse impact on us. We cannot predict whether or when regulatory actions may be taken that could adversely affect our operations. In addition, the interpretations of regulations by regulators may change and statutes may be enacted with retroactive impact, particularly in areas such as accounting or statutory reserve requirements.

We may experience difficulty in marketing and distributing products through our current and future distribution channels

We distribute our insurance and wealth management products through a variety of distribution channels, including brokers, independent agents, broker-dealers, banks, wholesalers, affinity partners, other third-party organizations and our own sales force in Asia. We generate a significant portion of our business through individual third-party arrangements. We periodically negotiate provisions and renewals of these relationships, and there can be no

assurance that such terms will remain acceptable to us or relevant third parties. An interruption in our continuing relationship with certain of these third parties could materially affect our ability to market our products and could have a material adverse effect on our business, results of operations and financial condition.

We must attract and retain sales representatives to sell our products. Strong competition exists among financial services companies for efficient sales representatives. We compete with other financial services companies for sales representatives primarily on the basis of our financial position, support services and compensation and product features. Factors that affect our ability to attract distributors include compensation levels, brand reputation, product features, and ease of doing business. Any of these factors could change either because we change the Company or our products, or because our competitors change theirs and we are unable or unwilling to adapt. If we are unable to attract and retain sufficient sales representatives to sell our products, our ability to compete and revenues from new sales would suffer, which could have a material adverse effect on our business, results of operations and financial condition.

Industry trends could adversely affect the profitability of our businesses

Our business segments continue to be influenced by a variety of trends that affect the financial services industry. The impact on our business and on the industry generally of the volatility and instability of the financial markets is difficult to predict, and our business plans, financial condition and results of operations may be negatively impacted or affected in other unexpected ways. The financial services industry has been particularly impacted by the current market conditions, is subject to a high degree of government regulation, and, as complex products are introduced, regulators may refine capital requirements and introduce new reserving standards. Furthermore, regulators have undertaken market and sales practices reviews of several markets or products, including variable annuities and group products. The current market environment may also lead to changes in regulation that may disadvantage us relative to some of our competitors.

We have experienced and may experience additional future downgrades in our financial strength or credit ratings, which may materially adversely impact our financial condition and results of operations

Credit rating agencies publish financial strength ratings on life insurance companies that are indicators of an insurance company's ability to meet contractholder and policyholder obligations. Credit rating agencies also assign credit ratings, which are indicators of a debt issuer's ability to meet the terms of debt obligations in a timely manner, and are important factors in overall funding profile and ability to access external capital.

Ratings are important factors in establishing the competitive position of insurance companies, maintaining public confidence in products being offered, and determining the cost of capital. A ratings downgrade, or the potential for such a downgrade, could, among other things: increase our cost of capital and limit our access to the capital markets; cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations; result in the termination of our relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services; materially increase the number of surrenders, for all or a portion of the net cash values, by the owners of policies, contracts and general account GICs we have issued, and materially increase the number of withdrawals by policyholders of cash values from their policies; and reduce new sales, particularly with respect to general account GICs and funding agreements purchased by pension plans and other institutions. Any of these consequences could adversely affect our results of operations and financial condition.

In recent months, most rating agencies have assigned a negative outlook on the North American life insurance industry. The negative outlook is primarily based on expectations for higher-than-normal credit losses, lower fee-based revenues, negative impact of the volatile equity markets on earnings and capital requirements, and overall reduced financial flexibility.

This outlook signals a more comprehensive review of life insurance companies by each of A.M. Best, Fitch, Moody's, S&P and DBRS. As a result, it is possible that there will be changes in the benchmarks for capital, liquidity, earnings and other factors used by these credit rating agencies that are critical to a ratings assignment at a particular rating level. If any such changes are made, it is possible that such changes could have a negative impact on the ratings of North American life insurance companies, including ours, which could adversely impact our results of operations and financial condition.

During February 2009, the financial strength and credit ratings of our key operating subsidiaries were downgraded by one notch by S&P and Fitch. During March 2009, our financial strength and credit ratings were downgraded by two notches by Moody's. Our key operating subsidiaries are currently rated AA+ by S&P, AA by Fitch and Aa3 by Moody's for financial strength.

We may face unforeseen liabilities or asset impairments arising from possible acquisitions and dispositions of businesses or difficulties integrating acquired businesses

We have engaged in acquisitions and dispositions of businesses in the past, and expect to continue to do so in the future. There could be unforeseen liabilities or asset impairments, including goodwill impairments, that arise in connection with the businesses that we may sell, have acquired, or may acquire in the future. In addition, there may be liabilities or asset impairments that we fail, or are unable, to discover in the course of performing due diligence investigations on each business that we have acquired or may acquire. Furthermore, the use of our own funds as consideration in any acquisition would consume capital resources that would no longer be available for other corporate purposes.

Our ability to achieve certain benefits we anticipate from any acquisitions of businesses will depend in large part upon our ability to successfully integrate the businesses in an efficient and effective manner. We may not be able to integrate the businesses smoothly or successfully, and the process may take longer than expected. The integration of operations may require the dedication of significant management resources, which may distract management's attention from our day-to-day business. Acquisitions of operations outside of North America may be particularly challenging or costly to integrate. See the risk factor entitled "Our non-North American operations face political, legal, operational and other risks that could negatively affect those operations or our profitability". If we are unable to successfully integrate the operations of any acquired businesses, we may be unable to realize the benefits we expect to achieve as a result of the acquisitions and our business and results of operations may be less than expected.

If our businesses do not perform well, or if the outlook for our businesses is significantly lower than historical trends, we may be required to recognize an impairment of goodwill or intangible assets or to establish a valuation allowance against our future tax assets, which could have a material adverse effect on our results of operations and financial condition

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net identifiable assets at the date of acquisition. Intangible assets represent assets that are separately identifiable at the time of an acquisition and provide future benefits such as the John Hancock brand.

We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the "reporting unit" to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The test can be performed in a number of ways but generally incorporates an evaluation of the expected future income streams of the reporting unit. If it is determined that the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Intangible assets are subject to similar tests, but the tests focus on the fair value of the intangible asset itself rather than the reporting unit as a whole. Such write downs could have a material adverse effect on our results of operations or financial condition.

If current market conditions persist during 2009, and in particular, if MFC's common share price remains below book value per share, if the Company's actions to limit risk associated with its products or investments causes a significant change in any one reporting unit's fair value, or if the outlook for a reporting unit's results deteriorate, the Company may need to reassess the value of goodwill and/or intangible assets which could result in additional impairments during 2009 or subsequent periods. Such impairments could have a material adverse effect on our results of operations or financial condition.

At December 31, 2008, we had $7,929 million of goodwill and $1,866 million of intangible assets.

Future income tax balances represent the expected future tax effects of the differences between the book and tax basis of assets and liabilities. Future tax assets are recorded when the Company expects to claim deductions on tax returns in the future for expenses that have already been recorded in the financial statements. The availability of those deductions is dependent on future taxable income against which the deductions can be made. Future tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business including the ability to generate gains from a variety of sources and tax planning strategies. If based on information available at the time of the assessment, it is more likely than not that the future tax asset will not be realized, then a valuation allowance must be established with a corresponding charge to net income. The establishment of valuation allowances against our future tax assets could have a material adverse effect on our results of operations or financial condition. At December 31, 2008, we had $2,482 million of future tax assets.

Changes in accounting standards may adversely affect our financial statements

Our consolidated financial statements are subject to the application of Canadian GAAP, which is periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards

issued by recognized authoritative bodies. Market conditions have prompted accounting standard setters to issue new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments, structures or transactions as well as to issue new standards expanding disclosures. In addition, it is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our consolidated financial statements and that such changes could have a material adverse effect on our financial condition and results of operations.

Changes in tax laws, tax regulations, or interpretations of such laws or regulations could make some of our products less attractive to consumers or could increase our corporate taxes, which could have a material adverse effect on our business, results of operations and financial condition

Many of the products that the Company sells benefit from one or more forms of preferred tax treatment under current income tax regimes. For example, the Company sells life insurance policies that benefit from the deferral or elimination of taxation on earnings accrued under the policy, as well as permanent exclusion of certain death benefits that may be paid to policyholders' beneficiaries. We also sell annuity contracts that allow the policyholders to defer the recognition of taxable income earned within the contract. Other products that the Company sells also enjoy similar, as well as other, types of tax advantages.

The Company also benefits from certain tax benefits, including but not limited to, tax-exempt interest, dividends-received deductions, tax credits (such as foreign tax credits), and favourable tax rates and/or income measurement rules for tax purposes.

There is risk that tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages currently benefiting the Company or its policyholders. This could occur in the context of deficit reduction or other tax reforms. The effects of any such changes could result in materially lower product sales, lapses of policies currently held, and/or our incurrence of materially higher corporate taxes, any of which could have a material adverse effect on our business, results of operations or financial condition.

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.

Actual experience may differ from assumptions with respect to claims, policyholder behaviour and expenses

When we design, price and sell policies, we make a variety of assumptions related to the future level of claims, policyholder behaviour, expenses and sales levels. Similar assumptions underlie our estimates for actuarial liabilities. The development of assumptions for future claims are based on Company and industry experience. Assumptions for future policyholder behavior are based on Company experience and predictive models. All assumptions require significant professional judgment and 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. As well, for products that provide policyholders with lifetime benefits, unexpected improvements in life expectancy could increase the ultimate cost of these benefits. Policyholder premium payment patterns, policy renewal, withdrawal and surrender activity is influenced by many factors including market and general economic conditions, and the availability and price of other products in the marketplace. Should actual results be materially worse than those assumed in the design, pricing and sale of products, our actuarial reserves will not be sufficient to absorb the cost of meeting our obligations and we will incur losses as a result. Such losses could have a material adverse effect on our results of operations and financial condition.

Reinsurance may not be available, affordable or adequate to protect us against losses

We purchase reinsurance for certain risks underwritten by our various business segments. Reinsurance agreements typically bind the reinsurer for the life of the business reinsured at generally fixed pricing. However, market conditions beyond our control determine the availability and cost of the reinsurance protection for new business and, in certain circumstances, the price of reinsurance for business already reinsured can also increase. Any decrease in the availability of reinsurance will increase the amount of risk we retain, which exposes us to increased loss. Any increase in the cost of reinsurance will, absent a decrease in the amount of reinsurance, reduce our earnings. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue.

Operational Risk

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

Adverse publicity, litigation or regulatory action resulting from our business practices or actions by our employees, representatives and business partners, could erode our corporate image and damage our franchise value

Manulife Financial's reputation is one of its most valuable assets. Harm to a company's reputation is often a consequence of risk control failure, whether associated with complex financial transactions or relatively routine operational activities. Manulife Financial's reputation could also be harmed by the actions of third parties with which we do business. Our 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 include, among others, third parties to whom we outsource administrative functions and that we rely on to fulfill various obligations. We outsource certain technology and business functions to third parties and expect to do so selectively in the future. If we do not effectively develop and implement our outsourcing strategy, third-party providers do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, increased costs and a loss of business.

If any of these representatives or business partners fails to adequately perform their responsibilities, or monitor their own risk, these failures could affect our business reputation and operations. While Manulife Financial seeks to maintain adequate internal risk management policies and procedures and protect against performance failures, we cannot assure you that an event will not occur that could cause us to lose customers or suffer legal or regulatory sanctions, which could have a material adverse effect on our reputation and our business.

Interruptions relating to our technology and information security could significantly disrupt our business, impede our ability to conduct business and adversely impact our business, results of operations and financial condition

Technology is used in virtually all aspects of our business and operations including the creation and support of new products and services. We rely upon operational integrity, data integrity, security of information and our systems infrastructure for normal business operations. Disruption to operations due to system failure or information security breaches can have negative consequences for our businesses. While we have business continuity, information security and other policies, plans and procedures in place to attempt to minimize business disruption and protect confidential information, these may not be effective. Disruptions or breaches caused by natural disasters, man-made disasters, criminal activity, pandemics, or other events beyond our control, could prevent us from effectively operating our business, adversely impact our results of operations and financial condition or damage our reputation.

Our non-North American operations face political, legal, operational and other risks that could negatively affect those operations or our profitability

We have significant operations outside of North America, primarily in Asia. These businesses face political, legal, operational and other risks that we do not face in our operations in Canada or the United States. We face the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into Canadian or U.S. dollars. Some of our international businesses are, and are likely to continue to be, in emerging or potentially volatile markets. In addition, we rely on local staff, including local sales forces, in these countries where there is a risk that we may encounter labor problems with local staff, especially in countries where workers' associations and trade unions are strong.

We are currently planning to expand our international operations in markets where we operate and potentially in selected new markets. This may require considerable management time, as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may be affected by local economic and market conditions.

Environmental liability exposure may result from our commercial mortgage loan portfolio and owned property

Liability under environmental protection laws resulting from our commercial mortgage loan portfolio and owned property (including commercial real estate, oil and gas, timber and agricultural properties) may harm our financial strength and reduce our profitability. Under applicable laws, contamination of a property with hazardous materials or substances may give rise to a lien on the property to secure recovery of the costs of cleanup. In some instances, this lien has priority over the lien of an existing mortgage encumbering the property. Additionally, as lender, we may

incur environmental liability (including without limitation liability for clean-up, remediation and damages incurred by third parties) similar to that of an owner or operator of the property, if we or our agents exercise sufficient control over the operations at the property. We may also have liability as the owner and/or operator of real estate for environmental conditions or contamination that exist or occur on the property, or affecting other property. Environmental liability exposure may adversely impact our reputation, results of operations and financial condition.

We are subject to tax audits, tax litigation or similar proceedings, and as a result we may owe additional taxes, interest and penalties in amounts that may be material

We are subject to income taxes in Canada and the United States as well as many other jurisdictions. In determining our provisions for income taxes and our accounting for tax-related matters in general, we are required to exercise judgment. We regularly make estimates where the ultimate tax determination is uncertain. There can be no assurance that the final determination of any tax audit, appeal of the decision of a taxing authority, tax litigation or similar proceedings will not be materially different from that reflected in our historical financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to our current and future results of operations and financial condition.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risks, which could negatively affect our business, results of operations and financial condition

We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our policies and procedures may not be comprehensive. Many of our methods for measuring and managing risk and exposures are based upon the use of observed historical market behaviour or statistics based on historical models. As a result, these methods may not fully predict future exposures, which can be significantly greater than our historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated.

Additional Risks

Applicable laws may discourage takeovers and business combinations that common shareholders of MFC might consider in their best interests

The ICA contains restrictions on the purchase or other acquisition, issue, transfer and voting of the shares of an insurance company. In addition, under applicable U.S. insurance laws and regulations in states where certain of our insurance company subsidiaries are domiciled, no person may acquire control of MFC without obtaining prior approval of those states' insurance regulatory authorities. These restrictions may delay, defer, prevent, or render more difficult a takeover attempt that common shareholders of MFC might consider in their best interests. For instance, they may prevent shareholders of MFC from receiving the benefit from any premium to the market price of MFC's common shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of MFC's common shares if they are viewed as discouraging takeover attempts in the future.

We may not be able to protect our intellectual property and may be subject to infringement claims

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon its intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, methods, processes or services. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

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 contains 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 recent annual examination cycle of Manulife Financial was completed in February 2009. A primary focus of the regulatory reviews given the current economic downturn was the Company's equity market exposure, most materially through segregated fund guarantees. MFC currently endeavours to manage its affairs so that Manufacturers Life has an MCCSR with a margin above 200% to allow for possible further market declines.

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 RBC requirements for MFC's U.S. life insurance subsidiaries. The Company maintains capital 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. Manulife Securities Investment Services Inc. ("MSISI") is registered under provincial and territorial securities laws to sell mutual funds across Canada and is 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. Manulife Securities Inc. ("MSI") 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 Industry Regulatory Organization 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 MSI.

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 MSISI.

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.

IMSA membership is voluntary but companies may only be admitted following the successful conclusion of a two step process in which companies must undergo both a self assessment and an independent assessment performed by a qualified third party. John Hancock USA completed the two step assessment process and was originally admitted to membership in IMSA in April 1998. Companies are required to re-qualify for IMSA membership every three years using the two step assessment process, or in some circumstances, a self attestation may be used in lieu of the two step assessment process. John Hancock USA elected to use the two step assessment process for its most recent re-qualification effective November 1, 2008.

John Hancock Life completed the two step assessment process and was originally admitted to membership in IMSA on March 31, 1998. John Hancock Life elected to use the two step assessment process for its most recent re-qualification effective November 1, 2008.

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, 2008.

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 U.S. Securities and 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 Advisers, MFC Global Investment Management (U.S.), LLC, Hancock Natural Resource Group, Inc., Hancock Venture Partners, Inc., Hancock Capital Investment Management, LLC, Signator Investors, Declaration Management & Research LLC, John Hancock IMS 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.

In November 2007, Manulife Japan established Manulife Investments Japan Limited ("MIJ") as its wholly owned subsidiary. MIJ launched an investment trust business in 2008. An investment trust is a product similar to a mutual fund and the sale of investment trusts in Japan is regulated by the *Financial Instruments and Exchange Law* (Japan) which is administered by the Financial Services Agency.

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, 2008, MFC had approximately 1,610 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. On March 4, 2009, MFC issued 18 million Class A Shares Series 4 and authorized but not issued Class A Shares Series 5.

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. Summaries of the terms of the Class A Shares Series 1, Class A Shares Series 2, Class A Shares Series 3, Class A Shares Series 4 and Class A Shares Series 5 are contained in the prospectuses under which these series were issued, which are available on SEDAR.

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, 2006 to December 31, 2008:

I. On the Common Shares, (i) a dividend of $0.35 per share was paid on March 20, 2006 and June 19, 2006, (ii) a dividend of one Common Share per each issued and outstanding Common Share was paid on June 2, 2006, (iii) a dividend of $0.175 per share was paid on September 19, 2006, (iv) a dividend of $0.20 per share was paid on December 19, 2006 and March 19, 2007, (v) a dividend of $0.22 per share was paid on June 19, 2007 and September 19, 2007, (vi) a dividend of $0.24 per share was paid on December 19, 2007, March 19, 2008 and June 19, 2008, and (vii) a dividend of $0.26 per share was paid on September 19, 2008 and December 19, 2008;

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, 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; 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, 2006 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 until their redemption on December 31, 2007.

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 if the acquisition would cause the person to have a "significant interest" in any class of shares of MFC, unless the prior approval of the Minister of Finance is obtained. The restrictions also prohibit any person from becoming a "major shareholder" of MFC. In addition, MFC is not permitted to record in its securities register any transfer or issue of shares 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 exceeds 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 recording in its securities register a transfer or issue of any share to Her Majesty in right of Canada or of a province, an agent or agency of Her Majesty, a foreign government or an agent or agency 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 organizations on its outstanding securities as at the date of this Annual Information Form. Approved rating organizations are defined by Canadian securities laws to include DBRS, Fitch and S&P.

	DBRS	Fitch	S&P
Class A Series 1	Pfd-1(low) Stable	A / Negative	P-1(low) / A Stable
Class A Series 2	Pfd-1(low) Stable	A / Negative	P-1(low) / A Stable
Class A Series 3	Pfd-1(low) Stable	A / Negative	P-1(low) / A Stable
Class A Series 4	Pfd-1(low) Stable	A / Negative	P-1(low) / A Stable
Medium Term Notes	AA (low) Stable	A+ / Negative	AA- / Stable

The security ratings accorded by the rating organizations are not a recommendation to purchase, hold or sell these securities and may be subject to revision or withdrawal at any time by the rating organizations. 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' 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' opinion regarding the outlook for the rating in question.

MFC's Class A Shares, Series 1, Series 2, Series 3 and Series 4 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.

MFC's Medium Term Notes have been assigned an AA rating, reflecting superior credit quality, with protection of interest and principal considered as 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 predetermined period of time. Rating outlooks may be positive, stable, or negative.

MFC's Class A Shares, Series 1, Series 2 , Series 3 and Series 4 have been assigned an A rating, sixth out of 21 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.

MFC's Medium Term Notes have been assigned an A+ rating, reflecting a very high credit quality. The A+ 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.

The Negative outlook assigned to these securities reflects Fitch's view that near-term conditions in the financial markets will continue for an extended period, which could cause the Company to experience further volatility in its financial results and capital adequacy and lead to a potential downgrade in rating should market conditions deteriorate further.

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, Series 3 and Series 4 have been assigned a P-1(low) rating on the Canadian scale, which corresponds to an A rating on the global scale. The ratings rank fourth 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.

MFC's Medium Term Notes have been assigned an AA- rating, reflecting superior credit quality, with protection of interest and principal considered as very high. 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 as very strong.

The Stable outlook assigned to these securities reflects S&P's view that the Company's business fundamentals remain sound, as demonstrated by its steady growth in new business embedded value, level and quality of reserves, strong multichannel distribution network and insurance sales. The outlook also reflects their expectation that fixed charges on a core operating earnings basis will remain above 10 times, asset quality issues will be less significant than those of North American peers, and reserve requirements for equity risk will not cause capital at the operating companies to fall below the 'AA' levels as measured by their capital models.

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		
2008	High (C$)	Low (C$)	Volume (000s)	High (U.S.$)	Low (U.S.$)	Volume (000s)
Jan-08	$ 40.65	$ 33.77	71,118,808	$ 40.98	$ 33.44	36,176,172
Feb-08	$ 39.38	$ 36.01	59,524,492	$ 40.35	$ 35.80	28,287,016
Mar-08	$ 39.29	$ 34.00	78,872,256	$ 38.78	$ 34.19	32,062,632
Apr-08	$ 41.04	$ 37.48	56,694,024	$ 40.35	$ 36.80	21,590,204
May-08	$ 40.59	$ 36.60	78,864,792	$ 39.80	$ 36.22	22,311,076
Jun-08	$ 39.45	$ 35.25	68,481,688	$ 38.74	$ 34.60	21,910,200
Jul-08	$ 38.86	$ 33.22	76,989,736	$ 38.44	$ 33.26	38,724,724
Aug-08	$ 38.31	$ 35.43	50,187,208	$ 37.07	$ 33.72	22,859,476
Sep-08	$ 39.40	$ 33.70	133,438,592	$ 37.55	$ 31.28	43,004,272
Oct-08	$ 39.20	$ 21.17	142,021,168	$ 37.00	$ 16.46	64,829,304
Nov-08	$ 27.21	$ 16.28	118,666,984	$ 23.35	$ 12.70	59,648,360
Dec-08	$ 22.09	$ 18.50	143,889,872	$ 17.83	$ 14.91	71,650,160

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		
2008	High (C$)	Low (C$)	Volume (000s)	High (C$)	Low (C$)	Volume (000s)
January	$ 26.06	$ 25.16	132,590	$ 23.00	$ 22.10	575,170
February	$ 26.99	$ 25.47	89,942	$ 23.45	$ 22.34	212,585
March	$ 26.20	$ 24.64	218,920	$ 23.20	$ 21.57	323,859
April	$ 25.79	$ 25.12	209,584	$ 22.20	$ 21.20	905,818
May	$ 25.98	$ 25.42	105,731	$ 22.08	$ 21.50	370,572
June	$ 25.65	$ 25.20	98,445	$ 21.65	$ 19.82	668,225
July	$ 25.59	$ 25.05	357,753	$ 20.39	$ 18.47	455,601
August	$ 25.95	$ 25.05	96,012	$ 20.75	$ 19.95	172,584
September	$ 25.38	$ 24.51	557,384	$ 20.75	$ 19.02	165,742
October	$ 25.17	$ 23.25	1,493,185	$ 19.26	$ 16.80	1,246,333
November	$ 24.86	$ 23.81	243,632	$ 18.65	$ 13.01	463,995
December	$ 25.29	$ 24.00	633,502	$ 17.84	$ 14.60	663,148

	TSX – Series 3		
2008	High (C$)	Low (C$)	Volume (000s)
January	$ 22.40	$ 20.91	297,190
February	$ 22.65	$ 21.41	547,237
March	$ 22.50	$ 21.20	314,635
April	$ 21.50	$ 21.00	205,070
May	$ 21.55	$ 21.00	180,995
June	$ 21.40	$ 19.35	579,251
July	$ 19.70	$ 17.52	305,413
August	$ 20.50	$ 18.80	334,634
September	$ 19.98	$ 18.51	489,270
October	$ 19.49	$ 15.37	601,514
November	$ 17.96	$ 12.60	396,694
December	$ 18.00	$ 13.85	859,840

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, 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. 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.

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 January 26, 2009. Additional information on each Director can be found at the section entitled "Board of Directors" in MFC's Proxy Circular dated March 17, 2009 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 7, 2009.

Name and Residence	Position with Manulife Financial	Principal Occupation
Dr. Gail C.A. Cook-Bennett Ontario, Canada	Chair of the Board [1]	Chair of the Board Manulife Financial
Dominic D'Alessandro Ontario, Canada	President and Chief Executive Officer, Director	President and Chief Executive Officer, Manulife Financial
John M. Cassaday Ontario, Canada	Director	President and Chief Executive Officer, Corus Entertainment Inc. (broadcasting company)
Lino J. Celeste New Brunswick, Canada	Director	Corporate Director
Thomas P. d'Aquino Ontario, Canada	Director	Chief Executive and President, Canadian Council of Chief Executives (research and advocacy group)
Richard B. DeWolfe Massachusetts, United States	Director	Managing Partner, DeWolfe & Company LLC (consulting firm)
Robert E. Dineen, Jr. New York, United States	Director	Attorney at Law [2]
Pierre Y. Ducros Quebec, Canada	Director	President, P. Ducros & Associates, Inc. (investment firm)
Scott M. Hand Ontario, Canada	Director	Retired Chairman and Chief Executive Officer, Inco Limited (mining company) [3]
Robert J. Harding Ontario, Canada	Director	Chair, Brookfield Assessment Management Inc. (specialist asset management company focused on property, power and other infrastructure assets)
Luther S. Helms Arizona, United States	Director	Managing Director, Sonata Capital Group (investment advice firm)
Thomas E. Kierans 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 Ontario, Canada	Director	President Emerita and Professor, York University [5]
Hugh W. Sloan, Jr. Michigan, United States	Director	Retired Deputy Chairman, Woodbridge Foam Corporation (manufacturer of automobile parts) [6]
Gordon G. Thiessen Ontario, Canada	Director	Corporate Director [7]

(1) Dr. Cook-Bennett was appointed Chair of the Board effective October 2, 2008. Prior to October 2008, Dr. Cook-Bennett was Chair of the Canada Pension Plan Investment Board.
(2) Prior to January 2009, Robert Dineen was Of Counsel to Shearman & Sterling LLP.
(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 August 19, 2008, Hugh Sloan was Deputy Chairman, Woodbridge Foam Corporation.
(7) Prior to April 20, 2008, 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 January 26, 2009.

Name and Residence	Position with Manulife Financial
Dominic D'Alessandro Ontario, Canada	President and Chief Executive Officer
Diane M. Bean Ontario, Canada	Executive Vice President Corporate Affairs and Human Resources (1)
Jean-Paul Bisnaire Ontario, Canada	Senior Executive Vice President, Business Development and General Counsel (2)
James R. Boyle Massachusetts, United States	Executive Vice President, U.S. Insurance (3)
Robert A. Cook Hong Kong, Special Administrative Region of China	Senior Executive Vice President and General Manager, Asia (4)
Joseph M. Cooper Ontario, Canada	Executive Vice President and Chief Information Officer (5)
Simon R. Curtis Ontario, Canada	Executive Vice President and Chief Actuary (6)
John D. DesPrez III Massachusetts, United States	Senior Executive Vice President, North American Operations (7)
J. Roy Firth Ontario, Canada	Executive Vice President, Individual Wealth Management (8)
Donald A. Guloien Ontario, Canada	Senior Executive Vice President and Chief Investment Officer
Beverly S. Margolian Ontario, Canada	Executive Vice President and Chief Risk Officer (9)
Hugh McHaffie Massachusetts, United States	Executive Vice President, U.S. Wealth Management (10)
Paul L. Rooney Ontario, Canada	Senior Executive Vice President and General Manager, Canada (11)
Peter H. Rubenovitch Ontario, Canada	Senior Executive Vice President and Chief Financial Officer
Warren A. Thomson Massachusetts, United States	Executive Vice President, U.S. Investments and Global Investment Management (12)

(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 January 2007, James Boyle was Executive Vice President, Annuities, John Hancock. Prior to April 2004, Mr. 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 May 2008, John DesPrez was Senior Executive Vice President, John Hancock Financial Services.
(8) Prior to April 2004, Roy Firth was Senior Vice President, Individual Wealth Management Canadian Operations.
(9) Prior to April 2004, Beverly Margolian was Senior Vice President and Chief Risk Officer.
(10) 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.
(11) Prior to March 2007, Paul Rooney was Executive Vice President, Individual Insurance and Chief Financial Officer, Canadian Division. 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.
(12) 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, 2008 was 1,517,949, which represented less than 1% 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 P.O. Box 7010, Adelaide Street Postal Station Toronto, Ontario, Canada, M5C 2W9 Toll Free: 1-800-783-9495	In the United States:	BNY Mellon Shareowner Services P.O. Box 358015, Pittsburgh Pennsylvania, U.S.A. 15252 Toll Free: 1-800-249-7702

The transfer agent for MFC's Class A Shares, Series 1, Series 2, Series 3, Series 4 and Series 5 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, a second supplemental indenture to the Trust Indenture dated March 28, 2006 with CIBC Mellon and a third supplemental indenture to the Trust Indenture dated June 26, 2008 with CIBC Mellon 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 $4.0 billion of Medium Term Notes are currently issuable. As at December 31, 2008, an aggregate principal amount of $1.3 billion 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 July 8, 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. On December 18, 2008, the SEC declared effective a similar joint registration statement and the 2005 registration statement simultaneously expired. 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. $1.57 billion principal amount of *Signature*Notes outstanding as at December 31, 2008, with capacity to issue a further U.S. $2.0 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 22(e) of MFC's Audited Annual Financial Statements for the year ended December 31, 2008 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 million 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 million principal amount of 5.059% fixed/floating subordinated debentures of MFLP due December 15, 2041. More information about MFC's guarantee of the debentures issued by MFLP can be found at Note 19(f) of MFC's Audited Annual Financial Statements for the year ended December 31, 2008 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.

MFC entered into a credit agreement dated November 6, 2008 with Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, The Bank of Nova Scotia and The Toronto-Dominion Bank. The loan was an unsecured five-year non-revolving term loan of $3 billion, with an interest rate based on the bankers' acceptance rate or the prime rate, plus a margin. It was repayable by MFC at any time without penalty or make-whole provisions. Concurrent with a private placement and public offering of common shares by MFC that closed on December 11, 2008, the loan was renegotiated and replaced by a credit agreement dated December 11, 2008 for $2 billion with Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and The Bank of Nova Scotia (the "December 2008 Credit Agreement").

The December 2008 Credit Agreement has a five-year non-revolving term and has been deployed by MFC to provide additional regulatory capital for its operating subsidiaries. The interest rate on the loan is a variable rate based on the bankers' acceptance rate or the prime rate, plus a margin. The loan is repayable by MFC at any time without penalty or make-whole provisions. The December 2008 Credit Agreement includes a financial covenant, as well as other positive and negative covenants usual for transactions of this nature. The loan is unsecured and ranks pari passu with all other unsecured and unsubordinated indebtedness of MFC.

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 is in compliance with Rule 3520 of the Public Company Accounting Oversight 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, Thomas P. d'Aquino, Robert E. Dineen Jr., Robert J. Harding, 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, Harding, 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. d'Aquino holds a bachelor of arts degree from the University of British Columbia, a Bachelor of Laws from Queen's University and the University of British Columbia, a Master of Laws from the University of London and Honorary Degrees of Doctor of Laws from Queen's University and Wilfrid Laurier University and is currently Chief Executive and President of the Canadian Council of Chief Executives. Mr. Dineen holds a law degree from Syracuse University, is a former securities law partner at Shearman & Sterling LLP and is a member of the board of directors of Nova Chemicals Corporation. Mr. Harding holds a bachelor's degree in Mathematics from the University of Waterloo and is a Fellow Chartered Accountant and is the Chairman of Brookfield Asset Management Inc., a specialist asset management company focused on property, power and other infrastructure assets. Mr. Helms holds a bachelor of arts degree from the University of Arizona and a Master of Business Administration from the University of Santa Clara and 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 17, 2009 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 17, 2009 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 MFC's equity compensation plans, where applicable, is contained in MFC's Proxy Circular dated March 17, 2009 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 (2009)

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)(the "Act").

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

(g) 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.

(h) 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.

(i) 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.

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

(k) 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.

(l) 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 and the independent auditor's attestation report on management's assessment.

(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 Act, 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 Oversight of the Anti-Money Laundering and Anti-Terrorist Financing Program

(a) The Committee shall approve the Company's Anti-Money Laundering and Anti-Terrorist Financing Policy and any material amendments.

(b) The Committee shall meet with the Chief Anti-Money Laundering Officer ("CAMLO") at least annually to receive and review the CAMLO's report on the AML/ATF Program, which will include a report on the effectiveness of the AML/ATF Program and the Company's compliance with the Policy.

(c) The Committee shall meet with the Chief Internal Auditor at least annually to receive and review the Chief Internal Auditor's report on the results of the testing of the effectiveness of the AML/ATF Program.

4.7 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.

4.8 Oversight of Executive Compensation

(a) The Committee or a designate member will review the annual executive compensation recommendations of the Management Resources and Compensation Committee prior to approval by the Board of Directors.

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.

Exhibit 99.2



Manulife Financial Corporation
Management's Discussion & Analysis

For the year ended December 31, 2008

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, our objectives, goals, strategies, intentions, plans, beliefs, expectations and estimates, and can generally be identified by the use of words such as “may”, “will”, “could”, “should”, “would”, “suspect”, “outlook”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “forecast”, “objective” “continue” and “endeavor” (or the negative thereof) and words and expressions of similar import, and include statements concerning possible or assumed future results. Although we believe that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties, and undue reliance should not be placed on such statements. 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. Important factors that could cause actual results to differ materially from expectations include but are not limited to: general business and economic conditions (including but not limited to performance of equity markets, interest rate fluctuations, currency rates, investment losses and defaults, movements in credit spreads, market liquidity and creditworthiness of guarantors and counterparties); level of competition and consolidation, changes in laws and regulations Company liquidity, including the availability of financing to satisfy existing financial liabilities on their expected maturity dates when required; 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 maintain the Company’s reputation; legal and regulatory proceedings; the ability to adapt products and services to the changing market; the ability to implement effective hedging strategies; the ability to attract and retain key executives; the ability complete acquisitions including the availability of equity and debt financing for this purpose; the ability to execute strategic plans; the disruption of or changes to key elements of the Company’s or public infrastructure systems; and environmental concerns. Additional information about material factors that could cause actual result to differ materially from expectations and about material factors or assumptions applied in making forward-looking statements may be found in the body of this document as well as under “Risk Factors” in our most recent Annual Information Form, under “Risk Management” and “Critical Accounting and Actuarial Policies” in the Management’s Discussion and Analysis, in the “Risk Management” note to consolidated financial statements in our most recent annual and interim reports and elsewhere in our filings with Canadian and U.S. securities regulators. We do not undertake to update any forward-looking statements except as required by law.

Management's Discussion and Analysis
Financial Performance

Manulife Financial is a leading Canadian-based financial services group serving millions of customers in 19 countries and territories world-wide. We provide financial protection and wealth management products and services, to 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, mutual funds and banking products. We offer reinsurance services, specializing in life retrocession and property and casualty reinsurance and 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 2008 was $517 million, down from $4,302 million reported in 2007. Earnings in 2008 were negatively impacted by $3,748 million due to the unprecedented decline in worldwide equity market conditions, which, when compared to December 31, 2007, were down by 35 per cent in Canada, 39 per cent in the United States, 48 per cent in Hong Kong and 42 per cent in Japan. In addition, credit defaults and downgrades, primarily in the financial sector, resulted in net impairment charges of $486 million in 2008 compared to $28 million in 2007.

Our net income exposure to equity markets consists of segregated fund and variable annuity guarantees, future fees assumed in variable universal life and equity-linked policy liabilities, as well as equity investments that support our non pass through insurance products and our surplus segments. The Company is a provider of variable annuity and segregated funds in Canada, the United States and Asia. Typically, funds are deposited for investment in a basket of pre-approved funds where the investor receives annuity payments for a defined period. In exchange for a fee and provided the annuity is held for a specified period of time, Manulife Financial guarantees a minimum level of benefits. The bulk of the annuity payments on our in-force business are not due to be made until years ranging from 2015 to 2038. Because of the steep decline of equity markets, the Company recorded a non cash charge of $2,824 million related to these guarantees. Over the long term, should equity markets recover, portions of these reserves may reverse into net income. Of the remaining $924 million of the equity related charges, $282 million relates to reduced current year fee income and the capitalized impact of reduced future fees assumed in variable universal life and equity-linked products, $443 million relates to the decline in value of equity investments supporting non pass through insurance products and $199 million relates to impairment charges on equities classified as available-for-sale ("AFS") in the surplus segment.

The diversity of our investment portfolio, which includes alternative assets such as real estate, private equity and oil and gas properties in addition to bonds, private placement, mortgage and public equity investments, resulted in strong investment gains in both 2008 and 2007 (excluding the items discussed above). Gains in 2008 arose due to the increase in corporate interest rates and trading activities, as well as from the impact on actuarial liabilities of supporting the long duration portion of long-term obligations with additional non fixed income investments. In 2007, gains were primarily from the increase in value of the alternative asset classes and gains on AFS equities in the surplus segment.

The assumptions underlying the valuation of policy liabilities are reviewed and updated on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business. Details of the changes in actuarial methods and assumptions are outlined under "Critical Accounting and Actuarial Policies". The changes resulted in income of $283 million in 2008 compared to $43 million in 2007.

In 2008 a number of tax items were recorded in income, netting to a gain of $21 million. During the year the Company increased its tax related provision on leveraged lease investments by $214 million, recognized $54 million of tax benefit as a result of a successful appeal in the United States, and recognized $181 million from changes in the insurance tax formulas in Canada.

Summary Statements of Operations

For the years ended December 31

(Canadian $ in millions, unless otherwise stated)	**2008**	2007	2006
Revenue			
Premium income	**$23,252**	$19,744	$19,104
Investment income			
Investment income	**8,094**	9,523	10,193
Realized and unrealized (losses) gains on assets supporting policy liabilities and consumer notes	**(3,796)**	818	240
Other revenue	**5,453**	5,496	4,702
Total revenue	**$33,003**	$35,581	$34,239
Policy benefits	**$22,201**	$20,211	$19,912
General expenses	**3,546**	3,387	3,352
Investment expenses	**943**	983	841
Commissions	**4,235**	4,056	3,591
Interest expense	**1,187**	1,032	932
Premium taxes	**280**	248	270
Non-controlling interest in subsidiaries	**34**	58	5
Total policy benefits and expenses	**$32,426**	$29,975	$28,903
Income before income taxes	**$ 577**	$ 5,606	$ 5,336
Income taxes	**(80)**	(1,377)	(1,366)
Net income	**$ 497**	$ 4,229	$ 3,970
Loss attributed to participating policyholders	**20**	73	15
Net income attributed to shareholders	**$ 517**	$ 4,302	$ 3,985
Preferred share dividends	**(30)**	(30)	(30)
Net income available to common shareholders	**$ 487**	$ 4,272	$ 3,955
Diluted earnings per share	**$ 0.32**	$ 2.78	$ 2.51
Dividends per common share	**$ 1.00**	$ 0.88	$ 0.73

Earnings per Common Share and Return on Common Shareholders' Equity

Diluted earnings per common share for 2008 were $0.32, compared to $2.78 in 2007. The return on common shareholders' equity for 2008 was two per cent, compared to 18.4 per cent for 2007. Return on common shareholders' equity is calculated excluding Accumulated Other Comprehensive Income (Loss) ("AOCI") on AFS securities and cash flow hedges (see page 45 for discussion of non-GAAP measures).

Premiums and Deposits

Total premiums and deposits for 2008 were $70.0 billion, up one per cent from 2007, as lower segregated fund deposits largely offset the growth in insurance, annuity and pension premiums (general funds). General fund premiums of $23.3 billion were up 18 per cent, driven by increases in all businesses including significant increases in U.S. Wealth Management's dollar cost averaging program and fixed rate products. Due to the declines in the equity markets, segregated fund deposits of $34.2 billion were down eight per cent. However, mutual funds deposits were up one per cent as expanded distribution in John Hancock Mutual Funds offset the impact of the markets in all geographies. Administrative Services Only ("ASO") premium equivalents in Canadian Group Benefits were $2.5 billion, up slightly from prior year, and other funds deposits of $0.5 billion, which includes various products in U.S. Wealth Management, were down from prior year.

Premiums and Deposits

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
General fund premiums	**$23,252**	$19,744	$19,104
Segregated fund deposits	**34,205**	37,227	33,287
Mutual fund deposits	**9,473**	9,368	9,270
ASO premium equivalents	**2,488**	2,373	2,225
Other fund deposits	**534**	726	1,053
Total premiums and deposits	**$69,952**	$69,438	$64,939

Investment Income

The Company classifies bond and stock securities that support policy liabilities under the fair value option, and those securities supporting the surplus segment as AFS. Loans are reported at amortized cost, real estate is reported on a move to market basis and other investments are generally held at amortized cost. Total investment income of $4.3 billion for 2008, was $6.0 billion lower than the $10.3 billion reported in 2007. The variance consists of changes in market values of $4.6 billion, credit impairments of $728 million, equity related impairments of $280 million, lower realized gains on assets backing surplus of $347 million and lower interest, dividend and other income of $74 million. Interest income was reduced by $201 million as a result of the increased provisions on leveraged lease investments.

Unrealized and realized gains and losses on assets supporting policy liabilities and consumer notes was a loss of $3.8 billion compared to a gain of $818 million in 2007. The 2008 amount includes $2.8 billion related to the decline in equity markets and $1.0 billion primarily relating to the net increase in interest rates. For fixed income assets supporting policy liabilities and for equities supporting pass through products, the impact of the unrealized and realized gains and losses are largely offset by the change in actuarial liabilities. The charge of $443 million discussed under net income is the after tax portion of the realized and unrealized gains and losses that are not offset by changes in actuarial liabilities.

Credit related impairments in 2008 were $697 million and include $438 million related to Lehman Brothers, AIG and Washington Mutual. Impairments in 2008 charged to the shareholders' account were $517 million (2007 – recovery of $27 million) and to the participating policyholders' account were $180 million (2007 – recovery of $4 million). The after tax credit charges outlined in the net income section also include charges for credit downgrades which are reported in the change in actuarial liabilities line of the income statement.

Investment Income

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Interest income	**$ 8,043**	$ 8,202	$ 8,281
Dividend, rental and other income	**985**	900	809
	$ 9,028	$ 9,102	$ 9,090
Impairments and provisions for loan losses, net	**(1,050)**	(42)	(1)
Realized gains on assets backing surplus	**116**	463	–
Amortization of net realized gains and move to market [1]	**–**	–	1,104
Realized and unrealized gains (losses) on assets supporting policy liabilities and consumer notes	**(3,796)**	818	240
Total investment income	**$ 4,298**	$10,341	$10,433

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

Other Revenue

Other revenue was $5.5 billion for 2008 consistent with the $5.5 billion earned in 2007. Declines in fee income in the wealth management businesses, which decreased due to lower average assets under management, were offset by increases from front end load fees and third party fees earned by our mutual fund dealer distribution company.

Policy Benefits

Policy benefits were $22.2 billion in 2008, up 10 per cent from $20.2 billion in 2007. Maturity and surrender benefits increased by eight per cent from 2007 due primarily to higher scheduled maturities in John Hancock Fixed Products. Policy benefits expense increased by $0.4 billion related to the change in actuarial liabilities.

Policy Benefits

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Death, disability and other claims	**$ 6,539**	$ 6,104	$ 5,949
Maturity and surrender benefits	**8,767**	8,111	9,814
Annuity payments	**3,034**	3,098	3,316
Policyholder dividends and experience rating refunds	**1,518**	1,556	1,528
Net transfers to segregated funds	**1,563**	952	432
Change in actuarial liabilities	**780**	390	(1,127)
Total policy benefits	**$22,201**	$20,211	$19,912

General Expenses

General expenses were $3.5 billion, up slightly from $3.4 billion in 2007. Personnel costs, which were half of the total expenses, were flat year over year, as increases in the fixed salary levels and in the number of staff were offset by lower variable compensation. Cost containment initiatives were put in place in order to control expense levels.

Investment Expenses

Investment expenses were $943 million, down four per cent from $983 million in 2007. The decrease is primarily due to lower sub advisor fees from reduced assets under management.

Investment Expenses

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Related to invested assets	**$388**	$376	$336
Related to segregated, mutual and other funds [1]	**555**	607	505
Total investment expenses	**$943**	$983	$841

[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 $4,235 million in 2008, up slightly from $4,056 million in 2007. The increase was driven by record level life insurance sales. Despite the unprecedented market volatility, wealth sales were in line with the strong levels of the prior year.

Interest Expense

Interest expense was $1,187 million in 2008, up 15 per cent from $1,032 million in 2007. The increase was due to an increase in bank deposit volumes in the Canadian banking operations, the net increase in debt financing over the course of the year, and tax deficiency interest on the changes in leveraged lease deduction assumptions.

Income Taxes

Income taxes were $80 million in 2008, compared with $1,377 million in 2007. The effective tax rate in 2008 was 13.9 per cent and in 2007 was 24.6 per cent. Excluding the $54 million benefit as a result of a successful appeal in the United States, the rate in 2008 would have been 23.2 per cent. The effective tax rate is affected by the mix of jurisdictions where income was earned.

Funds Under Management

Funds under management were $404.5 billion as at December 31, 2008, up $8.1 billion or two per cent from 2007. On a constant currency basis, funds under management declined by 14 per cent from last year, as business growth was more than offset by the effects of declining equity markets and scheduled maturities of John Hancock Fixed Products institutional products.

Funds Under Management

As at December 31

(Canadian $ in millions)	**2008**	2007	2006
General fund	**$187,501**	$161,300	$171,320
Segregated funds held by policyholders [1]	**164,755**	174,977	172,259
Mutual and other funds [1], [2]	**52,199**	60,067	70,805
Total funds under management	**$404,455**	$396,344	$414,384

[1] Segregated fund assets, mutual fund assets and other funds are not available to satisfy the liabilities of the Company's general fund.
[2] 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 shareholders' loss in the fourth quarter of 2008 amounted to $1,870 million or $1.24 per share on a fully diluted basis and differed by $370 million from the estimate of $1,500 million announced on December 2, 2008. A sharp drop in swap interest rates which are used to value segregated fund guarantee liabilities was the major reason for the higher reported loss. The fourth quarter results include a number of non cash items totaling $2,727 million after tax, including $2,407 million for segregated fund guarantees, other equity related losses of $513 million and accruals for credit related impairments and downgrades of $128 million, partially offset by changes in actuarial methods and assumptions.

Continued declines in global equity markets reduced fourth quarter earnings by $2,920 million, and also resulted in charges for credit related impairments and downgrades of $128 million. In addition to these two items, changes in actuarial methods and assumptions resulted in income of $321 million and the Company recorded two offsetting tax related items.

The $2,407 million increase in segregated fund guarantee liabilities is comprised of $1,805 million for the reduction in the market value of the funds being guaranteed and $602 million because the sharp drop in swap interest rates reduced the discount rates used in the measurement of the obligation. The $513 million of other equity related losses includes $196 million for equity investments supporting non-experience adjusted policy liabilities, $100 million for reduced capitalized future fee income on equity-linked and variable universal life products, $158 million for impairments on equity positions in the Corporate and Other segment and $59 million for lower fee income.

During the quarter, the Company increased tax related provisions on investments in leveraged leases by $181 million and recognized gains of $181 million in Canada due to the impact on actuarial liabilities of expected changes in Canadian tax law for insurance companies in connection with fair value accounting.

Premiums and Deposits

Premiums and deposits as reported in Canadian dollars for the quarter were $18.5 billion, an increase of six per cent from the $17.4 billion reported a year earlier. On a constant currency basis, premiums and deposits decreased by ten per cent due to lower deposits in the fee based and variable annuity businesses as customers shied away from products exposed to volatile equity markets. These declines were partially offset by in-force business growth in our insurance businesses, and sales growth in Canadian Individual Wealth Management and John Hancock Fixed Products.

Financial Highlights

For the quarter ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Shareholders' net income (loss)	**$ (1,870)**	$ 1,144	$ 1,100
Premiums and deposits	**$18,468**	$17,414	$15,819

Moving Forward

In the past year, and in particular since the last quarter of 2008, there has been unprecedented disruption of credit and equity markets, which have had a material impact on the operations of our Company. Maintaining capital strength in this time of continued economic challenges is essential. Actions taken quickly to strengthen our capital base have provided us with a capital position that we expect will provide the flexibility to absorb further market declines, but we also understand that additional steps are required to manage our risk levels in this highly volatile and uncertain time. Accordingly, we are implementing a comprehensive plan that will allow us to economically achieve a reduced level of exposure to equity market volatility. We have already begun to review our variable annuity guarantee offerings and modify product designs to better balance the features that have attracted customers to these products with the risk that they present to Manulife Financial. With our customers facing continuing economic uncertainty, as a financially strong life insurance company, we believe we are well positioned to continue to offer an investment solution that provides predictable, sustainable income for life. We will continue to provide variable annuity and segregated fund offerings, with potential obligations payable over a long time period, generally deferred several years. However, recognizing increasing volatility in equity markets, we will offer product designs and investment fund alternatives with reduced exposure to equity markets. We believe in the current environment that this is a positive step for Manulife Financial and an appropriate change for our customers. We have also expanded our variable annuity hedging to encompass all new business written in the U.S. and the majority of Canadian new business and will look for opportunities to economically hedge existing business. We intend to continue to monitor market conditions and manage product features, fee levels, and our hedging program throughout 2009 to ensure an appropriate balance between risk and long-term profitability for this product line.

Diversification is a critical part of our strategy. Our large global footprint provides opportunities in markets where short and medium term growth rates are expected to be higher than those in North America. In addition, our wide range of product offerings including both variable and fixed return alternatives allows us to build our customer base despite difficult equity market conditions, and in conjunction with our intention to prudently limit growth in our guaranteed variable annuity businesses. The current economic environment may bring acquisition opportunities and we aim to use our relative financial strength to selectively take advantage of these opportunities, focusing on opportunities to further diversify our business.

Our prudent investment strategy will continue to serve us well as the fallout from the global economic slowdown affects credit ratings in the coming year. In addition, we are taking the opportunity to review our product features and pricing in a number of businesses to ensure that the risk we accept remains appropriate. Finally, we will maintain our disciplined approach to expense management, including close oversight of staffing levels, strict limits on discretionary spending, and prudent deferral of projects and programs that are not considered absolutely necessary in the short term.

Experience tells us that the global economies will recover and we expect Manulife Financial to benefit from that upturn in market conditions. We have the support of more than 23 thousand employees and thousands of distribution partners that serve over 19 million 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.

Performance by Division

The volatile markets affected the 2008 results of all our divisions. All operating divisions incurred losses related to segregated fund guarantees and/or reduced capitalized future fee income on equity-linked and variable universal life products, and reduced fees due to lower levels of assets under management. In addition, all divisions shared in the credit and general fund equity related losses. As a result of the sharp declines in equity markets, balance sheet reserves for segregated fund guarantees were increased to $5,783 million as at December 31, 2008 compared with $526 million at the prior year end. The Company's obligations under its segregated fund guarantees are substantially payable over a thirty year period beginning in seven years. Over the long term should equity markets recover, portions of these reserves may reverse into net income. These non cash charges overshadow other business related results.

Effective January 1, 2008 we changed our approach for allocating investment gains and losses to be more aligned with how we manage the assets and related risk positions. Investment gains and losses are now accumulated in two pools – insurance and wealth management, and then allocated to the business units based on their respective policy liabilities. Prior to 2008, gains and losses were reported in the business units where the specific assets giving rise to the gains and losses were located, and credit gains and losses were reported in the Corporate and Other segment. Investment gains and losses related to product features, such as segregated fund guarantees and future fees assumed in variable universal life and equity-linked policy liabilities, as well as investment gains and losses on full pass through products, such as par insurance, are not included in the pools. Prior periods have been restated to conform to this new presentation.

U.S. Insurance

Our U.S. Insurance operation provides life and long-term care insurance products and services to select markets. John Hancock Life focuses on high net-worth and emerging affluent markets by providing estate and business planning and other solutions, with an array of protection and accumulation-oriented life insurance products. John Hancock Long Term Care provides to individuals and group members insurance to cover the costs of long-term care services including nursing homes, assisted living care facilities, adult day care and at home care to individuals and groups. 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 2008, U.S. Insurance contributed 10 per cent of the Company's total premiums and deposits and, as at December 31, 2008, accounted for 17 per cent of the Company's funds under management.

Financial Performance

Earnings for 2008 were US$757 million, up three per cent from US$732 million reported a year earlier. The increase was due to solid in-force business growth, improved claims experience and favourable investment related experience, partially offset by equity related charges for lower capitalized future fee income on variable universal life products and by higher strain on new business.

Summary Statements of Operations

For the years ended December 31	Canadian $			US $		
(in $ millions)	**2008**	2007	2006	**2008**	2007	2006
Revenue						
Premium income	**$ 5,751**	$ 5,279	$ 5,488	**$ 5,383**	$ 4,942	$ 4,839
Investment income						
Investment income	**2,886**	2,884	2,982	**2,707**	2,691	2,630
Realized and unrealized gains on assets supporting policy liabilities	**933**	413	–	**594**	462	–
Other revenue	**621**	627	614	**583**	585	542
Total revenue	**$ 10,191**	$ 9,203	$ 9,084	**$ 9,267**	$ 8,680	$ 8,011
Policyholder benefits	**$ 6,829**	$ 5,886	$ 5,967	**$ 6,066**	$ 5,565	$ 5,261
General expenses	**592**	615	610	**558**	575	538
Investment expenses	**136**	133	124	**126**	125	109
Commissions	**1,288**	1,253	1,196	**1,212**	1,183	1,055
Other	**160**	140	168	**150**	131	148
Total policy benefits and expenses	**$ 9,005**	$ 8,027	$ 8,065	**$ 8,112**	$ 7,579	$ 7,111
Income before income taxes	**$ 1,186**	$ 1,176	$ 1,019	**$ 1,155**	$ 1,101	$ 900
Income taxes	**(407)**	(395)	(342)	**(398)**	(369)	(302)
Net income attributed to shareholders	**$ 779**	$ 781	$ 677	**$ 757**	$ 732	$ 598

Premiums and Deposits

Premiums and deposits of US$6.7 billion for the year ended December 31, 2008, were up nine per cent from US$6.1 billion reported in 2007. Higher sales during the year in John Hancock Life and growth in the in-force business in both units contributed to this increase.

Premiums and Deposits

For the years ended December 31	Canadian $			US $		
(in $ millions)	**2008**	2007	2006	**2008**	2007	2006
Premium income	**$ 5,751**	$ 5,279	$ 5,488	**$ 5,383**	$ 4,942	$ 4,839
Segregated fund deposits	**1,398**	1,259	1,225	**1,303**	1,177	1,080
Total premiums and deposits	**$ 7,149**	$ 6,538	$ 6,713	**$ 6,686**	$ 6,119	$ 5,919

Funds Under Management

Funds under management as at December 31, 2008 were US$57.4 billion, consistent with a year ago, as business growth experienced in both Life and Long Term Care was offset by a decrease in the market value of the variable life segregated fund assets.

Funds Under Management

As at December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
General fund	**$ 59,967**	$ 45,064	$ 48,675	**$ 48,969**	$ 45,605	$ 41,770
Segregated funds	**10,342**	11,387	12,583	**8,445**	11,525	10,798
Total funds under management	**$ 70,309**	$ 56,451	$ 61,258	**$ 57,414**	$ 57,130	$ 52,568

Moving Forward

In 2009 U.S. Insurance will continue to strengthen our leadership positions in our Life, Long Term Care and Advisor businesses. Although the economic outlook has the potential to reduce the overall spending on insurance products, we expect to be a benefactor of the flight to quality that started in late 2008.

At John Hancock Life, our theme for 2009 is to focus on product innovation, sophisticated underwriting, and strong distribution through multiple channels. Life has a goal of providing customers the most broadly competitive product portfolio in the industry and is pursuing an aggressive schedule of new product introductions in 2009, including updates to our popular guaranteed universal life products. Four new products were readied for launch in January 2009 alone. From a distribution standpoint, Life is planning to further solidify its already industry-leading shelf space and to grow key relationships with agents and major third party organizations. In underwriting, our focus will be to maintain consistency in our prudent approach to risk assessment and risk management while continuing to reflect the latest medical advancements in our proprietary underwriting manual.

At John Hancock Long Term Care, our priority in 2009 is to bolster our position as the leading seller of long-term care insurance in the U.S. by growing our market share in the Individual and Group product lines, with particular focus on the affinity and small group markets. On the product development front, we are working on our next generation of products, which will focus on making products more affordable and easier to understand for consumers and advisors alike. Distribution expansion initiatives include a renewed commitment to the financial planning channel and improvements in process and technology to benefit all of our advisors. In addition, we will continue to invest in a new claims system, which will improve servicing capabilities for policyholders and their families at time of claim.

JHFN is the leading distributor of John Hancock wealth and protection products. JHFN's goal in 2009 is to attract new financial representatives to the newly launched distribution model, the national network of Independent Career firms. The new model blends the best attributes of the traditional career system with those of the independent broker-dealer model. It offers financial representatives the power to build their business their way by providing three affiliation models, all of which provide access to the infrastructure of JHFN and the scale and stability of John Hancock.

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, as well as 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 variable annuity 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 offers payout annuities as well as a variety of fee and spread-based products to institutional clients.**

In 2008, U.S. Wealth Management contributed 51 per cent of the Company's total premiums and deposits and, as at December 31, 2008, accounted for 41 per cent of the Company's funds under management.

Financial Performance

U.S. Wealth Management reported a net loss of US$694 million for 2008 compared with earnings of US$1,054 million reported a year earlier. The loss in 2008 arose from the increase in segregated fund guarantee reserves, lower fee income and lower investment results.

Summary Statements of Operations

For the years ended December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
Revenue						
Premium income	**$ 6,264**	$ 4,285	$ 3,741	**$ 5,791**	$ 4,046	$ 3,298
Investment income						
Investment income	**2,089**	2,422	2,858	**1,963**	2,258	2,520
Realized and unrealized gains (losses) on assets supporting policy liabilities and consumer notes	**(851)**	62	–	**(835)**	71	–
Other revenue	**2,545**	2,733	2,412	**2,405**	2,552	2,127
Total revenue	**$ 10,047**	$ 9,502	$ 9,011	**$ 9,324**	$ 8,927	$ 7,945
Policyholder benefits	**$ 9,256**	$ 5,331	$ 5,042	**$ 8,314**	$ 5,037	$ 4,444
General expenses	**781**	794	784	**734**	740	692
Investment expenses	**453**	503	455	**427**	471	400
Commissions	**1,110**	1,154	1,003	**1,043**	1,080	886
Other	**99**	166	158	**94**	157	139
Total policy benefits and expenses	**$ 11,699**	$ 7,948	$ 7,442	**$ 10,612**	$ 7,485	$ 6,561
Income (loss) before income taxes	**$ (1,652)**	$ 1,554	$ 1,569	**$ (1,288)**	$ 1,442	$ 1,384
Income taxes	**731**	(422)	(440)	**594**	(388)	(389)
Net income (loss) attributed to shareholders	**$ (921)**	$ 1,132	$ 1,129	**$ (694)**	$ 1,054	$ 995

Premiums and Deposits

Premiums and deposits were US$33.3 billion, up US$0.4 billion from US$32.9 billion reported in 2007. Growth in Fixed Products, Mutual Funds, and Retirement Plan Services was partially offset by declines in Variable Annuities.

General fund premiums primarily from annuity sales in Fixed Products and from fixed rate investment product options represented 17 per cent of total premiums and deposits in 2008 and were 43 per cent higher than last year. This growth was primarily due to the increased utilization of Variable Annuities dollar cost averaging program, and higher sales of fixed rate products.

Segregated fund deposits represented 57 per cent of total premiums and deposits in 2008. Variable Annuities segregated fund deposits of US$6.8 billion declined by 27 per cent due to the equity market volatility and strong product competition. Retirement Plan Services segregated fund deposits of US$12.0 billion increased by two per cent as the higher recurring deposits from the growing block of in-force business was partially offset by lower transfers on new sales because of market value declines.

Mutual fund deposits represented 24 per cent of total premiums and deposits in 2008. Mutual fund deposits of US$8.0 billion were 16 per cent higher than the prior year from record sales as a result of strong relative investment performance in certain funds and expanded distribution.

Other fund deposits of US$0.5 billion declined 25 per cent from the prior year driven by unfavorable equity markets and a general slowdown in the 529 College Savings market.

Premiums and Deposits

For the years ended December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
Premium income	**$ 6,264**	$ 4,285	$ 3,741	**$ 5,791**	$ 4,046	$ 3,298
Segregated fund deposits	**20,187**	22,831	22,645	**19,013**	21,233	19,962
Mutual fund deposits	**8,427**	7,472	7,828	**8,040**	6,958	6,903
Other fund deposits	**534**	726	1,053	**502**	669	927
Total premiums and deposits	**$ 35,412**	$ 35,314	$ 35,267	**$ 33,346**	$ 32,906	$ 31,090

Funds Under Management

Funds under management were US$133.9 billion, down 25 per cent from US$178.1 billion at December 31, 2007. The decline was due to the cumulative effect of unfavourable equity markets on segregated and mutual fund assets and also from US$3.4 billion of scheduled maturities in Fixed Products over the last twelve months, partially offset by net policyholder cash inflows of US$8.1 billion.

Funds Under Management

As at December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
General fund	**$ 39,581**	$ 35,823	$ 44,947	**$ 32,322**	$ 36,254	$ 38,570
Segregated funds	**99,133**	108,878	112,269	**80,952**	110,189	96,344
Mutual funds	**21,943**	27,585	35,499	**17,919**	27,917	30,464
Other funds	**3,279**	3,713	3,957	**2,677**	3,759	3,396
Total funds under management	**$ 163,936**	$ 175,999	$ 196,672	**$ 133,870**	$ 178,119	$ 168,774

Moving Forward

U.S. Wealth Management's focus in 2009 is to preserve and grow market share during a period of unprecedented volatility and amid historic changes to the structure of the banks and brokerages that distribute our products.

John Hancock Variable Annuities will deliver competitively priced products, while modifying features and prices to reflect the heightened volatility prevalent throughout financial markets. Steep market declines and low interest rates have prompted an industry-wide re-pricing of variable annuity living benefits, while at the same time intensifying the demand for the safety and security offered by guaranteed products. With our growing distribution footprint across all major non-proprietary channels, including wirehouse and regional broker-dealers, independent financial planners, and bank programs, we believe that we will benefit from a general flight to quality, as Manulife and John Hancock remain among the highest-rated and financially strongest life insurance companies in the world. Edward Jones, a major new distribution arrangement in 2008, is maturing into a significant contributor. We are committed to continuing our enhancements to service capabilities and to simplify our point of sale and improve customer service interactions, in order to further develop the reputation of John Hancock Variable Annuities as Partner of Choice among end-consumers and financial advisors alike.

John Hancock Retirement Plan Services will continue its market expansion and grow its in-force block of more than 1.7 million participants and more than 42,000 plans. Distribution plans include capitalizing on the new relationships formed in 2008 with Morgan Stanley and Ameriprise, attracting additional partners and completing its 30 per cent wholesaling force expansion, a program that began in 2007. Expansion plans also include the newly opened Retirement Income and Rollover Services unit (RIRS) which enables John Hancock plan participants to seamlessly roll over 401(k) accounts into individual IRAs, and offers cross-selling opportunities among various wealth management business units, with the aim of helping advisors capture wealth assets for the lifetime of a client. Product features like the Guaranteed Income for Life (GIFL) rider continue to attract new business and the recently completed large record-keeping project provides a platform to further improve service and distribution capabilities.

John Hancock Fixed Products expects strong demand for fixed rate products to continue and will add new product offerings and expand distribution throughout 2009. With the launch of JH Spectrum in the fall of 2008 and the expansion of our Fixed Annuity wholesaling team, we are well-positioned to take full advantage of this market opportunity. Distribution initiatives focus on JHFN, the bank channel, and access to new distribution relationships. The Structured Settlements group (Payout Annuities) is expanding its sales and operations resources to drive incremental sales and capture more market share. In the service area, Fixed Products is continuing efficiency and customer service improvements.

John Hancock Mutual Funds is positioned to continue its sales momentum by managing its fund lineup and by continuing to adjust the distribution model in response to market developments. Our goal is to build multiple offerings with top performance, giving advisors and investors more choices to anchor portfolios. Funds with Four- or Five-Star Morningstar ratings and funds launched over the last few years that have posted strong performance including the Floating Rate Income, Strategic Income, High Yield Municipal Bond, Large Cap Equity, Rainier Growth, Global Shareholder Yield, Sovereign Investors, and our suite of GMO-managed funds position us well for growth. The Classic Value and US Global Leaders Growth funds are positioned to outperform going forward and there are plans for the launch of new mutual funds which leverage Manulife Financial's investment management competencies. We continue to rationalize our product line through mergers and adoptions, including the adoption of the Robeco Boston Partners Large Cap Value Fund (rated Four-Stars by Morningstar) and subsequent re-launch as the John Hancock Disciplined Value Fund in early 2009. Following the market-driven decline in assets, we have restructured wholesaler territories and we will continue to adjust our distribution model in response to market developments.

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 life and living benefit 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. Our individual wealth management product offerings include segregated funds, fixed annuities, guaranteed investment certificates ("GICs") and mutual funds. In addition, a variety of banking products including mortgages, leverage loans, high interest accounts and GICs are offered through the Manulife Bank of Canada ("Manulife Bank").

In 2008, Canadian Division contributed 23 per cent of the Company's total premiums and deposits and, as at December 31, 2008, accounted for 20 per cent of the Company's funds under management.

Financial Performance

Canadian Division's shareholders' net income for 2008 was $656 million, $454 million less than the $1,110 million reported in 2007, primarily reflecting the impact of equity market declines. These losses were partially offset by business growth in Manulife Bank and insurance, more favourable claims experience and focused expense management. Also included in 2008 earnings was a one-time $181 million gain from the recognition of the impact to policy liabilities of expected changes in Canadian tax law for insurance companies in connection with fair value accounting.

Summary Statements of Operations

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Revenue			
Premium income	**$ 6,765**	$6,208	$5,932
Investment income			
Investment income	**2,908**	2,803	2,924
Realized and unrealized (losses) gains on assets supporting policy liabilities	**(2,364)**	(210)	240
Other revenue	**1,116**	1,044	843
Total revenue	**$ 8,425**	$9,845	$9,939
Policyholder benefits	**$ 4,344**	$5,645	$6,249
General expenses	**1,030**	976	926
Investment expenses	**269**	268	214
Commissions	**1,127**	1,000	816
Other	**537**	513	411
Total policy benefits and expenses	**$ 7,307**	$8,402	$8,616
Income before income taxes	**$ 1,118**	$1,443	$1,323
Income taxes	**(467)**	(330)	(304)
Net income	**$ 651**	$1,113	$1,019
Less net income (loss) attributed to participating policyholders	**(5)**	3	(61)
Net income attributed to shareholders	**$ 656**	$1,110	$1,080

Premiums and Deposits

Premiums and deposits for the year ended December 31, 2008 were $16.4 billion, up two per cent from $16.1 billion reported in 2007. General fund premiums and Administration Services Only premium equivalents rose by eight per cent reflecting growth in our insurance businesses and higher sales of fixed rate wealth management products in response to equity market volatility. Segregated fund deposits in 2007 were buoyed by the sale of a $1 billion contract in Group Savings and Retirement Solutions. Excluding this sale, segregated fund deposits increased by 11 per cent in 2008.

Premiums and Deposits

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Premiums	**$ 6,765**	$ 6,208	$ 5,932
Segregated fund deposits	**6,611**	6,982	4,619
Mutual fund deposits	**515**	558	761
ASO premium equivalents	**2,488**	2,373	2,225
Total premiums and deposits	**$16,379**	$16,121	$13,537

Funds Under Management

Funds under management decreased by five per cent, or $3.9 billion, to $82.3 billion at December 31, 2008. The impact of equity market declines outweighed the increase from positive net sales and a 24 per cent rise in Manulife Bank's invested assets as a result of continued strong growth in Manulife One mortgage lending assets.

Funds Under Management
As at December 31

(Canadian $ in millions)	**2008**	2007	2006
General fund	**$52,314**	$51,474	$46,509
Segregated funds	**27,628**	31,391	27,448
Mutual and other funds	**2,320**	3,286	3,441
Total funds under management	**$82,262**	$86,151	$77,398

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. Our focus is on distribution excellence, product leadership, cross-business unit collaboration and providing service value to our customers. While it is expected that the current economic environment will impact growth rates in the short-term, we believe that with our focus on business fundamentals, supported by the strong Manulife Financial brand, we will maintain our leadership position in the Canadian insurance industry.

Continually enhancing our strong multi-channel distribution capabilities is critical to success in all of our businesses. The group businesses will continue to focus on expanding points of distribution, adding capacity in under-penetrated channels and markets. Our distribution success in individual products is built on a diversified, multi-channel independent distribution platform and we will continue to expand and enhance our distributor relationships.

Contributing to our strength in distribution is our commitment to provide advisors with competitive products and services to meet customers' diverse needs. We will continue to invest in the industry-leading professional value-added services provided by our tax and estate planning teams as well as channel and product wholesalers who market our product and sales solutions to advisors, keeping them current on developments and innovative ways to meet a client's needs. The recently launched Retirement Solutions Centre provides tools to help advisors learn more about using a combination of products to help clients better plan for and protect their retirement income. This innovative approach is one response to changing demographics and health care reform as aging baby boomers approach retirement and seek more comprehensive financial planning and health care solutions. We will continue to focus on this target market enhancing our life, living benefits, banking and savings products; and expanding the capabilities of the Retirement Solutions Centre to meet the evolving needs of an aging Canadian population.

Group Benefits maintains its strong presence in the mature Canadian marketplace, developing new products and services in response to the changing legislative and demographic landscape in Canada. Group Savings and Retirement Solutions will continue to expand its share in the mid to large case market creating innovative, value-added solutions to assist plan members in accumulating retirement assets and planning for their retirement income.

Service quality is key for all our businesses, underlying both sales growth and customer retention. Our technology and infrastructure initiatives are concentrated on improving customer satisfaction by supporting new product development and improving service, while driving productivity gains and expense efficiencies. We closely monitor customer and advisor perceptions of our service quality in order to proactively improve their service experience. Our Retail Service Program is a cooperative effort across all our business units to more closely align service across the Division and make us "easy to do business with" by leveraging technology and resources and developing common processes, forms and standards. Consistent with the theme of improving service and reducing expenses, we continue to rationalize multiple administration systems, a legacy from previous merger and acquisition activity, as well as implement new technology solutions across our businesses. Examples in progress include "Insight" which allows an advisor to view all of a client's Manulife Financial products on a single platform and Distributor Relationship Services ("DRS") which provides a single centralized source of advisor contract and contact information.

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 2008, Asia and Japan Division contributed 14 per cent of the Company's total premiums and deposits and, as at December 31, 2008, accounted for 12 per cent of the Company's funds under management.

Financial Performance

Earnings for 2008 were US$243 million compared to US$794 million reported in 2007. Strengthened segregated fund guarantee liabilities in Japan and lower fee income across all wealth management businesses were only partially offset by in-force business growth, new product launches and gains on pricing actions taken in Hong Kong.

Summary Statements of Operations

For the years ended December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
Revenue						
Premium income	**$ 3,381**	$ 2,946	$ 2,933	**$ 3,159**	$ 2,753	$ 2,588
Investment income						
Investment income	**838**	744	863	**789**	689	761
Realized and unrealized (losses) gains on assets supporting policy liabilities	**(1,458)**	519	–	**(1,412)**	497	–
Other revenue	**853**	767	515	**805**	723	454
Total revenue	**$ 3,614**	$ 4,976	$ 4,311	**$ 3,341**	$ 4,662	$ 3,803
Policyholder benefits	**$ 1,857**	$ 2,596	$ 2,152	**$ 1,592**	$ 2,436	$ 1,900
General expenses	**671**	598	564	**629**	560	498
Investment expenses	**48**	58	44	**46**	54	39
Commissions	**708**	645	566	**668**	604	498
Other	**107**	93	84	**100**	87	73
Total policy benefits and expenses	**$ 3,391**	$ 3,990	$ 3,410	**$ 3,035**	$ 3,741	$ 3,008
Income before income taxes	**$ 223**	$ 986	$ 901	**$ 306**	$ 921	$ 795
Income taxes	**(61)**	(166)	(166)	**(78)**	(159)	(147)
Net income	**$ 162**	$ 820	$ 735	**$ 228**	$ 762	$ 648
Less net (loss) income attributed to participating policyholders	**(15)**	(31)	46	**(15)**	(32)	41
Net income attributed to shareholders	**$ 177**	$ 851	$ 689	**$ 243**	$ 794	$ 607

Premiums and Deposits

Premiums and deposits were US$9.2 billion, down six per cent from US$9.8 billion reported in 2007. Growth in insurance premiums generated by in-force business growth and new product launches was more than offset by the decline in wealth management deposits due to volatile equity markets.

Premium income grew 15 per cent over 2007 driven by in-force business growth and sales from most territories, particularly Japan where premiums from new product launches amounted to US$90 million. Growth in the territories was driven by the branch expansion in China, new product launches in Singapore and growth in Indonesia.

Segregated fund deposits declined four per cent because of lower unit-linked product sales in Hong Kong and Singapore. These declines were partially offset by a 10 per cent increase in variable annuity deposits, on a constant currency basis, and higher pension deposits in Hong Kong.

Mutual fund deposits were US$0.5 billion, down US$0.8 billion from US$1.3 billion reported in 2007. Lower mutual fund deposits due to volatile financial markets were partially offset by mutual fund sales through our newly acquired asset management company in Taiwan in the fourth quarter.

Premiums and Deposits

For the years ended December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
Premium income	**$ 3,381**	$ 2,946	$ 2,933	**$ 3,159**	$ 2,753	$ 2,588
Segregated fund deposits	**5,837**	6,122	4,747	**5,563**	5,774	4,177
Mutual fund deposits	**531**	1,338	681	**498**	1,270	598
Total premiums and deposits	**$ 9,749**	$ 10,406	$ 8,361	**$ 9,220**	$ 9,797	$ 7,363

Funds Under Management

Funds under management decreased by seven per cent, or US$3.0 billion, to US$40.8 billion as at December 31, 2008. Net policyholder cash inflows of US$5.4 billion and the funds assumed through our newly acquired asset management company in Taiwan were more than offset by the negative impact of declining equity markets in the past twelve months.

Funds Under Management

As at December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
General fund	**$ 21,406**	$ 16,752	$ 16,560	**$ 17,476**	$ 16,954	$ 14,212
Segregated funds	**24,541**	20,727	17,232	**20,039**	20,977	14,787
Mutual and other funds	**4,024**	5,779	3,744	**3,286**	5,848	3,213
Total funds under management	**$ 49,971**	$ 43,258	$ 37,536	**$ 40,801**	$ 43,779	$ 32,212

Moving Forward

Asia and Japan Division will leverage its core strengths of professional agency distribution and commitment to customer service excellence to expand distribution through banks, financial advisors and other alternative channels and to expand product offerings with a particular emphasis on wealth management across the region.

In Hong Kong, our brand recognition is supported by our 1.5 million customers, strong financial ratings and a professionally trained agency force of over 3,700. We will continue to diversify our distribution in the bancassurance and independent financial advisory channels by strengthening our wholesaling and account management capabilities and by building a service and compliance support platform that differentiates us from our competitors. By continuing our aggressive product development efforts we will maintain our leading range of investment, savings and protection products.

In Japan, we continue to grow our Insurance and Wealth Management businesses through channel expansion, additional distribution relationships and broader product offerings that appeal to the unique characteristics of each channel. Late in 2008, we added a second pillar to our Wealth Management business with the addition of Mutual Funds. Moving forward, we will continue to leverage our North American expertise in product development and distribution in order to capitalize on growth opportunities in our Wealth Management businesses. Our focus for Insurance remains on increasing the productivity of our career agents channel, expanding and diversifying our independent agent relationships, a channel that has seen significant growth this past year, and introducing new products, including those tailored for the corporate market through our independent agencies and insurance products for distribution through our bank relationships. In 2008, our development of corporate products for the Managed General Accounts channel helped fuel significant growth in that channel as well as in our career agent channel.

In China our focus continues to be on geographic expansion to solidify our position as a leading Sino-foreign insurance joint venture. We ended 2008 with operations in 34 cities, and were approved for an additional city, the most of any foreign insurance joint venture. We will continue to focus on growing our operations geographically and expanding distribution and product beyond our traditional agency and insurance product focus.

Our Other Asia Territories' operations are becoming increasingly larger contributors to our overall results, a trend that we expect to continue. Distribution initiatives include expanding the agency channel through accelerated recruiting, improved retention and increased productivity and continuing to diversify by seeking new and alternative distribution that offers significant opportunities for growth. Many initiatives are in place or being planned across all territories, seizing opportunities as they arise or exploring and testing options with potential new distribution partners. In 2008, we established an asset management company in Malaysia and acquired an asset management company in Taiwan and we continue to expand our asset management footprint.

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 simple terms, reinsurance is the transfer of all or part of certain risks related to policies issued by an insurance company to a reinsurer. Retrocession is reinsurance whereby a reinsurer assumes risk from other reinsurers.

Through offices in Canada, the United States, Belgium, Barbados, Germany, 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 and specialized non-traditional solutions;**
- **Property and Casualty – offering retrocession of traditional property catastrophe and aviation catastrophe risks for Property and Casualty reinsurers; and**
- **International Group Program ("IGP") – offering international employee benefits management to multinational corporations and their affiliates through a global network of life insurance companies.**

In 2008, Reinsurance Division contributed two per cent of the Company's premiums and deposits.

Financial Performance

Earnings for the year 2008 were US$154 million, down 30 per cent from US$221 million reported a year earlier. The decrease in earnings was attributable to the significantly higher reserves required for our closed block of segregated fund guarantee business partially offset by improved property and casualty claim experience and an update in premium accrual estimates.

Summary Statements of Operations

For the years ended December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
Revenue						
Premium income	**$ 1,091**	$ 1,026	$ 1,010	**$ 1,028**	$ 956	$ 890
Investment income						
Investment income	**175**	186	208	**164**	172	184
Realized and unrealized (losses) gains on assets supporting policy liabilities	**(43)**	29	–	**(45)**	31	–
Other revenue	**24**	20	19	**23**	19	17
Total revenue	**$ 1,247**	$ 1,261	$ 1,237	**$ 1,170**	$ 1,178	$ 1,091
Policyholder benefits	**$ 1,002**	$ 862	$ 745	**$ 926**	$ 811	$ 658
General expenses	**51**	52	52	**48**	49	45
Investment expenses	**4**	4	3	**4**	3	3
Commissions	**2**	4	5	**2**	3	5
Other	**10**	8	10	**9**	7	8
Total policy benefits and expenses	**$ 1,069**	$ 930	$ 815	**$ 989**	$ 873	$ 719
Income before income taxes	**$ 178**	$ 331	$ 422	**$ 181**	$ 305	$ 372
Income taxes	**(24)**	(93)	(116)	**(27)**	(84)	(102)
Net income attributed to shareholders	**$ 154**	$ 238	$ 306	**$ 154**	$ 221	$ 270

Premiums

Premiums were US$1,028 million, up eight per cent from US$956 million reported in 2007. Life Reinsurance premium grew by 13 per cent due to strong new business volumes. Higher sales volume as well as the Euro currency appreciation contributed to an increase in IGP's premium income.

Premiums

For the years ended December 31 (in $ millions)	Canadian $			US $		
	2008	2007	2006	**2008**	2007	2006
Life Reinsurance	**$ 584**	$ 523	$ 476	**$ 548**	$ 487	$ 419
Property and Casualty Reinsurance	**68**	70	97	**63**	66	86
International Group Program	**439**	433	437	**417**	403	385
Total premiums	**$ 1,091**	$ 1,026	$ 1,010	**$ 1,028**	$ 956	$ 890

Moving Forward

With the volatile economic environment expected to continue in 2009, Reinsurance Division's primary focus is to write profitable business while maintaining a leadership position in our three core markets. Although the market for life retrocession continues to feel the

impact of pricing pressures and increased retention by reinsurers and direct writers, the turbulence in the financial markets is expected to have a negative impact on insurers, as well as reinsurers, pushing them to seek solutions to address capital issues. Given our leadership position in the individual life retrocession market and our capital strength, we expect to work with our clients to find mutually attractive in-force opportunities as well as extend our excess-of-retention pool business. In addition, we will continue to work with clients to develop customized non-traditional reinsurance solutions that meet their requirements for risk and capital management.

The Property and Casualty catastrophe retro market show signs of stabilizing in 2009 with continued improvement in premium rates. Our Property and Casualty operations successfully filled its capacity limits taking advantage of the current market conditions to improve the quality of our portfolio.

The focus for IGP operations will be to maintain our dominant position in the North American market while growing in the European and Asian markets, despite the increased competition from leading providers.

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 difference 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 residual capital (assets backing capital, net of amount allocated to operating divisions), changes in actuarial methods and assumptions, the John Hancock Accident and Health operation, which primarily consists of contracts in dispute, and other non operating items.

As at December 31, 2008, Corporate and Other accounted for nine per cent of the Company's funds under management.

Financial Performance

Corporate and Other reported a loss of $328 million in 2008, compared to income of $190 million reported in 2007. A significant contributor to the decrease in earnings was the impact of deteriorating equity markets, as this reduced realized gains from the sale of public equities and resulted in equity impairment charges. In addition, a change in assumptions on leveraged lease arrangements contributed to the decline. Partially offsetting these items was higher income from changes in actuarial methods and assumptions, higher oil and gas income reflecting higher average prices during the year and the non-recurrence of 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".

Summary Statements of Operations

For the years ended December 31

(Canadian $ in millions)	**2008**	2007	2006
Revenue			
Investment income (loss)	**$ (995)**	$ 33	$ 358
Other revenue	**294**	305	299
Realized gains on invested assets	**180**	456	–
Total revenue	**$ (521)**	$ 794	$ 657
Policyholder benefits	**$(1,087)**	$(109)	$(243)
General and investment expenses	**454**	369	417
Other	**588**	418	381
Total policy benefits and expenses	**$ (45)**	$ 678	$ 555
Income (loss) before income taxes	**$ (476)**	$ 116	$ 102
Income taxes	**148**	29	2
Net income (loss)	**$ (328)**	$ 145	$ 104
Loss attributed to participating policyholders[1]	**–**	45	–
Net income (loss) attributed to shareholders	**$ (328)**	$ 190	$ 104

[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 increased by ten per cent, or $3.1 billion, to $35.0 billion as at December 31, 2008. This increase is primarily driven by $2 billion of new deposits in Investment Division's externally managed business, funds received from the five year term loan and share capital financing and the impact of the strengthening U.S. dollar. Partially offsetting these increases were the market value declines in both the equity and bond portfolios.

Funds Under Management

As at December 31

(Canadian $ in millions)	**2008**	2007	2006
General fund	**$11,298**	$ 9,606	$11,620
Segregated funds	**3,111**	2,594	2,727
Third party funds managed by Investment Division	**20,633**	19,704	24,164
Total funds under management	**$35,042**	$31,904	$38,511

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, debt private placements ("private placements"), real estate, mortgages, oil and gas, timber and agricultural land. Additionally, MFC Global has a physical presence in key financial centers around the world, including the United States, Canada, Hong Kong, Japan, the United Kingdom, Australia, and throughout South-East Asia.

General Fund Assets

The Company's general fund invested assets increased to $187.5 billion as at December 31, 2008 from $161.3 billion as at December 31, 2007. The increase in assets was driven by $27.2 billion of positive currency impact due to the weakening Canadian dollar during the year, partially offset by $9.0 billion of negative mark to market of public securities. The following table shows the composition of the Company's general fund invested assets.

General Fund Assets

As at December 31 (Canadian $ in millions)	2008 Carrying value	2008 % of total	2007 Carrying value	2007 % of total
Cash and short-term investments	**$ 17,269**	**9**	$ 12,354	8
Bonds	**83,148**	**44**	72,831	45
Stocks	**8,354**	**4**	11,134	7
Mortgages	**30,963**	**17**	26,061	16
Private placements	**25,705**	**14**	21,591	13
Policy loans	**7,533**	**4**	5,823	4
Bank loans	**2,384**	**1**	2,182	1
Real estate	**7,274**	**4**	5,727	4
Other investments	**4,871**	**3**	3,597	2
Total invested assets	**$ 187,501**	**100**	$ 161,300	100

Bonds and Private Placements

The Company's bond and private placement portfolio represented 58 per cent (2007 – 58 per cent) of invested assets as at December 31, 2008. This portfolio of public bonds and private placements is diversified by sector as well as by industry, duration and issuer. At the end of 2008, 95 per cent (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 fair value of bond and private placement portfolio by sector and industry.

Bonds and Private Placements

As at December 31 (Canadian $ in millions)	2008 Fair value	2008 % of total	2008 % Investment Grade	2007 Fair value	2007 % of total	2007 % Investment Grade
Government and agency	**$ 28,537**	**27**	**96**	$ 25,383	27	96
Financial	**22,348**	**21**	**98**	21,048	22	99
Telecommunications	**2,699**	**3**	**90**	2,421	3	90
Utilities	**15,951**	**15**	**95**	12,475	13	94
Energy	**7,468**	**7**	**99**	5,761	6	98
Industrial	**6,119**	**6**	**92**	5,364	6	94
Securitized (ABS/MBS)	**8,885**	**8**	**98**	9,218	10	99
Consumer (non-cyclical)	**5,197**	**5**	**91**	4,869	5	94
Consumer (cyclical)	**3,661**	**3**	**86**	2,789	3	88
Basic materials	**3,759**	**3**	**82**	3,237	4	80
Technology	**809**	**1**	**100**	263	–	100
Media and internet	**1,585**	**1**	**95**	1,308	1	97
Diversified and miscellaneous	**400**	**–**	**94**	268	–	98
Total bonds and private placements [1]	**$107,418**	**100**	**95**	$ 94,404	100	96

[1] Includes fair value of bonds of $83,148 million (2007 – $72,831 million) and private placements of $24,270 million (2007 – $21,573 million) with carrying value of $83,148 million (2007 – $72,831 million) and $25,705 million (2007 – $21,591 million) respectively.

Mortgages and Real Estate

As at December 31, 2008 mortgages represented 17 per cent (2007 – 16 per cent) of invested assets with 51 per cent of the mortgage portfolio in Canada and 49 per cent in the United States. Commercial mortgages accounted for 71 per cent of total mortgages with the rest being agricultural and Canadian residential mortgages. Predominantly composed of first mortgages, the portfolio is diversified by geographic region, property type and mortgagor. Government-insured loans represented 25 per cent of the total mortgage portfolio, offering an excellent risk-adjusted return. The commercial mortgages book (Canada – 39 per cent, U.S. – 61 per cent) is extremely high quality with low loan to value ratios (Canada – 61.7 per cent, U.S. – 62.1 per cent) and high debt service ratios (Canada – 1.61 times, U.S. – 1.62 times).

As at December 31, 2008 four per cent (2007 – four per cent) of the Company's invested assets were held in real estate, with a fair value of $9.2 billion (2007 – $7.6 billion). The portfolio is diversified by geographic region, with 63 per cent located in the United States, 29 per cent in Canada and eight per cent in Asia. The portfolio is also diversified by property type, with 87 per cent in commercial properties and 13 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 properties have very strong occupancy rates. Office properties represented 80 per cent of the commercial portfolio, with the remainder shared between industrial, retail, residential and other property types.

Stocks
As at December 31, 2008 stocks represented four per cent (2007 – 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, 2008 the stock portfolio was invested 31 per cent in U.S. issuers, 37 per cent in Canadian issuers, 26 per cent in Asian issuers and six 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 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 increased by $4.6 billion to $95.6 billion, driven by net sales of $13.6 billion and the positive impact of currency translation of $16.8 billion more than offsetting the $25.8 billion impact of declines in global equity and credit markets.

Third Party Assets

As at December 31, (Canadian $ in millions)	**2008**	2007	**Change** $	**Change** %
Managed on behalf of:				
Operating Division clients	**$ 69,088**	$ 64,728	$ 4,360	7
Institutional clients	**26,484**	26,247	237	1
Total third party assets	**$ 95,572**	$ 90,975	$ 4,597	5

Moving Forward
The Investment Division's two primary goals are to consistently achieve superior investment returns and to grow its investment management services for the Company's external clients. The Company's disciplined investment philosophy, diversified holdings, global access and capabilities, portfolio of alternative assets and strong credit quality are expected to continue to provide enhanced risk adjusted returns.

To grow the investment business, we will continue to leverage our strong distribution network, expertise and scale to provide superior asset management for our clients. Despite the current market turmoil, we are optimistic that management's continued focus on providing strong investment returns over the long-term and value-added investment strategies will continue to generate strong business growth.

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 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.

We target to assume risks at levels prudent in relation to the Company's capital strength and earnings capacity, that 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 are appropriately compensated over the long term. We must manage risks 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. With an overall goal of effectively executing risk management activities, 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, market and liquidity, credit, 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.

2008 presented extraordinary challenges for the risk management function at Manulife Financial. The ongoing deterioration of the economy overall and severe dislocation of the financial markets continues to weigh heavily on the financial services industry. In this environment, Manulife Financial is not immune. While our disciplined investment risk management approach resulted in our asset portfolio performing comparatively well, the severe equity market declines had a material impact on the operations of our Company, in large part arising from our variable annuity and segregated fund guarantee exposures. While these potential obligations are long-term in nature and payable over a 30 year period beginning in several years, we must account for the increase in liabilities currently. In the face of continuing market instability, measures were taken to strengthen our capital base to provide us with a capital position that we expect will provide the flexibility to absorb further market declines.

With our significant balance sheet and earnings sensitivity to equity market performance, as well as exposures related to declining interest rates and heightened credit challenges, managing risk and capital will have even heightened priority. Plans are being implemented to stem the growth in equity exposure. Our investment portfolio has been, and will continue to be, managed conservatively. Product designs and prices are being reviewed and modified to achieve a reduced risk profile appropriate for the current market environment.

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 periodically reviews and approves our enterprise risk management policy, risk taking philosophy, overall risk appetite, 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. Recognizing the increasing risk environment, the Board of Directors and ARMC has, and will continue to, increase their focus on risk oversight. 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 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 are accountable 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 returns commensurate with the level of risk assumed.

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 evaluates all potential new business initiatives, acquisitions, product offerings, reinsurance arrangements, and investment and financing transactions on a directly comparable risk-adjusted basis. Our comprehensive processes identify, monitor, measure, and control the risks assumed using a common set of practices. 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.

On a quarterly basis, the ERC, ARMC and Board of Directors each review risk reports 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 ("DCAT") 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 DCAT.

Risk Control and Mitigation

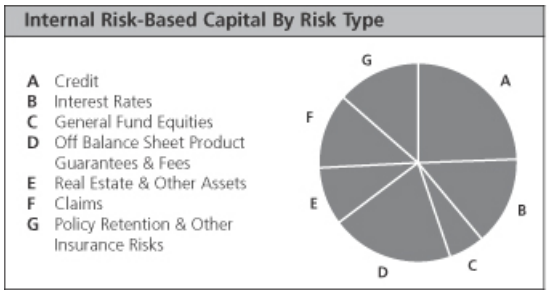
Risk control activities are in place throughout the Company to mitigate risks to within the approved risk limits for each specific risk. Controls, which include policies, procedures, systems and processes, are appropriate and commensurate with the key risks faced at all levels across the Company and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

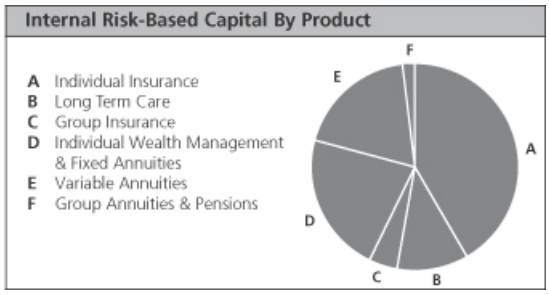
CRM establishes and oversees formal review and approval processes, involving independent individuals, groups or risk oversight committees, for product offerings, reinsurance, investment activities and other material business activities, based on the nature, size and complexity of the risk taking activity involved. Authority for assuming risk at the transaction level is 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. Over 2008, the most significant change in the composition of our internal risk-based capital by category was an increase in capital associated with off-balance sheet guarantees in our variable annuity products, where the risk exposure is primarily related to the performance of equity markets.





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 reputation. External business, economic, 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 achieve wide diversification across asset classes and individual investment risks within our investment portfolios, and to ensure they 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, along 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, timberlands and oil and gas properties 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 death and living benefit guarantees provided on variable annuity and insurance products as well as the uncertainty of future levels of asset-based fees. Guarantees include death, maturity, income and withdrawal guarantees on variable products. A sustained decline in stock markets could increase the cost of guarantees associated with our variable products and reduce asset-based fee revenues. A sustained increase in equity market volatility or decline in interest rates could increase the costs of hedging the benefit guarantees provided.

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. We design guaranteed benefit insurance and wealth management products and set premiums and credited rates to limit the risk of not achieving targeted profit margins. 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 guaranteed 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. In response to the changed market conditions, guaranteed benefit products, and their premiums, are being reviewed and modified to ensure risk tolerances are maintained and targeted profit margins will continue to be achieved.

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, delta, rho, gamma, vega, 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 have reinsured the investment return benefit guarantee risk on a portion of our in-force business and employ capital market hedging for a portion of our in-force and the majority of the new business we write. We design new product benefit guarantees and fund offerings to meet established extreme event risk exposure limits, based on economic capital and regulatory capital, and to achieve desired profit targets. Product guarantee features, fund offerings and fees are being reviewed and modified to ensure guarantees can be hedged effectively in the changed market conditions.

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.

Variable annuity guarantees generate the largest component of our exposure risk related to equity markets. We are implementing a comprehensive plan that will allow us to economically achieve a reduced level of exposure to equity market volatility. We have already begun to review our variable annuity guarantee offerings and modify product designs to better balance the features that have attracted customers to these products with the risk that they present to Manulife Financial. We will continue to provide variable annuity and segregated fund offerings, with potential obligations payable over a long time period, generally deferred several years. However, recognizing increasing volatility in equity markets, we will offer product designs and investment fund alternatives with reduced exposure to equity markets. We have also expanded our variable annuity hedging to encompass all new business written in the U.S and the majority of Canadian new business and will look for opportunities to economically hedge existing business. We intend to continue to monitor market conditions and manage product features, fee levels, and our hedging program throughout 2009 to ensure an appropriate balance between risk and long-term profitability for the variable annuity product line. We also intend to prudently limit growth in our guaranteed variable annuity businesses.

Market price and interest rate risk exposures are disclosed in note 8 to the consolidated financial statements.

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 is designed to ensure that changes to our reported shareholders' equity are proportionate to 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 one per cent change in the Canadian dollar relative to our key operating currencies.

Impact of Changes in Foreign Exchange Rates [1],[2]

	Shareholders' Equity		Net Income	
As at December 31				
(Canadian $ in millions)	**2008**	2007	**2008**	2007
1% strengthening relative to U.S. dollar	**$ (189)**	$ (159)	**$ 12**	$ (31)
1% strengthening relative to Japanese yen	**$ (15)**	$ (14)	**$ 3**	$ (6)

(1) A weakening in rates would have the exact opposite impact to that displayed above.

(2) A strengthening or weakening of the average Canadian dollar relative to our key operating currencies can have a significant impact to our net income. For example, in the fourth quarter of 2008, the average Canadian dollar exchange rate weakened considerably against the U.S. dollar, resulting in an increase in the translated value of our U.S. dollar net loss. Similarly, a strengthening of the Canadian dollar would decrease our U.S. dollar net loss, and thus positively impact our net income.

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, deposit withdrawals, 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, deposit withdrawals 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 provide adequate liquidity 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. Liquid assets represent a large portion of our total assets. We manage our deposit funded businesses through a reliance on stable and diverse sources of funding with active management of the risk profile associated with the deposit mix. We forecast and monitor actual daily operating liquidity and cash movements in local operations as well as centrally, aiming to ensure liquidity is available and cash is employed optimally.

We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. Our centralized cash pool consists of cash or near-cash, high quality short term investments that are continually monitored for their credit quality and market liquidity. During the last two quarters of 2008, wholesale funding markets, primarily in the U.S., became disrupted. Consequently, seeking to reduce risk, Manulife has increased liquidity to historically high levels.

Cash and Government Securities

As at December 31 (Canadian $ in millions)	**2008**	2007
Cash and cash equivalents	**$17,269**	$12,354
Government bonds	**24,280**	21,793
Total	**$41,549**	$34,147
Cash and government securities as a % of total assets	**19.7%**	19.4%

Through the normal course of business, pledging of assets is required to comply with jurisdictional regulatory and other requirements including collateral pledged to mitigate derivative counterparty credit risk and assets held as collateral for repurchase funding agreements. Total unencumbered assets as at December 31, 2008 were $206.5 billion.

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 investments, 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.

Strategic Liquidity

	2008		2007	
As at December 31 (Canadian $ in millions)	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Adjusted liquid assets	**$ 92,361**	**$ 93,504**	$ 81,487	$ 81,571
Adjusted policy liabilities	**$ 23,047**	**$ 30,090**	$ 20,597	$ 26,750
Liquidity ratio	**401%**	**311%**	396%	305%

A separate liquidity risk management policy and process is run for Manulife Bank which at the end of 2008 had liquidity in excess of policy requirements.

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 fund invested assets and off-balance derivative financial 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 derivative counterparties as well as 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 net potential credit exposure, which takes into consideration mark-to-market values of all transactions with each counterparty, 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.

Our credit policies and procedures and investment strategies have remained fundamentally unchanged. Given the challenging credit environment experienced in 2008 and in response to the emerging environment, credit exposure in our investment portfolio is being actively managed to reduce risk and mitigate losses. Derivative counterparty exposure is being managed proactively and securities lending activities have been reduced.

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 conservatively, 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, 2008 and December 31, 2007, for every 25 per cent that credit loss rates over the next year exceeded the rates provided for in actuarial reserves, net income would be reduced by $34 million and $21 million, respectively.

Credit risk exposures are disclosed in note 8 to the consolidated financial statements.

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. The development of assumptions for future claims are based on Company and industry experience; assumptions for future policyholder behavior are based on Company experience and predictive models. Such assumptions require significant professional judgment and therefore, 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, 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 US$20 million for a single life (US$25 million for survivorship 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, 2008 and December 31, 2007 for every five per cent that actual mortality and morbidity rates over the next year exceeded the rates provided for in actuarial reserves, net income would be reduced by $147 million and $127 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 liquidity 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 coverage 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, fraud 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. In addition, we have an anti-fraud policy to protect the Company, its customers and other related third parties from acts of fraud. Divisions ensure that existing processes and controls give adequate consideration to the risk of fraud and Audit Services and Global Compliance periodically assess the effectiveness of the control environment.

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 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. In providing credit to borrowers, or making equity investments in private firms, we take reasonable steps to assess that counterparties are environmentally responsible.

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 “Cautionary Statement Concerning 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; 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 for each regulated entity. 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. During 2008, net capital issuances combined with proactive management of capital requirements and efficient deployment of capital across the Company has allowed us to maintain a solid capital position, notwithstanding the substantial deterioration in the global economic environment worldwide. Overall, the capital position of the Company and its subsidiaries remains in excess of regulatory requirements, with the capital levels of the key operating subsidiaries exceeding or within internal targets.

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 meet or 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 other considerations. Management regularly monitors capital 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 liabilities. The impact of the currency movements on the capital ratios is thus mitigated as both available and required capital rise (fall) when the Canadian dollar weakens (strengthens).

As part of our annual 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 2008 results, updated in December 2008, indicated that the Company's capital levels provided for sufficient assets to discharge liabilities and to retain positive surplus in the catastrophic scenarios tested. These scenarios included tests of equity market, credit, interest rate and mortality risk, amongst others.

Capital quality is maintained by limiting the amount of debt capital or non-permanent equity capital in the capital structure. The composition of capital between equity and other instruments remains well within regulatory constraints. 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").

Consolidated Capital

As at December 31, (Canadian $ in millions)	**2008**	2007	2006
Equity	**$27,664**	$22,406	$25,018
Preferred shares	**982**	982	982
Innovative instruments	**1,000**	1,000	1,000
Subordinated debentures	**1,195**	1,196	1,195
AOCI on AFS securities [1]	**(529)**	1,327	–
Other capital instruments	**582**	470	1,156
Non-controlling interest in subsidiaries	**217**	146	202
Total capital	**$31,111**	$27,527	$29,553

[1] The Company adopted CICA Handbook section 3855 on January 1, 2007 and therefore 2006 does not include AOCI on AFS securities.

The Company's capital increased by $3,584 million compared to prior year. The increase was primarily due to the common equity issuance of $2,275 million, net income of $497 million and other comprehensive income of $4,409 million from currency translation of net foreign operations. The impact of these items on the level of capital was partially offset by the $1,856 million decline in AFS securities due to the market turmoil, $1,524 million of dividends paid to shareholders and $403 million of share repurchases.

Designated committees of the Board of Directors review and approve Manulife Financial's capital management policies. Each quarter the ARMC 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 and reviews issues and initiatives that affect the capital position of MFC'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. On August 7, 2008, the Company announced an increase in the quarterly shareholders' dividend from $0.24 to $0.26 per common share.

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,	**2008**	2007	2006
Dividends per common share paid in cash	**$1.00**	$0.88	$0.73
Common share dividend payout ratio	**307%**	31%	29%

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.

In 2008, the common share dividend payout ratio was 39 per cent for the first half of the year. It rose considerably in the later half of 2008 due to the earnings reduction caused by the unprecedented market turmoil.

Capital and Funding Activities

In analyzing capital at the MFC consolidated level, we primarily consider equity as well as subordinated long-term instruments, in alignment with OSFI's regulatory capital definitions. While we also raise unsubordinated funding from MFC which may be deployed in our downstream entities as capital, at the MFC consolidated level such senior indebtedness is not considered capital.

In 2008, we issued $2,318 million and repurchased $403 million of common shares. We also raised a net amount of $2,338 million in other funding. Details of these activities are provided below.

On December 11, 2008, we issued $2,275 million of common shares including $1,125 million sold by way of private placement to eight existing institutional investors. The remaining $1,150 million, inclusive of a fully subscribed over-allotment of $150 million, was sold to a syndicate of underwriters in a "bought deal" public offering.

During 2008, 2.6 million common shares were issued pursuant to the exercise of stock options and the settlement of deferred share units for a total consideration of $43 million. MFC purchased and subsequently cancelled 11 million common shares pursuant to normal course issuer bids ("NCIB") at a total cost of $403 million. The NCIB expired on November 8, 2008, and was not renewed.

In addition to the above capital activities, the following financing transactions took place during the year.

On June 26, 2008, the Company raised $950 million of medium term notes constituting senior indebtedness. The medium term notes were issued in two tranches of $550 million of 5.161% notes and $400 million of 5.505% notes, maturing in 2015 and 2018, respectively.

On November 6, 2008, the Company executed a binding credit agreement with leading Canadian banks to provide a loan of $3 billion. Subsequent to the common equity offering in December 2008, the credit facility was reduced to $2 billion. The five year term loan is repayable at the Company's option at any time without penalty, and it is priced on a floating rate basis at one month Bankers Acceptance plus 3.80%.

On December 1, 2008, the Company repaid US$500 million of maturing 5.625% senior notes.

In 2007, MFC issued 9.5 million common shares for a total consideration of $251 million pursuant to the acquisition of a subsidiary as well as the exercise of stock options and the settlement of deferred share units. MFC purchased and subsequently cancelled 56.4 million common shares pursuant to NCIB at a total cost of $2,245 million. On February 1, 2007, the Company redeemed US$492.5 million 8.375% Capital Trust Pass-through Securities issued by MIC Financing Trust that qualified as regulatory capital. 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, reducing the amount of the Company's non-controlling interest in subsidiaries.

As a subsequent event, on March 4, 2009, MFC issued 18 million Non-Cumulative Five Year Rate Reset Class A Preferred Shares, Series 4 at a price of $25 per share, for an aggregate amount of $450 million.

Regulatory Capital Position

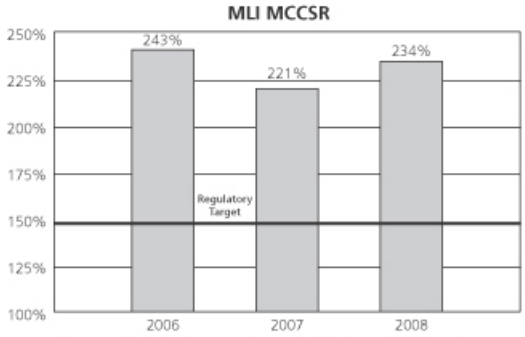
The Company monitors and manages consolidated capital for MFC in compliance with the OSFI Guideline A2 – Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued July 5, 2005. Under this regime our consolidated available capital is measured against a required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

Manulife Financial 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").

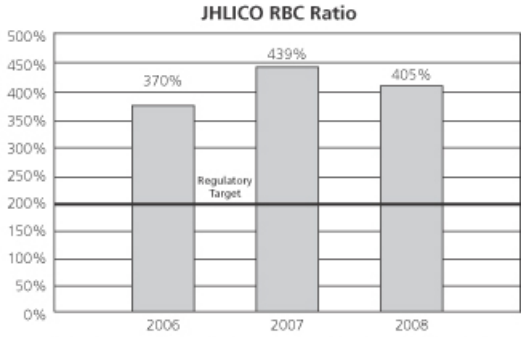
MLI, our principal Canadian operating company, is regulated by OSFI and is subject to MCCSR. MLI's MCCSR ratio as at December 31, 2008 was 234 per cent (December 31, 2007 – 221 per cent), well in excess of OSFI's target of 150 per cent. The key driver of the higher ratio in 2008 was the net increase in MLI's available capital reflecting capital issuances partly offset by dividends paid to MFC and unrealized losses on AFS assets. During the year, the Company took actions to strengthen the regulatory capital position of MLI by internally redeploying excess financial resources, including changes to the terms of $550 million senior note payable to Manulife Finance (Delaware) LLC due December 15, 2016. Under the new terms, the senior note became a subordinated note qualified as MLI's regulatory capital with the interest rate increased to 90-day Bankers Acceptance plus 0.552%.

The positive impact of MLI's higher available capital on its capital ratios exceeded the impact of higher required capital. Capital for segregated fund guarantees was the key driver of the required capital increase, with the beneficial impact of changes in regulatory guidelines and other approved modeling refinements related to policyholder behaviour assumptions and interest rates being more than offset by the negative impact of the downturn in equity markets. The revised regulatory guideline for segregated fund guarantees requires higher capital for short-term obligations and reduces capital required to support longer-term payment obligations. Given the Company's generally long-dated guarantees, the regulatory changes had a beneficial impact on our capital ratios. MLI's non-consolidated operations and subsidiaries all maintained capital levels in excess of local requirements as at December 31, 2008. In particular Manulife Canada Ltd., an OSFI-regulated Canadian operating insurance company, had an MCCSR ratio of 173 per cent, 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 439 per cent as at December 31, 2007 to 405 per cent as at December 31, 2008, as the decline in available capital outpaced lower capital requirements. 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, 2008.



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 remain among the highest of global financial institutions. Given the global economic turmoil that has adversely impacted financial flexibility of many companies and consistent with the rating agencies' overall concerns regarding current issues affecting the insurance industry, Manulife Financial, like many of its industry peers, has experienced recent rating downgrades. In the last two months, Standard and Poor's lowered the AAA financial strength ratings of our operating companies to AA+ with a stable outlook, Moody's lowered our ratings from Aa1 to Aa3 with a negative outlook, Fitch lowered our ratings from AA+ to AA with a negative outlook and A.M. Best changed its outlook of our A++ ratings from stable to negative. In November 2008, DBRS confirmed our ratings but lowered their outlook from positive to stable.

The following table summarizes our operating company ratings as at March 18, 2009.

Primary Insurance Company Financial Strength/Claims Paying Credit Ratings

	S&P	Moody's	DBRS	Fitch	A.M. Best
The Manufacturers Life Insurance Company	AA+	Aa3	IC-1	AA	A++
John Hancock Life Insurance Company	AA+	Aa3	Not Rated	AA	A++
John Hancock Life Insurance Company (U.S.A.)	AA+	Aa3	Not Rated	AA	A++
Manulife (International) Limited	AA+	Not Rated	Not Rated	Not Rated	Not Rated
Manulife Life Insurance Company (Japan)	AA+	Not Rated	Not Rated	Not Rated	Not Rated

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. Significant estimation processes relate to the determination of policy liabilities, evaluation of invested asset impairment, assessment of variable interest entities, determination of pension and other post-employment benefit obligations and expenses, income taxes and valuation of goodwill and intangible assets as described below. In addition, in the determination of the fair values of financial instruments, where observable market data is not available, management applies judgment in the selection of valuation models.

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 prudent 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 2008 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 2008 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 2008 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 2008 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. In 2008, non-fixed income returns were unfavourable when compared to our assumptions, primarily as a result of poor public equity markets. 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 2008, credit loss experience was unfavourable 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.

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,

(Canadian $ in millions)	**2008**	2007
Best estimate actuarial liability	**$102,446**	$96,030
Provision for Adverse Deviation		
Insurance risks (mortality/morbidity)	**$ 8,168**	$ 6,167
Policyholder behavior (lapse/surrender/premium persistency)	**3,249**	2,544
Expenses	**1,165**	918
Investment risks (non-credit)	**16,588**	9,932
Investment risks (credit)	**1,398**	1,161
Segregated fund guarantees	**4,747**	457
Other	**362**	443
Total Provision for Adverse Deviation (PfAD)	**$ 35,677**	$21,622
Segregated funds – additional margins	**9,144**	11,548
Total of PfAD and additional segregated fund margins	**$ 44,821**	$33,170

Reported actuarial liabilities as at December 31, 2008 of $138,123 million (2007 – $117,652 million) are composed of $102,446 million (2007 – $96,030 million) of best estimate actuarial liability and $35,677 million (2007 – $21,622 million) of PfAD.

Significant increases in PfADs were as a result of currency movements, movements in market spreads on fixed income assets, revisions to investment strategies supporting policy liabilities that increase the use of non fixed income assets, and an increase in the margins for segregated fund guarantees due to the impact of the adverse 2008 equity markets on the potential future cost of these guarantees.

Currency movements increased the PfADs $5,887 million primarily due to the weakening of the Canadian dollar versus the U.S. dollar and Japanese yen. The increase in market spreads on fixed income assets increases the expected re-investment rates in the valuation but generates higher margins for spread compression in the valuation. The increase in margins as a result of the investment strategy changes was as a result of the greater projected use of non fixed income assets in the investment portfolios supporting policy liabilities, and is largely offset by a corresponding reduction in expected reserves due to higher expected returns. Both of these items are reflected in Investment Risks (non-credit). Virtually all the positive segregated fund guarantee reserves, including the new reserves established in 2008 as equity markets corrected, represent required margins, as the actual present value of the expected costs before margins for adverse deviations remains minimal.

The decrease in additional margins on segregated funds is the result of lower segregated fund balances due to the poor 2008 equity markets and consequent reduced future projected net revenues.

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 which in turn affects income. The sensitivity of after tax income to changes in assumptions underlying policy liabilities is shown below, assuming that there is a simultaneous change in the assumption across all business units. For changes in asset related assumptions, the sensitivity is shown net of the corresponding impact on income of the change in the value of the assets supporting liabilities. 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, (Canadian $ in millions)	**Increase (Decrease) in After Tax Income**	
	2008	2007
Policy Related Assumptions		
2% adverse change in future mortality rates		
Products where an increase in rates increases policy liabilities	**$ (293)**	$ (198)
Products where a decrease in rates increases policy liabilities	**(213)**	(132)
5% increase in future morbidity rates	**(952)**	(696)
10% adverse change in future termination rates	**(925)**	(586)
5% increase in future expense levels	**(310)**	(246)
Asset Related Assumptions		
100 basis point parallel decrease in market interest rates	**$(1,336)**	$ (452)
100 basis point parallel increase in market interest rates	**1,138**	369
10% reduction in non fixed income market values	**(2,079)**	(572)
100 basis point reduction in future annual returns for non fixed income assets	**(3,447)**	(1,481)

- An increase in mortality rates will generally increase policy liabilities for life insurance contracts whereas a decrease in mortality rates will generally increase policy liabilities for policies with longevity risk such as payout annuities.
- No amounts related to morbidity risk are included for policies where the policy liability provides only for claims costs expected over a short period, generally less than one year, such as Group Life and Health.
- 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 after tax income decreases by $2,668 million for a 100 basis point decrease in interest rates, and increases by $2,146 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.
- Non fixed income assets include both common and private equities, all forms of real estate, and any other non fixed income instruments supporting policy liabilities. The $(2,079) million after tax income impact for a 10% reduction in non fixed income market values consists of $(1,660) million related to common and private equities, and $(419) million related to real estate and other non fixed income assets. The $(3,447) million after tax income impact for a 100 basis point reduction in future annual returns consists of $(2,232) million related to common and private equities and $(1,215) million related to real estate and other non fixed income assets.
- A large portion of the change in the level of the sensitivities from 2007 to 2008 is caused by changes in foreign exchange rates, particularly the appreciation of the U.S. dollar versus the Canadian dollar.
- The increase in the sensitivity to changes in market rates reflects a change in the current valuation interest scenario used to determine policy liabilities under which interest rates grade more slowly to the ultimate rates.
- The increase in sensitivity to changes in market interest rates reflects a change in the valuation interest scenario used to determine policy liabilities. The new scenario adopted in 2008 is based on a grading from current market interest rates to assumed ultimate re-investment rates over 20 years. Under Canadian GAAP, we must test a number of prescribed interest scenarios. The interest scenario we have adopted uses the structure of the prescribed scenario that currently produces the highest policy liability, with additional prudence introduced through use of lower ultimate re-investment rates than the maximum levels permitted.
- The increase in sensitivity to non fixed income market values reflects the increased sensitivity of segregated fund guarantee policy liabilities to changes in equity market levels. As a result of the severe 2008 global equity market corrections both the liability for existing guarantees and the sensitivity of this liability to changes in equity market levels have increased materially.

Review of Actuarial Methods and Assumptions

The 2008 review of the actuarial methods and assumptions underlying policy liabilities produced a net reduction in the policy liabilities of $482 million. Net of the impacts on participating surplus and minority interests, this resulted in an increase in 2008 shareholders' income of pre-tax $454 million.

Impact of 2008 Review by Category of Change

(Canadian $ in millions)

Assumption	Reserve Impact Increase (Decrease)
Mortality / morbidity	$ (647)
Lapses and other policyholder behaviour	699
Expense	(570)
Investment returns	164
Other valuation model refinements and assumption updates	(128)
Net release of policy liabilities	**$ (482)**

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.

Impact of 2008 Review by Category of Change

(Canadian $ in millions)

Assumption		
Mortality / morbidity	$(647)	Reduction is driven mainly by mortality releases for U.S. Insurance, with lesser increases in Reinsurance and Canadian Insurance and Long Term Care incidence and termination rates. Offsetting these decreases were increases in assumptions for Hong Kong hospital claims assumptions, reduced mortality assumptions for Long Term Care (which leads to higher reserves) and minor strengthening in other lines.
Lapses and other policyholder behaviour	699	Increases driven by updates to lapse assumptions and premium persistency assumptions for most insurance lines, as well as updates for rates of annuitization for certain U.S. annuity products.
Expense	(570)	Release in reserves is driven by decreases in expenses for U.S. Insurance, as well as refinements to the allocation of certain overhead expenses between maintenance and acquisition. A review of premium taxes in U.S. Life insurance also led to a reserve reduction.
Investment returns	164	Increases in reserves are attributed to updates to expected returns for real estate and other non fixed income assets. These increases were offset by the net impact of reflecting in the future investment returns the projected impact of the recently adopted long tail investment strategy and the related impact on the interest rate risk scenario used to determine the Company's interest rate risk reserves.
Other valuation model refinements and assumption updates	(128)	There was a net release in reserves from the release of excess margins in interest rate risk reserves. This was offset by establishment of segregated fund guarantee reserves incremental to normal policy reserve accruals and a net increase in reserves due to refinements of existing reserve modeling for insurance and Long Term Care businesses.
Total	**$(482)**	

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 $(506) million for the fourth quarter of 2008, and $24 million in aggregate for the first three quarters of 2008.

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:

2008 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, 2008	$ 41,096	$ 30,648	$ 36,649	$ 13,913	$ 1,621	$ 495	$124,422
New business	846	4,447	289	(99)	(26)	–	5,457
In-force movement	1,920	(5,347)	(1,773)	790	(10)	(455)	(4,875)
Currency impact	9,773	6,907	6	4,088	269	12	21,055
Total net changes	$ 12,539	$ 6,007	$ (1,478)	$ 4,779	$ 233	$ (443)	$ 21,637
Balance, December 31, 2008	$ 53,635	$ 36,655	$ 35,171	$ 18,692	$ 1,854	$ 52	$146,059

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 currency reflects the appreciation of the U.S. dollar and Japanese yen versus the Canadian dollar. As assets are currency matched to liabilities, the increase 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 $5,347 million for in-force movements on the U.S. Wealth Management block includes $2,985 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The decrease in the Corporate and Other segment is related to an Accident and Health block for which the liabilities are held in the Corporate and Other segment.

Included in the total in-force reduction of $4,875 million is a decrease of $482 million from changes in methods and assumptions, as described earlier. This decrease results in an increase in pre-tax earnings.

Of the $582 million net increase in policy liabilities related to new business and in-force movement, $761 million is an increase in actuarial liabilities. The remaining is a decrease of $179 million in other policy liabilities.

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	76	(126)	11	–	2,558
In-force movement	1,957	(5,263)	254	973	(118)	243	(1,954)
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

New business and normal in-force movement for Canadian Division were restated.

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.

Included in the total in-force reduction of $1,954 million is an increase of $32 million from changes in methods and assumptions, as described earlier. This decrease 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.

Evaluation of Invested Asset Impairment
AFS equity and fixed income securities are carried at fair market value, with changes in fair value recorded in Other Comprehensive Income ("OCI"). AFS securities are considered impaired when fair value falls below their original cost. Impaired securities are reviewed on a regular basis and any fair value decrement is transferred out of AOCI and recorded in income at such time as the impairment is determined to be other than temporary.

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.

Significant judgment is required in assessing whether an impairment is other than temporary and in assessing fair values and recoverable values. Key matters considered include economic factors, company and industry specific developments and specific issues with respect to single issuers and borrowers. For fixed income securities the Company's ability and intent to hold a security may also be considered in the impairment assessment.

Changes in circumstances may cause future assessments of asset impairment to be materially different from current assessments, which could require additional provisions for impairment. Additional information on the process and methodology for determining the allowance for credit losses is included in the discussion of credit risk in note 8 to the consolidated financial statements.

Variable Interest Entities ("VIEs")
When 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 under GAAP. When the Company 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, 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 whether it is the primary beneficiary of any entities that are determined to be VIEs. 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. For further details on the Company's involvement with VIEs, see note 18 to the consolidated financial statements.

Pensions and Other Post-Employment Benefits
The Company has a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees and agents after employment. 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. Differences between actual and 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 estimated liabilities to these assumptions, are presented in note 17 to the consolidated financial statements.

The funding of defined benefit plans is also subject to various projections and assumptions based on the demographic profile of the membership, expected rates of return on plan assets, and compensation increase rates. A valuation for funding purposes is being completed as at December 31, 2009 and January 1, 2009 for the Company's largest registered Canadian and U.S. plans respectively. Once completed, these valuations will reflect current asset values and return assumptions as well as any changes to the demographic profile of the member group. For 2009, the minimum funding requirement for the Company's largest registered Canadian and U.S. plans is expected to be in the range of $50 to $100 million. However, future Company contribution amounts may change upon the Company's review of its contribution levels during the year and based on the results of the pending valuations.

The Company reviews the appropriateness of the plans' investment policy on a regular basis and was in compliance with the investment policy throughout the year. The current asset mix and level of investment risk of the Company's pension plans reflects their long-term nature.

Income Taxes
The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and 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 recognized whenever an amount is recorded for accounting purposes but not for tax purposes or vice versa. Future tax assets and liabilities are recorded based on expected future tax rates and management's assumptions regarding the expected timing of the reversal of such temporary differences.

The Company is an investor in leveraged leases and previously established provisions in the amount of US$178 million after tax for possible disallowance of the tax treatment and for interest on past due taxes. During the year ended December 31, 2008, the Company increased this provision by US$185 million after tax. The Company continues to believe that deductions originally claimed in relation to these arrangements are appropriate. Although not expected to occur, should the tax attributes of the leveraged leases be fully denied, the maximum after tax exposure including interest would be an additional estimated US$280 million as at December 31, 2008.

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 internally developed valuation models that consider various factors such as normalized and projected earnings, market multiples and discounted cash flows. 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 2008 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives.

Change in Accounting Policies – Financial instruments – disclosure and presentation
Effective January 1, 2008, the Company adopted CICA Handbook Section 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. Sections 3862 and 3863 replace Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires additional disclosures of the nature and extent of risks arising from financial instruments, including the objectives, policies, processes and methods used to measure and manage key risks.

Future Change in Accounting Policy – Goodwill and Intangible Assets
In February 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”, replacing Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Requirements concerning goodwill are unchanged from the previous Section 3062. Section 3064 will be effective on a prospective basis for the Company’s fiscal year beginning January 1, 2009. The new section is not expected to have a material impact on the Company’s consolidated financial statements.

Future Change in Accounting Policy – Transition to International Financial Reporting Standards (“IFRS”)
On February 13, 2008 the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises in Canada will be required to adopt IFRS as a replacement of Canadian GAAP for periods beginning on or after January 1, 2011. The Company will adopt IFRS in its quarterly and annual reports starting with the first quarter of 2011 and will provide corresponding comparative financial information for 2010.

The Company is in the process of evaluating the financial statement impact of the differences between Canadian GAAP and IFRS, and assessing the first time adoption and transitional options, in order to select the most appropriate accounting policies under IFRS. Until this process is complete, the full impact of adopting IFRS on the Company’s future financial position and future results cannot be reasonably determined.

The international financial reporting standard that addresses the measurement of insurance contracts is currently being developed and is not expected to be in place by January 1, 2011. Therefore, upon initial adoption of IFRS the Company will continue to measure insurance liabilities using the Canadian Asset Liability Method (“CALM”). Under CALM, the measurement of actuarial liabilities is based on the carrying value of assets required to support those liabilities. Consistent with the results of the adoption of CICA Handbook Section 3855, when IFRS is adopted any change in the carrying value of the invested assets that support insurance liabilities will be offset by a corresponding change in reserves and therefore is not expected to have a material impact on net income.

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 22 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, 2008, 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 accurately and completely and 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, 2008, 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 our disclosure controls and procedures were effective as at December 31, 2008.

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, 2008 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, 2008, 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, 2008 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, 2008. Their report expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

Changes in Internal Control over Financial Reporting
No changes were made in our internal control over financial reporting during the year ended December 31, 2008, 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, 2008, 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]	$ 4,785	$ 207	$ 793	$ 2,684	$ 1,101
Liabilities for capital instruments[1, 2]	7,487	169	327	297	6,694
Purchase obligations	646	325	218	80	23
Operating leases	726	151	172	116	287
General fund policyholder liabilities[3]	464,317	15,854	15,549	13,274	419,640
Bank deposits and consumer notes[1]	14,544	11,654	1,368	564	958
Repurchase agreements	1,001	1,001	–	–	–
Other	692	231	285	82	94
Total contractual obligations	**$ 494,198**	**$ 29,592**	**$ 18,712**	**$ 17,097**	**$ 428,797**

(1) The contractual payments include principal, interest and distributions. The contractual payments reflect the amounts payable from January 1, 2009 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, 2008 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, 2008, there were $2,722 million of investment commitments (2007 – $2,535 million), of which $1,659 million matures within one year (2007 – $1,727 million), $985 million within one to three years (2007 – $726 million), $56 million matures within three to five years (2007 – $70 million) and $22 million matures after five years (2007 – $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 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.

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, funds under management, constant currency and new business embedded value. 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 2007 implementation of CICA Handbook Section 3855 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, AOCI. Accordingly, the Company calculates return on equity using average common shareholders' equity excluding AOCI on AFS securities and cash flow hedges.

Quarterly Financial Information

The following table provides summary information related to our eight most recently completed quarters:

As at and for the three months ended (Canadian $ in millions, except per share amounts)	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007
Revenue								
Premium income								
Life and health insurance	$ 4,460	$ 4,017	$ 3,865	$ 3,679	$ 3,795	$ 3,637	$ 3,692	$ 3,674
Annuities and pensions	2,562	1,841	1,507	1,321	1,504	1,245	1,140	1,057
Total premium income	$ 7,022	$ 5,858	$ 5,372	$ 5,000	$ 5,299	$ 4,882	$ 4,832	$ 4,731
Investment income	1,786	1,750	2,230	2,328	2,412	2,283	2,408	2,420
Realized and unrealized (losses) gains on assets supporting policy liabilities and consumer notes[1]	1,519	(3,150)	(1,462)	(703)	1,163	834	(1,308)	129
Other revenue	1,323	1,369	1,418	1,343	1,404	1,371	1,367	1,354
Total revenue	$ 11,650	$ 5,827	$ 7,558	$ 7,968	$ 10,278	$ 9,370	$ 7,299	$ 8,634
Income (loss) before income taxes	$ (2,596)	$ 677	$ 1,345	$ 1,151	$ 1,358	$ 1,466	$ 1,440	$ 1,342
Income taxes	727	(170)	(347)	(290)	(284)	(397)	(341)	(355)
Net income (loss)	$ (1,869)	$ 507	$ 998	$ 861	$ 1,074	$ 1,069	$ 1,099	$ 987
Net income (loss) available to shareholders	$ (1,870)	$ 510	$ 1,008	$ 869	$ 1,144	$ 1,070	$ 1,102	$ 986
Basic earnings (loss) per common share	$ (1.24)	$ 0.34	$ 0.67	$ 0.57	$ 0.76	$ 0.70	$ 0.72	$ 0.63
Diluted earnings (loss) per common share	$ (1.24)	$ 0.33	$ 0.66	$ 0.57	$ 0.75	$ 0.70	$ 0.71	$ 0.63
Segregated funds deposits	$ 8,847	$ 7,689	$ 8,472	$ 9,197	$ 9,043	$ 8,888	$ 8,545	$ 10,751
Total assets – general fund	$211,025	$181,914	$180,071	$182,153	$176,458	$175,232	$179,307	$191,079
Segregated funds net assets	$165,380	$166,098	$176,395	$175,248	$175,544	$175,094	$177,509	$179,441
Weighted average common shares (in millions)	1,519	1,492	1,497	1,498	1,502	1,511	1,532	1,546
Diluted weighted average common shares (in millions)	1,519	1,503	1,508	1,509	1,515	1,525	1,546	1,562
Dividends per common share	$ 0.26	$ 0.26	$ 0.24	$ 0.24	$ 0.24	$ 0.22	$ 0.22	$ 0.20
CDN$ to $1US – Balance Sheet	1.2246	1.0599	1.0186	1.0279	0.9881	0.9963	1.0634	1.1529
CDN$ to $1US – Statement of Operations	1.2118	1.0411	1.0101	1.0042	0.9810	1.0455	1.0975	1.1716

[1] For fixed income assets supporting policy liabilities and for equities supporting pass through products, the impact of realized and unrealized (losses) gains on the assets is largely offset in the change in actuarial liabilities.

Selected Annual Financial Information

As at and for the years ended December 31 (Canadian $ in millions, except per share amounts)	**2008**	2007	2006
Total assets	**$211,025**	$176,458	$186,316
Long-term financial liabilities:			
Long-term debt	**$ 3,689**	$ 1,820	$ 1,930
Non-controlling interest in subsidiaries	**217**	146	202
Liabilities for preferred shares and capital instruments	**3,674**	3,010	3,695
	$ 7,580	$ 4,976	$ 5,827
Cash dividend per common share	**$1.00**	$0.88	$0.725
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	$1.16252
Cash dividend per Class A Share, Series 3	**$1.125**	$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 www.manulife.com and on SEDAR at www.sedar.com.

Outstanding Shares

As at March 17, 2009, MFC had 1,610,797,396 common shares outstanding.

Exhibit 99.3



Manulife Financial Corporation
Consolidated Financial Statements

For the year ended December 31, 2008

Consolidated Financial Statements

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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.

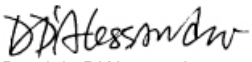
Appropriate systems of internal control, policies and procedures have been maintained to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

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 17, 2009

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, 2008 and 2007 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 17, 2009

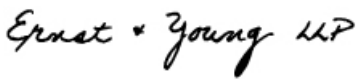
Independent Auditors' Report to the Shareholders

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, 2008 and 2007 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, 2008 and 2007 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.

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, 2008, 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 17, 2009 expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada

March 17, 2009

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 of December 31, 2008, 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.

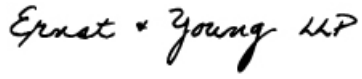
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material 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 of December 31, 2008, 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, 2008 and 2007 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 17, 2009 expressed an unqualified opinion thereon.



Ernst & Young LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Canada

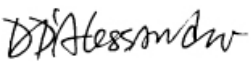
March 17, 2009

Consolidated Balance Sheets

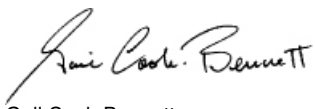
As at December 31,

(Canadian $ in millions)	2008	2007
Assets		
Invested assets (note 4)		
Cash and short-term securities	**$ 17,269**	$ 12,354
Securities		
Bonds	**83,148**	72,831
Stocks	**8,354**	11,134
Loans		
Mortgages	**30,963**	26,061
Private placements	**25,705**	21,591
Policy loans	**7,533**	5,823
Bank loans	**2,384**	2,182
Real estate	**7,274**	5,727
Other investments	**4,871**	3,597
Total invested assets	**$187,501**	$161,300
Other assets		
Accrued investment income	**$ 1,760**	$ 1,414
Outstanding premiums	**799**	672
Goodwill (note 21)	**7,929**	6,721
Intangible assets (note 5)	**1,866**	1,573
Derivatives (note 6)	**7,883**	2,129
Miscellaneous	**3,287**	2,649
Total other assets	**$ 23,524**	$ 15,158
Total assets	**$211,025**	$176,458
Segregated funds net assets	**$165,380**	$175,544
Liabilities and Equity		
Policy liabilities (note 7)	**$146,059**	$124,422
Deferred realized net gains	**127**	107
Bank deposits	**12,210**	10,008
Consumer notes (note 9)	**1,876**	2,085
Long-term debt (note 10)	**3,689**	1,820
Future income tax liability (note 11)	**1,969**	2,456
Derivatives (note 6)	**6,389**	1,866
Other liabilities	**7,360**	6,203
	$179,679	$148,967
Liabilities for preferred shares and capital instruments (note 12)	**3,674**	3,010
Non-controlling interest in subsidiaries (note 13)	**217**	146
Equity		
Participating policyholders' equity	**62**	82
Shareholders' equity		
Preferred shares (note 14)	**638**	638
Common shares (note 14)	**16,157**	14,000
Contributed surplus	**160**	140
Retained earnings	**13,079**	14,388
Accumulated other comprehensive income (loss)		
on available-for-sale securities	**(529)**	1,327
on cash flow hedges	**(317)**	(36)
on translation of net foreign operations	**(1,795)**	(6,204)
Total equity	**$ 27,455**	$ 24,335
Total liabilities and equity	**$211,025**	$176,458
Segregated funds net liabilities	**$165,380**	$175,544

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



Dominic D'Alessandro
President and Chief Executive Officer



Gail Cook-Bennett
Chair of the Board of Directors

Consolidated Statements of Operations

For the years ended December 31,

(Canadian $ in millions except per share amounts)	**2008**	2007
Revenue		
Premium income	**$23,252**	$19,744
Investment income (note 4)		
Investment income	**8,094**	9,523
Realized and unrealized (losses) gains on assets supporting policy liabilities and consumer notes	**(3,796)**	818
Other revenue	**5,453**	5,496
Total revenue	**$33,003**	$35,581
Policy benefits and expenses		
To policyholders and beneficiaries		
Death, disability and other claims	**$ 6,539**	$ 6,104
Maturity and surrender benefits	**8,767**	8,111
Annuity payments	**3,034**	3,098
Policyholder dividends and experience rating refunds	**1,518**	1,556
Net transfers to segregated funds	**1,563**	952
Change in actuarial liabilities (note 7)	**780**	390
General expenses	**3,546**	3,387
Investment expenses (note 4)	**943**	983
Commissions	**4,235**	4,056
Interest expense (note 4)	**1,187**	1,032
Premium taxes	**280**	248
Non-controlling interest in subsidiaries	**34**	58
Total policy benefits and expenses	**$32,426**	$29,975
Income before income taxes	**$ 577**	$ 5,606
Income taxes (note 11)	**(80)**	(1,377)
Net income	**$ 497**	$ 4,229
Loss attributed to participating policyholders	**$ 20**	$ 73
Net income attributed to shareholders	**$ 517**	$ 4,302
Preferred share dividends	**(30)**	(30)
Net income available to common shareholders	**$ 487**	$ 4,272
Weighted average number of common shares outstanding (in millions)	**1,502**	1,522
Weighted average number of diluted common shares outstanding (in millions)	**1,512**	1,537
Basic earnings per common share	**$ 0.32**	$ 2.81
Diluted earnings per common share (note 16)	**$ 0.32**	$ 2.78
Dividends per common share	**$ 1.00**	$ 0.88

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

Consolidated Statements of Equity

For the years ended December 31,

(Canadian $ in millions)	2008	2007
Participating policyholders' equity		
Balance, January 1	**$ 82**	$ 142
Cumulative effect of adopting new accounting policy for financial instruments, net of income taxes of $2	**–**	13
Loss for the year	**(20)**	(73)
Balance, December 31	**$ 62**	$ 82
Preferred shares		
Balance, January 1 and December 31	**$ 638**	$ 638
Common shares		
Balance, January 1	**$14,000**	$14,248
Issued on exercise of stock options and deferred shared units and acquisition of subsidiary (note 14)	**50**	275
Issued by private placement and public offering, net (note 14)	**2,208**	–
Purchase and cancellation (note 14)	**(101)**	(523)
Balance, December 31	**$16,157**	$14,000
Contributed surplus		
Balance, January 1	**$ 140**	$ 125
Redemption of preferred shares issued by a subsidiary (note 13)	**–**	3
Exercise of stock options	**(7)**	(24)
Stock option expense (note 16)	**24**	20
Tax benefit of stock options exercised	**3**	16
Balance, December 31	**$ 160**	$ 140
Shareholders' retained earnings		
Balance, January 1	**$14,388**	$13,512
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)
Net income attributed to shareholders	**517**	4,302
Preferred share dividends	**(30)**	(30)
Common share dividends	**(1,494)**	(1,341)
Purchase and cancellation of common shares (note 14)	**(302)**	(1,722)
Balance, December 31	**$13,079**	$14,388
Accumulated other comprehensive (loss) income		
Balance, January 1	**$ (4,913)**	$ (3,009)
Cumulative effect of adopting new accounting policies, net of income taxes of $526	**–**	1,741
Other comprehensive income (loss)	**2,272**	(3,645)
Balance, December 31	**$ (2,641)**	$ (4,913)
Total of shareholders' retained earnings and AOCI	**$10,438**	$ 9,475
Total equity	**$27,455**	$24,335

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

Consolidated Statements of Comprehensive Income

For the years ended December 31,

(Canadian $ in millions)	**2008**	2007
Net income attributed to shareholders	**$ 517**	$ 4,302
Other comprehensive income (loss), net of taxes		
Change in unrealized gains/losses on available-for-sale financial securities		
Unrealized losses arising during the year	**$(1,952)**	$ (119)
Reclassification of realized (gains) losses and impairments (recoveries) to net income	**96**	(315)
Changes in unrealized gains/losses on derivative investments designated as cash flow hedges		
Unrealized losses arising during the year	**(355)**	(11)
Recognition of realized losses (gains) to net income	**74**	(5)
Change in unrealized currency translation gains (losses) of self-sustaining foreign operations		
On translating financial statements	**5,156**	(3,419)
On hedges	**(747)**	224
Total other comprehensive income (loss)	**$ 2,272**	$(3,645)
Total comprehensive income attributed to shareholders	**$ 2,789**	$ 657

Income taxes included in components of Other Comprehensive Income (Loss)

For the years ended December 31,

(Canadian $ in millions)	**2008**	2007
Income tax (recovery) expense		
Change in unrealized gains/losses on available-for-sale financial securities		
Income tax (recovery) expense from unrealized gains/losses arising during the year	**$ (805)**	$ 2
Income tax recovery (expense) related to reclassification of realized gains/losses and impairments/recoveries to net income	**88**	(72)
Changes in unrealized gains/losses on derivative investments designated as cash flow hedges		
Income tax (recovery) expense from unrealized gains/losses arising during the year	**(204)**	(6)
Income tax recovery (expense) related to reclassification of realized gains/losses to net income	**40**	(3)
Change in unrealized currency translation gains/losses of self-sustaining operations		
Income tax (recovery) expense on hedges	**(305)**	121
Total income tax expense (recovery)	**$(1,186)**	$ 42

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

Consolidated Statements of Cash Flows

For the years ended December 31,

(Canadian $ in millions)	2008	2007
Operating activities		
Net income	**$ 497**	$ 4,229
Adjustments for non-cash items in net income:		
Increase in actuarial liabilities, excluding John Hancock Fixed Products institutional products	**3,853**	2,544
Amortization of deferred net realized gains and move to market adjustments on real estate investments	**(250)**	(208)
Accretion of discount	**(327)**	(302)
Other amortization	**283**	281
Net realized and unrealized losses (gains) including impairments	**4,708**	(1,078)
Changes in fair value of consumer notes	**(22)**	29
Future income tax expense	**(237)**	928
Stock option expense	**24**	20
Non-controlling interest in subsidiaries	**34**	52
Net income adjusted for non-cash items	**$ 8,563**	$ 6,495
Changes in policy related and operating receivables and payables	**(641)**	665
Cash provided by operating activities	**$ 7,922**	$ 7,160
Investing activities		
Purchases and mortgage advances	**$(49,567)**	$(53,309)
Disposals and repayments	**41,859**	52,745
Amortization of premium	**500**	574
Changes in investment broker net receivables and payables	**18**	(65)
Net cash (decrease) increase from purchase of subsidiaries	**(16)**	125
Cash (used in) provided by investing activities	**$ (7,206)**	$ 70
Financing activities		
Increase (decrease) in repurchase agreements and securities sold but not yet purchased	**$ 1,046**	$ (1)
Issue of long-term debt, net	**3,916**	1
Repayment of long-term debt	**(1,611)**	(4)
Repayment of capital instruments	**–**	(570)
Net redemptions in John Hancock Fixed Products institutional products	**(3,073)**	(2,154)
Bank deposits, net	**2,134**	2,164
Consumer notes matured, net	**(703)**	(434)
Redemption of preferred shares issued by a subsidiary (note 13)	**–**	(89)
Shareholder dividends	**(1,524)**	(1,371)
Funds borrowed (repaid), net	**34**	(10)
Purchase and cancellation of common shares	**(403)**	(2,245)
Common shares issued, net	**2,254**	130
Cash provided by (used in) financing activities	**$ 2,070**	$ (4,583)
Cash and short-term securities		
Increase during the year	**$ 2,786**	$ 2,647
Currency impact on cash and short-term securities	**2,138**	(1,109)
Balance, January 1	**11,866**	10,328
Balance, December 31	**$ 16,790**	$ 11,866
Cash and short-term securities		
Beginning of year		
Gross cash and short-term securities	**$ 12,354**	$ 10,901
Fair value adjustment, January 1, 2007	**–**	(3)
Net payments in transit, included in other liabilities	**(488)**	(570)
Net cash and short-term securities, January 1	**$ 11,866**	$ 10,328
End of year		
Gross cash and short-term securities	**$ 17,269**	$ 12,354
Net payments in transit, included in other liabilities	**(479)**	(488)
Net cash and short-term securities, December 31	**$ 16,790**	$ 11,866

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

Segregated Funds Consolidated Statements of Net Assets

As at December 31, (Canadian $ in millions)	**2008**	2007
Investments, at market value		
Cash and short-term securities	**$ 5,172**	$ 4,025
Bonds	**10,861**	9,591
Stocks and mutual funds	**145,422**	159,628
Other investments	**4,773**	3,961
Accrued investment income	**90**	75
Other liabilities, net	**(938)**	(1,736)
Total segregated funds net assets	**$165,380**	$175,544
Composition of segregated funds net assets:		
Held by policyholders	**$164,755**	$174,977
Held by the Company	**272**	249
Held by other contract holders (note 1(e))	**353**	318
Total segregated funds net assets	**$165,380**	$175,544

Segregated Funds Consolidated Statements of Changes in Net Assets

For the years ended December 31, (Canadian $ in millions)	**2008**	2007
Additions		
Deposits from policyholders	**$ 34,205**	$ 37,227
Interest and dividends	**6,671**	7,483
Net transfers from general fund	**1,563**	952
Currency revaluation	**33,792**	(23,640)
Total additions	**$ 76,231**	$ 22,022
Deductions		
Payments to policyholders	**$ 19,016**	$ 20,738
Net realized and unrealized investment losses (gains)	**64,701**	(3,997)
Management and administrative fees	**2,678**	2,674
Total deductions	**$ 86,395**	$ 19,415
Net (deductions) additions for the year	**$ (10,164)**	$ 2,607
Segregated funds net assets, January 1	**175,544**	172,937
Segregated funds net assets, December 31	**$165,380**	$175,544

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

Notes to Consolidated Financial Statements

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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 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 determination of policy liabilities, provisioning for asset impairment, determination of pension and other post-employment benefit obligations and expenses, income taxes, impairment testing of goodwill and intangible assets and assessment of variable interest entities ("VIEs"). Although some variability is inherent in these estimates, management believes that the amounts recorded are appropriate. 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 and any VIEs where MFC is considered to be the primary beneficiary. As outlined in note 18, certain VIEs are consolidated into the general fund and certain VIEs are consolidated on the Segregated Funds Statements of Net Assets. General fund 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 net assets and 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.

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 the 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 on AFS bonds are recognized in income on an individual security basis when the bond is considered to be other than temporarily impaired. Impairment is considered other than temporary when it is deemed probable that the Company will not be able to collect all amounts due according to contractual terms of the bond.

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 on AFS stocks are recognized in income 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 or for a prolonged period of time and there is not objective evidence to support recovery in value.

Mortgages are classified 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 when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Impairment is measured based on the discounted value of expected future cash flows; the fair value of collateral 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.

Private placements include corporate loans for which there is no active market. These are classified 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 when there is no longer assurance as to the timely collection of the full amount of principal and interest. Impairment is measured by discounting the expected future cash flows at the effective interest rates inherent in the loans; 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. The carrying value of leveraged leases is calculated by accruing income at the lease's expected internal rate of return in accordance with the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), EIC 46 "Leveraged Leases".

Policy loans are classified as loans with a carrying value equal to their unpaid balance. Policy loans are fully collateralized by the cash surrender value of the underlying policies.

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, any 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 is recognized on bonds and loans using the accrual basis. Premiums and discounts are amortized over the life of the underlying investment using the effective yield method.

The Company records purchases and sales of invested assets on a trade date basis.

Real estate investments are carried on a "move to market" basis with carrying values adjusted towards fair value at three per cent per quarter. Realized gains and losses are also deferred and brought into income at three per cent per quarter. Specific properties are immediately written down to market value, if 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.

Other investments include private equity and fixed income investments held primarily in power and infrastructure, oil and gas, and timber and agriculture sectors. Other investments are accounted for using the equity method when the Company has the ability to exercise significant influence or the cost method when significant influence does not exist.

c) Goodwill and other intangible assets

Goodwill represents the excess of the cost of businesses acquired over the fair value of the identifiable 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. Any potential impairment of goodwill is identified by comparing the estimated fair value of a reporting unit to its carrying value. 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. 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

Miscellaneous assets include 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. The funds are 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.

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. Otherwise the VIE is consolidated into the general fund. Non-controlling interests in VIEs consolidated into segregated funds are reported as net assets held by other contract holders in the Segregated Funds Consolidated Statements of Net Assets.

The Company provides minimum guarantees on certain 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 accepted actuarial practices, liabilities have been determined using the Canadian Asset Liability Method ("CALM").

g) Financial instruments accounted for as liabilities

The Company issues a variety of financial instruments classified as liabilities, including consumer notes, notes payable, term notes, senior debentures, subordinate notes, surplus notes and preferred shares all of which are subject to CICA Handbook Section 3855 "Financial Instruments – Recognition and Measurement". The Company has elected Section 3855's fair value option for consumer notes, which are carried at fair value with changes in fair value recorded in interest expense. Consumer notes' issuance costs are expensed on issuance. The Company has elected to record other financial instruments classified as liabilities at their amortized cost, with issuance costs deferred and amortized over the lives of the liabilities.

h) Income taxes

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

i) 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 from net investments in self-sustaining foreign operations and the results of hedging these positions, net of applicable taxes, are recorded in OCI.

j) 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 specific performance conditions and 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 specific performance conditions and 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 the related liability.

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 or 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.

Contributions to the Global Share Ownership Plan ("GSOP") are expensed as incurred. Under the GSOP, 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.

k) Employee future benefits

The Company maintains a number of pension and benefit plans, both defined benefit and defined contribution, for 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 contribution 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 and Japan 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 the cost 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). 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.

l) Derivative and hedging instruments

The Company uses derivative financial instruments ("derivatives") to manage exposures to foreign currency, interest rate and other market risks arising from on-balance sheet financial instruments, selected anticipated transactions and certain guarantee related actuarial liabilities. Derivatives embedded in other financial instruments ("host instruments") are 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 carried at fair value. Derivatives are recorded at fair value. Derivatives with unrealized gains are reported as derivative assets and derivatives with unrealized losses are reported as derivative liabilities.

When derivatives are used to hedge risks, a determination is made for each relationship as to whether hedge accounting can be applied. Where hedge accounting is not applied, changes in the fair value of derivatives are recorded in investment income.

Hedge accounting

Where the Company has elected to use hedge accounting, a hedge relationship is designated and documented at inception. Hedge effectiveness is evaluated at inception and throughout the term of the hedge and hedge accounting is only applied when the Company expects that each hedging instrument will be highly effective in achieving offsetting changes in fair value or 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 are 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 fair value attributable to the hedged risk. The carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and the adjustments are amortized over the remaining term of the hedging relationship. 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 income during the same periods as the variability in the cash flows hedged or the hedged forecasted transactions are recognized. The reclassifications from AOCI are made to investment income, with the exception of total return swaps that hedge 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 the hedged item is sold or the forecasted transaction is no longer expected to occur. When a hedge is discontinued, but the hedged forecasted transaction remains highly probable to occur, the amounts accumulated 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

In a net investment hedging relationship, the gains and losses relating to the effective portion of the hedge are recorded in OCI. Gains and losses in AOCI are recognized in income during the periods when the hedged net investment in foreign operations is substantially reduced.

m) 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 – disclosure and presentation

Effective January 1, 2008, the Company adopted CICA Handbook Section 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. Sections 3862 and 3863 replace Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires additional disclosures of the nature and extent of risks arising from financial instruments, including the objectives, policies, processes and methods used to measure and manage key risks. The new required disclosures are included in note 8.

b) Financial instruments – recognition and measurement

On October 17, 2008, the CICA announced amendments to Section 3855 “Financial Instruments – Recognition and Measurement” and Section 3862 “Financial Instruments – Disclosures”. These amendments permit companies to move certain financial assets out of categories that require fair value changes to be recognized immediately in net income. No such transfers have been effected by the Company.

Note 3 ^ Future Accounting and Reporting Changes

a) Goodwill and intangible assets

In February 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”, replacing Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Requirements concerning goodwill are unchanged from the previous Section 3062. Section 3064 will be effective on a prospective basis for the Company’s fiscal year beginning January 1, 2009. The new section is not expected to have a material impact on the Company’s consolidated financial statements.

b) Transition to International Financial Reporting Standards (“IFRS”)

On February 13, 2008 the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises in Canada will be required to adopt IFRS as a replacement of Canadian GAAP for periods beginning on or after January 1, 2011. The Company will adopt IFRS in its quarterly and annual reports starting with the first quarter of 2011 and will provide corresponding comparative financial information for 2010.

The Company is in the process of evaluating the financial statement impact of the differences between Canadian GAAP and IFRS, and assessing the first time adoption and transitional options, in order to select the most appropriate accounting policies under IFRS. Until this process is complete, the full impact of adopting IFRS on the Company’s future financial position and future results cannot be reasonably determined.

The international financial reporting standard that addresses the measurement of insurance contracts is currently being developed and is not expected to be in place by January 1, 2011. Therefore, upon initial adoption of IFRS the Company will continue to measure insurance liabilities using CALM. Under CALM, the measurement of actuarial liabilities is based on the carrying value of assets required to support those liabilities. Consistent with the results of the adoption of CICA Handbook Section 3855, when IFRS is adopted any change in the carrying value of the invested assets that support insurance liabilities will be offset by a corresponding change in reserves and therefore this change is not expected to have a material impact on net income.

Note 4 ^ Invested Assets and Investment Income

a) Carrying values and fair values of invested assets

As at December 31, 2008	Fair value option	Available-for-sale	Other	Total carrying value	Total fair value
Cash and short-term securities[1]	$ 705	$ 13,928	$ 2,636	$ 17,269	$ 17,269
Bonds[2]					
Canadian government & agency	7,875	2,888	–	10,763	10,763
U.S. government & agency	4,626	2,494	–	7,120	7,120
Other government & agency	5,253	1,144	–	6,397	6,397
Corporate	44,989	5,258	–	50,247	50,247
Mortgage/asset-backed securities	7,656	965	–	8,621	8,621
Stocks[2]	5,492	2,862	–	8,354	8,354
Loans					
Mortgages[3]	–	–	30,963	30,963	30,703
Private placements[4]	–	–	25,705	25,705	24,270
Policy loans[5]	–	–	7,533	7,533	7,533
Bank loans[3]	–	–	2,384	2,384	2,394
Real estate[6]	–	–	7,274	7,274	9,212
Other investments[7]	–	–	4,871	4,871	5,275
Total invested assets	$ 76,596	$ 29,539	$81,366	$187,501	$188,158

As at December 31, 2007	Fair value option	Available-for-sale	Other	Total carrying value	Total fair value
Cash and short-term securities[1]	$ 645	$ 10,098	$ 1,611	$ 12,354	$ 12,354
Bonds[2]					
Canadian government & agency	8,384	2,673	–	11,057	11,057
U.S. government & agency	4,796	1,262	–	6,058	6,058
Other government & agency	4,068	610	–	4,678	4,678
Corporate	38,121	3,963	–	42,084	42,084
Mortgage/asset-backed securities	8,055	899	–	8,954	8,954
Stocks[2]	6,913	4,221	–	11,134	11,134
Loans					
Mortgages[3]	–	–	26,061	26,061	26,071
Private placements[4]	–	–	21,591	21,591	21,573
Policy loans[5]	–	–	5,823	5,823	5,823
Bank loans[3]	–	–	2,182	2,182	2,191
Real estate[6]	–	–	5,727	5,727	7,608
Other investments[7]	–	–	3,597	3,597	4,236
Total invested assets	$70,982	$ 23,726	$66,592	$161,300	$163,821

(1) Fair values of short-term securities are determined using appropriate prevailing interest rates and credit spreads.
(2) Fair values for bonds and stocks are determined with reference to quoted bid prices where available. When such prices are not available, fair values are determined using techniques which include security specific interest rates and discounted cash flows based on observable market data.
(3) Fair values of fixed-rate mortgages and bank loans are determined by discounting the expected future cash flows at market interest rates for mortgages with similar remaining terms and credit risks. Fair values of variable-rate mortgages and bank loans are assumed to equal their carrying values.
(4) Fair values of private placements 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. The assumptions are based primarily on market observable data. Fair values also reflect any applicable provision for credit loan losses. Leveraged leases are carried at values derived in accordance with leveraged lease accounting.
(5) 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.
(6) Fair values of real estate are determined by external appraisals using a variety of techniques including discounted cash flows, income capitalization approaches and comparable sales analysis. Foreclosed properties of $6 are included in real estate as at December 31, 2008 (2007 – $4).
(7) 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 is generally not market observable. This may include external appraisals as well as various valuation techniques used by external managers.

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

Mortgages	**2008**		2007	
As at December 31,	Carrying value	Fair value	Carrying value	Fair value
Residential	**$ 10,863**	**$ 10,908**	$ 8,838	$ 8,872
Office	**5,030**	**4,998**	3,883	3,887
Retail	**6,343**	**6,237**	5,586	5,543
Industrial	**3,646**	**3,628**	3,225	3,235
Other	**5,081**	**4,932**	4,529	4,534
Total	**$ 30,963**	**$ 30,703**	$ 26,061	$26,071

The carrying value of government-insured mortgages was 25% of the total mortgage portfolio as at December 31, 2008 (2007 – 21%) and the carrying value of privately-insured mortgages was 0.9% of the total mortgage portfolio as at December 31, 2008 (2007 – 1.5%).

b) Investment income

For the year ended December 31, 2008	Fair value option	Available-for-sale	Other [2]	Total	Yields[3]
Cash and short-term securities	$ 25	$ 327	$ –	**$ 352**	2.9%
Bonds					(0.7)%
Interest income	3,450	572	–	**4,022**	5.5%
(Losses) gains[1]	(4,017)	10	–	**(4,007)**	(5.2)%
Impairment loss	(476)	(46)	–	**(522)**	
Stock securities					(22.0)%
Dividend income	196	155	–	**351**	
(Losses) gains[1]	(2,866)	205	–	**(2,661)**	
Impairment loss	–	(321)	–	**(321)**	
Loans					
Mortgages					5.9%
Interest income	–	–	1,588	**1,588**	
Gains[1]	–	–	45	**45**	
Provision for loan losses, net	–	–	(19)	**(19)**	
Private placements					4.8%
Interest income	–	–	1,200	**1,200**	
Gains[1]	–	–	46	**46**	
Provision for loan losses, net	–	–	(145)	**(145)**	
Policy loans	–	–	435	**435**	6.8%
Bank loans					6.0%
Interest income	–	–	131	**131**	
Recovery of loan losses, net	–	–	2	**2**	
Real estate	–	–	634	**634**	11.0%
Derivatives					n/a
Interest	–	–	(88)	**(88)**	
Gains[1]	–	–	2,866	**2,866**	
Impairment loss	–	–	(11)	**(11)**	
Other investments					10.1%
Interest and other income	–	–	403	**403**	
Gains[1]	–	–	31	**31**	
Impairment loss	–	–	(34)	**(34)**	
Total investment income (loss)	$(3,688)	$ 902	$7,084	**$ 4,298**	2.6%
Interest income	$ 3,475	$ 899	$3,669	**$ 8,043**	4.9%
Dividend, rental and other income	196	155	634	**985**	0.6%
Impairments and provisions for loan losses (note 8)	(476)	(367)	(207)	**(1,050)**	(0.6)%
Realized gains (losses) on assets backing surplus	–	163	(47)	**116**	0.1%
Realized and unrealized (losses) gains on assets supporting policy liabilities and consumer notes					
Bonds	(4,017)	–	–	**(4,017)**	(2.4)%
Stocks	(2,866)	52	–	**(2,814)**	(1.7)%
Loans	–	–	83	**83**	0.0%
Other investments	–	–	27	**27**	0.0%
Derivatives	–	–	2,925	**2,925**	1.7%
Total investment income (loss)	$(3,688)	$ 902	$7,084	**$ 4,298**	2.6%

For the year ended December 31, 2007	Fair value option	Available-for-sale	Other [2]	Total	Yields [3]
Cash and short-term securities	$ 38	$ 465	$ –	**$ 503**	4.9%
Bonds					5.2%
Interest income	3,451	509	–	**3,960**	5.3%
(Losses) gains[1]	(103)	31	–	**(72)**	(0.1)%
Impairment loss	(8)	(4)	–	**(12)**	
Stock securities					11.2%
Dividend income	172	123	–	**295**	
Gains[1]	589	432	–	**1,021**	
Impairment loss	–	(33)	–	**(33)**	
Loans					
Mortgages					6.3%
Interest income	–	–	1,551	**1,551**	
Gains[1]	–	–	74	**74**	
Recovery of loan losses, net	–	–	21	**21**	
Private placements					6.4%
Interest income	–	–	1,355	**1,355**	
Gains[1]	–	–	103	**103**	
Recovery of loan losses, net	–	–	2	**2**	
Policy loans	–	–	414	**414**	6.8%
Bank loans					7.4%
Interest income	–	–	151	**151**	
Real estate	–	–	605	**605**	11.2%
Derivatives					n/a
Interest	–	–	(64)	**(64)**	
Gains[1]	–	–	73	**73**	
Other investments					12.1%
Interest and other income	–	–	332	**332**	
Gains[1]	–	–	82	**82**	
Impairment loss	–	–	(20)	**(20)**	
Total investment income	$ 4,139	$ 1,523	$ 4,679	**$10,341**	6.4%
Interest income	$ 3,489	$ 974	$ 3,739	**$ 8,202**	5.0%
Dividend, rental and other income	172	123	605	**900**	0.5%
Impairments and provisions for loan losses (note 8)	(8)	(37)	3	**(42)**	0.0%
Realized gains on assets backing surplus	–	424	39	**463**	0.3%
Realized and unrealized (losses) gains on assets supporting policy liabilities and consumer notes					
Bonds	(103)	–	–	**(103)**	(0.1)%
Stocks	589	39	–	**628**	0.4%
Loans	–	–	174	**174**	0.1%
Other investments	–	–	40	**40**	0.0%
Derivatives	–	–	79	**79**	0.0%
Total investment income	$ 4,139	$ 1,523	$ 4,679	**$10,341**	6.4%

(1) Gains (losses) include realized and unrealized gains (losses) for securities and derivatives designated as trading under the fair value option and realized gains (losses) for AFS securities, loans and other invested assets.
(2) Other includes interest income, real estate rental income and move to market adjustments, derivative income as outlined in note 6 and earnings on other investments.
(3) Yields are based on total investment income divided by the average carrying value plus accrued income less deferred realized net gains (on real estate holdings).

c) Investment and interest expenses

Investment expenses

For the years ended December 31,	2008	2007
Related to invested assets	**$388**	$376
Related to segregated, mutual and other funds	**555**	607
Total investment expenses	**$943**	$983

Interest expense

For the years ended December 31,	2008	2007
Interest expense on consumer notes	**$ 107**	$ 124
(Decrease) increase in fair value of consumer notes	**(22)**	29
Other interest expense	**1,102**	879
Total interest expense	**$1,187**	$1,032

Note 5 ^ Intangible Assets

Intangible assets include the JHF brand name, distribution networks, fund management contracts, and other contractual rights. Finite life intangible assets are amortized over their estimated useful lives in relation to the associated gross margins from the related businesses.

For the year ended December 31, 2008	Balance January 1, 2008	Additions	Purchase equation adjustment	Amortization	Change in foreign exchange rates	Balance December 31, 2008
Indefinite life						
Brand	**$ 593**	**$ –**	**$ –**	**$ –**	**$ 142**	**$ 735**
Fund management contracts and other	**290**	**11**	**–**	**–**	**70**	**371**
	$ 883	**$ 11**	**$ –**	**$ –**	**$ 212**	**$ 1,106**
Finite life						
Distribution networks	**$ 568**	**$ –**	**$ (5)**	**$ (12)**	**$ 88**	**$ 639**
Other intangible assets	**122**	**–**	**–**	**(11)**	**10**	**121**
	$ 690	**$ –**	**$ (5)**	**$ (23)**	**$ 98**	**$ 760**
Total	**$ 1,573**	**$ 11**	**$ (5)**	**$ (23)**	**$ 310**	**$ 1,866**

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

Note 6 ^ Derivative and Hedging Instruments

Derivatives are financial contracts, the value of which is derived from underlying interest rates, foreign exchange rates, other financial instruments, commodity prices or indices.

Fair value of derivatives

All derivatives, including embedded derivatives, are recorded at fair value. Fair values of derivatives are determined using quoted market prices or readily available market rates where applicable. Where there is not an active market, the fair value of derivatives is determined using industry accepted valuation techniques such as discounted cash flow models and/or option pricing models, using observable market-based inputs. Valuation techniques reflect assumptions related to the timing and amount of estimated future cash flows. 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 are used by the Company to 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 the exchange of principal amounts between parties as well as the exchange of interest payments in one currency for the receipt of 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, including any returns such as interest earned on these assets, in return for amounts 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 commodity on a pre-determined future date at a specified price. Forward contracts are over-the-counter contracts negotiated between counterparties, whereas futures agreements are contracts with standard 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 requirements for hedge accounting. Hedging relationships eligible for hedge accounting 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, 2008, the Company recognized gains of $9 (2007 – 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 cash flows from variable rate financial instruments and forecasted transactions. 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 certain stock-based compensation awards.

For the year ended December 31, 2008, the Company recognized losses of $17 (2007 – nil) related to the ineffective portion of its cash flow hedges in investment income as a result of discontinuing a hedge of future carrying costs related to an anticipated debt issuance. In addition, the Company terminated certain hedges related to outstanding restricted stock units. A loss of $97 (2007 – nil) was recognized in compensation costs as a result of the termination of these hedging relationships. The Company anticipates that net losses of approximately $16 will be reclassified from AOCI to earnings within the next twelve months. The maximum time frame for which variable cash flows are hedged is 28 years.

Hedges of net investments in foreign operations
The Company uses forward currency contracts to manage its foreign currency exposures to net investments in self-sustaining foreign operations. For the year ended December 31, 2008, net losses of $712 (2007 – net gains of $345) relating to hedges of investments in foreign operations were recorded in OCI.

Derivatives not designated as hedging instruments
Derivatives used in portfolios supporting policy liabilities are generally not designated as hedging instruments because the securities in these portfolios are recorded at fair value. Accordingly, the changes in fair value of these 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, 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 $1,991 and reinsurance assumed contracts of $133. These contracts are included in policy liabilities. Claims recovered under reinsurance ceded contracts offset the claim expense and claims paid on the reinsurance assumed contracts are reported as policy benefits.

The fair value of derivative instruments is summarized by hedging relationship, derivative type and term to maturity in the following tables. Fair values shown do not incorporate the impact of master netting agreements (see note 8):

	2008		2007	
As at December 31,	**Derivative assets**	**Derivative liabilities**	Derivative assets	Derivative liabilities
Fair value hedges	**$ 21**	**$ 637**	$ 160	$ 181
Cash flow hedges	**5**	**593**	174	150
Hedges of net investments in foreign operations	**84**	**182**	96	36
Derivatives not designated as hedges	**7,773**	**4,977**	1,699	1,499
Total	**$ 7,883**	**$ 6,389**	$ 2,129	$ 1,866

Term to maturity **As at December 31, 2008**	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Total**
Derivative assets	$ 373	$ 406	$ 152	$ 6,952	**$7,883**
Derivative liabilities	$ 374	$ 657	$ 628	$ 4,730	**$6,389**

As at December 31, 2008	Remaining term to maturity (notional amounts) Under 1 year	1 to 5 years	Over 5 years	Total	Fair value Positive	Negative	Net	Credit risk equivalent[2]	Risk-weighted amount[3]
Interest rate contracts:									
Swap contracts	**$ 3,666**	**$15,235**	**$41,470**	**$60,371**	**$ 7,096**	**$ (4,274)**	**$ 2,822**	**$ 3,376**	**$ 789**
Futures	**471**	**–**	**–**	**471**	**–**	**–**	**–**	**–**	**–**
Options purchased	**184**	**351**	**–**	**535**	**–**	**–**	**–**	**11**	**3**
Sub-total	**$ 4,321**	**$15,586**	**$41,470**	**$61,377**	**$ 7,096**	**$ (4,274)**	**$ 2,822**	**$ 3,387**	**$ 792**
Foreign exchange:									
Swap contracts	**2,323**	**4,131**	**6,034**	**12,488**	**730**	**(2,086)**	**(1,356)**	**1,811**	**421**
Forward contracts	**8,247**	**2**	**–**	**8,249**	**109**	**(113)**	**(4)**	**147**	**32**
Commodity contracts	**31**	**52**	**29**	**112**	**15**	**(1)**	**14**	**68**	**16**
Equity contracts	**1,579**	**82**	**42**	**1,703**	**12**	**(38)**	**(26)**	**48**	**11**
Total[1]	**$16,501**	**$19,853**	**$47,575**	**$83,929**	**$ 7,962**	**$ (6,512)**	**$ 1,450**	**$ 5,461**	**$ 1,272**

As at December 31, 2007									
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

(1)Positive fair value includes accrued interest receivable of $79 (2007 – $24) and negative fair value includes accrued interest payable of $123 (2007 – $51).
(2)Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. Replacement cost represents the current cost of replacing all contracts with a positive fair value. The amounts take into consideration legal contracts that permit offsetting of positions. The potential future credit exposure is calculated based on 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 7 ^ Policy Liabilities

a) Policy liabilities

Policy liabilities are reported net of reinsurance ceded. Policy liabilities, before and after reinsurance ceded, are shown below.

As at December 31,	**2008**	2007
Gross policy liabilities	**$153,169**	$133,109
Impact of reinsurance ceded	**(7,110)**	(8,687)
Policy liabilities	**$146,059**	$124,422

Policy liabilities include actuarial liabilities as well as benefits payable, provision for unreported claims, and policyholder amounts on deposit. The components of policy liabilities are shown below.

As at December 31,	**2008**	2007
Actuarial liabilities	**$138,123**	$117,652
Benefits payable and provision for unreported claims	**2,128**	2,215
Policyholder amounts on deposit	**5,808**	4,555
Policy liabilities	**$146,059**	$124,422

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 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 projected 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.

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 ceded reinsurance 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 recoverability using assumptions that are consistent with other components of the actuarial valuation.

b) Composition

The composition of policy liabilities by line of business and reporting segment is shown, before and after reinsurance ceded, in the table below.

	Individual insurance					
As at December 31, 2008	Participating	Non-participating	Annuities and pensions	Other policy liabilities[1]	Total, net of reinsurance ceded	Total before reinsurance ceded
U.S. Insurance	**$ 23,150**	**$ 16,413**	**$ 29**	**$ 14,043**	**$ 53,635**	$ 56,405
U.S. Wealth Management	**–**	**–**	**36,592**	**63**	**36,655**	38,357
Canadian Division	**6,661**	**9,569**	**12,780**	**6,161**	**35,171**	37,251
Asia and Japan Division	**13,995**	**2,528**	**1,851**	**318**	**18,692**	18,783
Reinsurance Division	**–**	**1,373**	**–**	**481**	**1,854**	2,026
Corporate and Other	**4**	**176**	**1**	**(129)**	**52**	347
Total, net of reinsurance ceded	**$ 43,810**	**$ 30,059**	**$ 51,253**	**$ 20,937**	**$ 146,059**	$ 153,169
Total before reinsurance ceded	$ 44,342	$ 33,492	$ 53,006	$ 22,329	$ 153,169	

(1)Other policy liabilities include group insurance, and individual and group health including long-term care insurance.

	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.

Separate sub-accounts were established for participating policies in-force at the demutualization of MLI and John Hancock Life Insurance Company. These sub-accounts permit this participating business to be operated as separate “closed blocks” of business. As at December 31, 2008, $28,817 (2007 – $25,289) of both assets and policy liabilities related to these closed blocks of participating policies.

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 are predominantly backed by fixed-rate instruments on a cash flow matching basis for a targeted duration horizon. Longer duration cash flows on these liabilities as well as on adjustable products such as participating life insurance are backed by a broader range of asset classes, including equity and other non-fixed income investments. 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 that are not judged by the Company to be other than temporary would have a limited impact on the Company’s earnings wherever there is an effective matching of the assets and liabilities, as these changes would be substantially offset by corresponding changes in the value of the actuarial liabilities. The fair value of assets backing policy liabilities as at December 31, 2008 was estimated at $146,205 (2007 – $126,243).

The fair value of assets backing capital and other liabilities as at December 31, 2008 was estimated at $65,477 (2007 – $52,735).

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

As at December 31, 2008	Individual life insurance: Participating	Individual life insurance: Non-participating	Annuities and pensions	Other policy liabilities[1]	Other liabilities[2]	Capital[3]	Total
Assets							
Bonds	**$ 22,803**	**$ 13,349**	**$ 22,996**	**$ 7,015**	**$ 4,742**	**$ 12,243**	**$ 83,148**
Stocks	**3,149**	**1,885**	**130**	**286**	**318**	**2,586**	**8,354**
Mortgages	**4,890**	**3,946**	**9,222**	**3,878**	**8,761**	**266**	**30,963**
Private placements	**3,426**	**3,685**	**10,675**	**2,817**	**871**	**4,231**	**25,705**
Real estate	**2,213**	**2,337**	**862**	**1,181**	**522**	**159**	**7,274**
Other	**7,329**	**4,857**	**7,368**	**5,760**	**18,641**	**11,626**	**55,581**
Total	**$ 43,810**	**$ 30,059**	**$ 51,253**	**$ 20,937**	**$ 33,855**	**$ 31,111**	**$211,025**

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

[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 is defined in note 15.

d) Significant policy liability valuation assumptions

The determination of policy liabilities involves the use of estimates and assumptions.

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 Company's exposure to measurement uncertainty.

Best estimate assumptions

Best estimate assumptions are made with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actual experience is monitored to ensure that the assumptions remain appropriate and assumptions are changed as warranted. 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 experience as well as industry past and emerging experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market. Morbidity relates to the occurrence of accidents and sickness for insured risks. Morbidity assumptions are based on the Company's internal experience as well as industry past and emerging experience and are established for each type of morbidity risk and geographic market.	The Company maintains appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. Mortality is monitored monthly and the overall 2008 experience was favourable when compared to the Company's assumptions. Morbidity is also monitored monthly and the overall 2008 experience was unfavourable when compared to the Company's assumptions.
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. 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. 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 the cash flows of 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 developed using interest rate scenario testing. The exposure to credit losses is managed by policies that limit concentrations by issuer, corporate connections, ratings, sectors and geographic regions. On participating policies and some non-participating policies 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 credit risk including provisions for adverse deviation. In 2008, credit loss experience on both bonds and mortgages was unfavourable when compared to the Company's assumptions. 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. Stocks, real estate, oil and gas and other non fixed income assets 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. In 2008, investment expense experience was unfavourable when compared to the Company's assumptions.
Policy terminations	Policies are terminated through 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. The Company monitors lapse and surrender experience monthly. In aggregate, 2008 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. 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. Maintenance expenses for 2008 were favourable when compared to the Company's assumptions used in the computation of actuarial liabilities. The Company prices its products to cover the expected cost of taxes.

	Nature of factor and assumption methodology	Risk management
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. Policyholder dividends are reviewed annually for all businesses under a framework of Board approved dividend policies.
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 7(f)).

Provision for adverse deviation assumptions

The basic assumptions made in establishing policy liabilities reflect best estimates within a range of possible outcomes. To recognize the uncertainty in 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.

These margins 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. Specific guidance is also provided for other risks such as market, credit and mortality risks. For other risks, which are not specifically addressed by the Canadian Institute of Actuaries, a range is provided of 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, 2008	Actuarial liabilities	Other policy liabilities[1]	Policy liabilities
Balance, January 1	**$117,652**	**$ 6,770**	**$124,422**
New policies	**5,457**	**–**	**5,457**
Normal in-force movement	**(4,177)**	**(216)**	**(4,393)**
Changes in methods and assumptions	**(519)**	**37**	**(482)**
Currency impact	**19,710**	**1,345**	**21,055**
Balance, December 31	**$138,123**	**$ 7,936**	**$146,059**

For the year ended December 31, 2007			
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	2,558	–	2,558
Normal in-force movement	(2,155)	169	(1,986)
Changes in methods and assumptions	(27)	59	32
Currency impact	(13,882)	(868)	(14,750)
Balance, December 31	$117,652	$ 6,770	$124,422

[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 2008, changes in methods and assumptions used in the determination of policy liabilities resulted in a net decrease of $482 (2007 – increase of $32) in policy liabilities. The net decrease includes a decrease of $8 (2007 – $10) to policy liabilities impacting

non-controlling interest in subsidiaries, a decrease of $20 (2007 – increase of $23) to participating policyholders' reserves, and a net decrease of $454 (2007 – increase of $19) to reserves that impact the shareholders' account. As a result of the actuarial changes in methods and assumptions, shareholders' pre-tax income increased by $454 (2007 – decreased by $19) which is reported in the Corporate and Other segment.

The changes in methods and assumptions in 2008 include a release of $518 related to mortality and expense assumptions partially offset by an increase from lapses and other policyholder behaviour assumptions. Refinements to re-investment return and scenario testing assumptions resulted in a $164 increase in policy liabilities. Other changes to valuation models and assumptions resulted in a $128 reduction in policy liabilities with a net release of excess margins in interest rate risk reserves offset by establishment of segregated fund guarantee reserves incremental to normal policy reserve accruals and an increase in reserves due to refinements of existing reserve modeling for insurance and long-term care businesses.

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.

Note 8 ^ Risk Management

The Company employs an enterprise-wide approach to all risk taking and risk management activities globally. The Company's enterprise risk management framework sets out policies and standards of practice related to governance, identification and monitoring, measurement and control and mitigation of key risks. Individual risk management strategies are in place for each specific key risk within the Company's broad risk categories: strategic, market and liquidity (includes market price, interest rate, foreign currency and liquidity risks), credit, insurance and operational.

Market price and interest rate risk

Due to the nature of the insurance business, invested assets and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates and credit spreads. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly managed. These risks are referred to collectively as market price and interest rate risk – the risk of loss resulting from adverse movements in market price, interest rates and credit spreads.

In the general fund, market price and interest rate changes may lead to asset returns that are insufficient to support product liabilities and may impact the value of assets held in the Company's shareholders' equity account. This level of risk is impacted by the Company's asset allocation and the nature of embedded product guarantees and policyholder options. Interest rate risk within the general fund arises mainly from the uncertainty of returns that can be achieved on investments to be made in the future as recurring premiums are received, and from any mismatch between the term profile of assets and liabilities. Market price and interest rate risk also arise from minimum rate guarantees and withdrawal options on products where investment returns are generally passed through to policyholders. The performance of capital markets, interest rates, inflation and general economic conditions all influence the performance of the Company's general fund investments, including bonds, loans, publicly traded and private equities, commercial real estate, timber and agricultural lands and oil and gas investments.

Market price and interest rate risk in the general fund is managed through established policies and standards of practice that limit market price and interest rate risk exposure. Company-wide market price and interest rate risk exposure limits are established and actual positions are monitored against limits. Target asset mixes and term profiles, and risk limits are updated regularly and communicated to individual portfolio managers. Actual asset positions are periodically rebalanced to within established limits.

The market price and interest rate risk arising from the Company's off-balance sheet products is due mainly to the guarantees provided on variable annuity and insurance products, as well as the uncertainty of future levels of asset-based fees. Guarantees include minimum levels of death, maturity, income and withdrawal benefits on variable products. The Company mitigates its market price and interest rate risk arising from off-balance sheet products through benefit guarantee design, limitations on fund offerings and the use of capital market hedging strategies and reinsurance.

In order to manage the exposure to market price and interest rate risk, the Company monitors invested assets and the liabilities which they support under three broad categories: liabilities supported with matching mandates, liabilities supported with target return mandates, and exposures arising from variable products and other managed assets. Liabilities supported with matching mandates generally include insurance and wealth guaranteed benefit obligations falling within the terms for which fixed income assets are generally available in the market, and are supported by fixed income assets with generally matching term profiles. Liabilities supported with target return mandates include guaranteed benefit obligations falling beyond the term for which fixed income assets are generally available in the market as well as obligations related to products that generally pass through investment returns to policyholders. Assets supporting the shareholders' equity account are generally managed under a target return mandate.

The following table shows the potential impact on shareholders' economic value of specific stress scenarios, 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 the Company's internal models. The stress scenarios are:

- an immediate and permanent increase of one per cent in interest rates for all maturities across all markets,
- an immediate and permanent decrease of one per cent in interest rates for all maturities across all markets, and
- an immediate ten per cent decline in the market value of non-fixed income assets.

Impact on shareholders' economic value arising from general fund

Shareholders' economic value for general fund assets is calculated as the net present value of future cash flows related to existing assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax.

	1% change in interest rates		10% decline in market values [2]			
As at December 31, 2008	Increase	Decrease	Equities	Real estate	Timber	Other[1]
Matching mandates						
Insurance	**$ 27**	**$ (86)**				
Wealth Management	**(9)**	**12**				
Total	**$ 18**	**$ (74)**				
Target return mandates						
Insurance	**$ 688**	**$ (1,133)**	**$ (142)**	**$ (288)**	**$ (67)**	**$ (61)**
Wealth Management	**8**	**(110)**	**(71)**	**(58)**	**(8)**	**(10)**
Shareholders' equity account	**(366)**	**470**	**(195)**	**(1)**	**(20)**	**(30)**
Total	**$ 330**	**$ (773)**	**$ (408)**	**$ (347)**	**$ (95)**	**$ (101)**

(1) Other assets include agricultural lands and oil and gas holdings.
(2) A 10% increase in market values of equities, real estate, timber and other assets would have the exact opposite impact to that displayed above.

Impact on shareholders' economic value from variable products and other managed assets

Shareholders' economic value arising from variable products, mutual funds and institutional asset management operations, is calculated as the net present value of expected after-tax cash flows related to managing these assets and/or providing guarantees discounted at market yields. The table below shows the potential impact on shareholders' economic value of an immediate ten per cent decline and ten per cent increase in the market value of equity funds.

Change in market values as at December 31, 2008	10% Increase	10% Decrease
Market-based fees	**$ 346**	**$ (380)**
Variable product guarantees	**$ 634**	**$ (800)**

Guarantees are also sensitive to changes in interest rates. A one per cent increase in interest rates would improve shareholders' economic value related to variable product guarantees by $216, while a one per cent decrease in interest rates would diminish shareholders' economic value related to variable product guarantees by $250. Additional information about guarantees on variable annuities and segregated funds is shown in the table below.

Variable annuity and segregated fund benefit guarantees

As at December 31, 2008	Fund value[2]	Amount at risk[2]	Expected guarantee cost[3]
Maturity / income / withdrawal benefits	**$65,457**	**$20,971**	
Death benefits[1]	**8,965**	**5,838**	
Total	**$74,422**	**$26,809**	**$ (135)**

(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.
(3) The expected guarantee cost is the average, across all investment return scenarios, of the present value of projected future guaranteed benefit payments, net of reinsurance and fee income allocated to support the guarantees.

In the latter half of 2008, volatility in the global equity markets increased dramatically and market values decreased significantly changing the Company's exposures arising from variable annuity and segregated fund benefit guarantees.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. If markets do not recover, liabilities on current in-force business would be due primarily in the period from 2015 to 2038. The amount at risk at December 31, 2008 increased significantly from December 31, 2007 as a result of significant declines in fund values. Commensurate with the increase in the amount at risk, additional reserves were established in 2008 and at December 31, 2008, reserves for these liabilities amounted to $5,783 (2007 – $526).

Although these guaranteed benefits cannot be claimed currently, the accounting valuation of the guarantees is extremely sensitive to short-term changes in market levels. The potential impact on shareholders' net income arising from variable products and general fund assets supporting policy liabilities, of an immediate ten per cent decline in equity market values was $1,554 at December 31, 2008 (2007 – $352).

Foreign currency risk

Currency risk for financial instruments arises when assets and the liabilities or target capital they support are denominated in different currencies. The Company has a policy of matching the currency of its 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, the Company has established a policy of generally matching the currency of the assets in shareholders' equity to the liabilities they support, up to target capital levels. This policy ensures that changes to the Company's reported shareholders' equity are proportionate to changes in the Company's reported capital requirements, stabilizing capital ratios from the impact of foreign exchange rates, but resulting in variability in reported shareholders' equity. As at December 31, 2008, the Company did not have a material unmatched currency exposure related to financial instruments.

Liquidity risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders either systemically terminating policies with cash surrender values, or not renewing policies when they mature, deposit withdrawals and from an increase in the level of borrowers renewing or extending their loans when they mature.

The Company manages its exposure to liquidity risk by ensuring that its operating and strategic liquidity levels are well above minimum internal requirements. Minimum operating liquidity is set at a level of one month's operating cash outflows. Strategic liquidity is established based on immediate and longer term liquidity requirements under stress conditions whereby policyholder liabilities and liquid assets are risk-adjusted for their potential for withdrawals and convertibility to cash respectively.

The following table outlines the expected maturity of the Company's significant financial liabilities. The expected maturity dates are based on estimates made by management.

Maturity of financial liabilities [1], [2]

As at December 31, 2008	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Total**
Long-term debt	$ 5	$ 408	$2,322	$ 954	**$ 3,689**
Capital instruments	–	–	–	3,330	**3,330**
Derivative liabilities	374	657	628	4,730	**6,389**
Bank deposits	11,041	772	299	98	**12,210**
Consumer notes	459	476	185	756	**1,876**
Repurchase agreements	1,001	–	–	–	**1,001**

[1] The amounts shown above are net of the related unamortized deferred issue costs.
[2] Class A preferred shares, Series 1 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. These shares have not been included in the above table.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligation to the Company. A pronounced and sustained economic downturn could result in defaults or downgrades, and could lead to increased provisions or impairments related to the Company's general fund invested assets and off-balance sheet derivative financial instruments, and an increase in provisions for future credit impairments to be included in actuarial liabilities. Counterparty credit exposure arises primarily from derivatives and reinsurance activities. Any of the Company's reinsurance providers being unable or unwilling to fulfill their contractual obligations related to the liabilities the Company cedes to them could lead to an increase in actuarial liabilities.

The Company's exposure to credit risk is managed through risk management policies and procedures which include a defined credit evaluation and adjudication process, delegated credit approval authorities and established exposure limits by borrower, corporate connection, quality rating, industry and geographic region. Reinsurance counterparty exposure is measured as both current exposure and potential future exposures reflecting the level of ceded liabilities. Reinsurance and insurance counterparties must also meet minimum risk rating criteria.

The Company also ensures where warranted that mortgages, private placement and bank loans are secured by collateral, the nature of which depends on the credit risk of the counterparty.

An allowance for losses on loans is established when a loan becomes impaired. Provisions for loan losses are calculated to reduce the carrying value of the loans to estimated net realizable value. The establishment of such provisions takes into consideration normal historical credit loss levels and future expectations, with an allowance for adverse deviations. In addition, actuarial liabilities include general provisions for credit losses from future asset impairments. Impairments are identified through regular monitoring of all credit related exposures, considering such information as general market conditions, industry and borrower specific credit events and any other relevant trends or conditions. Allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill their contractual obligations. The allowance for loss is based on current recoverables and ceded actuarial liabilities.

Credit risk associated with derivative counterparties is discussed under the heading Derivatives later in this note.

Credit exposure

The following table outlines the gross carrying amount of financial instruments subject to credit exposure, without taking into account any collateral held or other credit enhancements.

As at December 31, 2008	
Bonds	
Fair value option	$ 70,399
Available-for-sale	12,749
Loans	
Mortgages	30,963
Private placements	25,705
Policy loans	7,533
Bank loans	2,384
Derivative assets	7,883
Accrued investment income	1,760
Other financial assets	2,152
Total	**$161,528**

Past due or impaired financial assets

The following table summarizes the Company's financial assets that are considered past due or impaired.

Carrying value of financial assets

As at December 31, 2008	Past due but not impaired: Less than 90 days	Past due but not impaired: 90 days and greater	Past due but not impaired: Total past due but not impaired	Total impaired
Bonds				
Fair value option	$ 352	$ 7	$ 359	$ 91
Available-for-sale	57	19	76	8
Loans				
Private placements	344	81	425	183
Mortgages and bank loans	49	18	67	51
Equities and other investments	–	–	–	603
Other financial assets	–	37	37	–
Total	**$ 802**	**$ 162**	**$ 964**	**$ 936**

Impairments

The Company provides for credit risk by establishing allowances against the carrying value of impaired loans, recognizing other than temporary impairments on AFS securities and reclassifying into income the other than temporary impairment portion of unrealized losses on bonds designated as fair value option. In addition, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities.

For the years ended December 31,	**2008**	2007
Bonds		
Fair value option	**$ 476**	$ 8
Available-for-sale	**46**	4
Equities (public and private)	**353**	73
Loans and other	**175**	(43)
Total impairments	**$1,050**	$ 42

Net impaired assets

As at December 31,	2008	2007
Net impaired assets	**$ 936**	$ 240
Net impaired assets as a per cent of total invested assets	**0.50%**	0.15%

Allowance for loan losses

	2008			2007		
For the year ended December 31,	Mortgages and bank loans	Private placements	Total	Mortgages and bank loans	Private placements	Total
Balance, January 1	**$ 23**	**$ 53**	**$ 76**	$ 61	$ 73	$134
Provisions	**23**	**146**	**169**	18	37	55
Recoveries	**(6)**	**(1)**	**(7)**	(39)	(39)	(78)
Write-offs[1]	**3**	**(33)**	**(30)**	(17)	(18)	(35)
Balance, December 31	**$ 43**	**$ 165**	**$208**	$ 23	$ 53	$ 76

(1)Includes disposals and impact of currency translation.

Securities lending

The Company engages in securities lending to generate fee income. 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. 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, 2008, the Company had loaned securities (which are included in invested assets) with a market value of approximately $1,213 (2007 – $3,692). The Company holds collateral with a current market value that exceeds the value of securities lent in all cases.

Mortgage securitization

During 2008, the Company securitized and sold insured fixed- and variable-rate commercial and residential mortgages through the creation of mortgage backed securities under the Canada Mortgage Bond Program and the Government of Canada NHA MBS Auction program. The Company will continue to service these mortgages. The following table summarizes the securitization and sales activity.

For the year ended December 31, 2008	Residential mortgages	Commercial mortgages	Total
Securitized and sold	$ 120	$ 310	**$ 430**
Net cash proceeds	117	305	**422**
Retained interests	6	27	**33**
Pre-tax gain on sale	3	22	**25**

Derivatives

The Company's exposure to loss on derivatives is limited to the amount of any net gains with a particular counterparty. Derivative counterparty exposure is measured as net potential credit exposure, which takes into consideration mark-to-market values of all derivatives transactions with each counterparty, net of any collateral held, and an allowance to reflect future potential exposure. The Company seeks to limit the risk of credit losses from derivative counterparties by: establishing a minimum acceptable counterparty credit rating of A- from external rating agencies; entering into master netting arrangements; and entering into Credit Support Annex ("CSA") agreements, whereby collateral must be provided when the exposure exceeds a certain threshold.

As at December 31, 2008, the percentage of the Company's derivative exposure which were with counterparties rated AA- or higher amounted to 62 per cent (2007 – 82 per cent). The largest single counterparty exposure as at December 31, 2008 was $100 (2007 – $170). The Company's exposure to credit risk was mitigated by $3,521 fair value of collateral held as security as at December 31, 2008 (2007 – $881). In accordance with customary terms of CSA agreements, the Company is permitted to sell or repledge collateral held.

As at December 31, 2008, the maximum exposure to credit risk related to derivatives after taking into account netting agreements and without taking into account the fair value of any collateral held, was $4,520 (2007 – $1,385). Without master netting agreements, maximum exposure to credit risk would have been $7,883 (2007 – $2,129).

Risk concentrations

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. The Company monitors actual investment positions and risk exposures for concentration risk and reports such findings to the Executive Risk Committee and the Audit and Risk Management Committee of the Board of Directors on a regular basis.

Market risk concentrations

As at December 31,	2008	2007
Bonds and private placements rated as investment grade BBB or higher [1]	**95%**	96%
Government bonds as a per cent of total bonds	**29%**	30%
Government private placements as a per cent of total private placements	**18%**	17%
Highest exposure to a single non-government bond and private placement issuer	**$829**	$524
Largest single issuer as a per cent of the total stock portfolio	**6%**	5%
Publicly listed corporations as a per cent of total stock portfolio	**99%**	99%
Income producing commercial office properties (2008 – 70% of total real estate, 2007 – 72%)	**$5,057**	$4,115
Largest concentration of mortgages and real estate [2] – Ontario, Canada (2008 – 23%, 2007 – 26%)	**$8,803**	$8,417

[1] Investment grade bonds include 31% rated A, 20% rated AA and 20% rated AAA (2007 – 29%, 22% and 22%, respectively) based on external ratings where available.
[2] Mortgages and real estate are diversified geographically and by property type.

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,	2008		2007	
	Fair value	**% of total**	Fair Value	% of total
Government & agency	**$ 28,537**	27	$ 25,383	27
Financial	**22,348**	21	21,048	22
Utilities	**15,951**	15	12,475	13
Securitized (ABS/MBS)	**8,885**	8	9,218	10
Energy	**7,468**	7	5,761	6
Industrial	**6,119**	6	5,364	6
Consumer (non-cyclical)	**5,197**	5	4,869	5
Other	**12,913**	11	10,286	11
Total	**$107,418**	100	$ 94,404	100

Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims are based on Company and industry experience; assumptions for policyholder behaviours are based on Company experience and predictive models. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. 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 by many factors including market and general economic conditions, and the availability and price of other products in the marketplace.

The Company manages insurance risk through global product design, pricing standards and guidelines and a global life underwriting manual. Each business unit establishes underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures. The Company's current global retention limit for a single life is US$20 (US$25 for survivorship life policies) and is shared across business units. Lower limits are applied in some markets and jurisdictions. The Company further reduces exposure to claims concentrations by applying geographical aggregate retention limits for certain covers.

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,	2008	2007
Direct premium income	**$23,891**	$20,359
Reinsurance assumed	**1,433**	1,400
Reinsurance ceded	**(2,072)**	(2,015)
Total premium income	**$23,252**	$19,744

Note 9 ^ Consumer Notes

*Signature*Notes is an instrument issued 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 US$0.2 of aggregate principal. As at December 31, 2008, interest rates ranged from 0.91% to 6.27% (2007 – 2.25% 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 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, 2008 of financial liabilities designated at fair value was $1,876 (2007 – $2,085), which is $54 (2007 – $28) lower than the contractual amount due at maturity. For the year ended December 31, 2008, the fair value of consumer notes decreased by $22 (2007 – increase of $29) of which a decrease of $109 (2007 – $52) related to changes in fair value attributable to credit risk. The change in fair value is included in interest expense. At December 31, 2008, the accumulated amount of the change in fair value attributable to changes in credit risk was $306 (2007 – $146). Total interest expense relating to the consumer notes was $85 for the year ended December 31, 2008 (2007 – $153).

Note 10 ^ Long-Term Debt

As at December 31,	2008	2007
5.161% Medium term notes	**$ 548**	$ –
5.505% Medium term notes	**398**	–
4.67% Medium term notes	**349**	349
Note payable to Manulife Finance (Delaware) LLC	**–**	545
5.625% Notes payable U.S. dollar	**–**	497
Other notes payable	**421**	429
Term loan	**1,973**	–
Total long-term debt	**$3,689**	$1,820
Fair value	**$3,572**	$1,806

The fair value of long-term debt is determined using quoted market prices where available. For debt instruments that do not have quoted prices, 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 US$10 (2007 – US$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, 2008 was $128 (2007 – $100). Issue costs are amortized over the term of the debt.

a) 5.161% Medium term notes

On June 26, 2008, MFC issued $550 in 5.161% medium term notes, which mature June 26, 2015 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 36 basis points, in each case together with accrued and unpaid interest.

b) 5.505% Medium term notes

Also on June 26, 2008, MFC issued $400 in 5.505% medium term notes, which mature on June 26, 2018 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 39 basis points, in each case together with accrued and unpaid interest.

c) 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.

d) Note payable to Manulife Finance (Delaware) LLC

On December 14, 2006, Manulife Holdings (Delaware) LLC (“MHD”), a wholly owned subsidiary of MLI, issued a $550 senior note 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 note matures on December 15, 2016 with interest payable semi-annually at the 90-day Bankers Acceptance rate plus 0.302%. MHD may redeem the note, in whole or in part, at any time for the amount of principal and unpaid interest.

On September 30, 2008, the senior note payable to MFLLC was converted to subordinated debt and its interest rate was increased to the 90-day Bankers Acceptance rate plus 0.552%. All other terms of the note remain unchanged. The subordinated note has been classified as Liabilities for Preferred Shares and Capital Instruments.

e) 5.625% U.S. dollar notes payable

On December 6, 2001, JHF issued US$500 in 5.625% senior notes which matured on December 1, 2008.

f) Other notes payable

Other notes payable bear interest rates ranging from 6.646% to 12.1% and mature in varying amounts to 2015. The notes were issued by various subsidiaries of JHF.

g) Term loan

On November 6, 2008, MFC secured a five year term loan of $3,000 with several large Canadian banks. The loan was fully drawn during the fourth quarter and $2,000 was deployed as regulatory capital for the Company's operating subsidiaries. The term loan is repayable by MFC at any time without penalty and is based upon the one month Bankers Acceptance rate plus 3.80%.

On December 11, 2008, the loan agreement was amended and MFC repaid $1,000, reducing the credit facility to $2,000 as at December 31, 2008.

Aggregate maturities of long-term debt are as follows:

As at December 31,	2008	2007
Less than one year	**$ 5**	$ 504
One to two years	**1**	2
Two to three years	**407**	1
Three to four years	**–**	412
Four to five years	**2,322**	–
Greater than five years	**954**	901
Total	**$3,689**	$1,820

Note 11 ^ Income Taxes

The effective income tax rate reported in the Consolidated Statements of Operations varies from the Canadian statutory tax rate of 33% for the year ended December 31, 2008 (2007 – 35%) for the following reasons:

Reconciliation of income tax expense

For the years ended December 31,	2008	2007
Income tax expense at Canadian statutory tax rate	**$ 190**	$1,962
(Decrease) increase in income taxes due to:		
Tax-exempt investment income	**(154)**	(114)
Differences in tax rates on losses (income) not subject to tax in Canada	**75**	(368)
Creation (release) of valuation allowance	**40**	(34)
General business tax credits	**(64)**	(64)
Other	**(7)**	(5)
Income tax expense	**$ 80**	$1,377

Components of income tax expense (recovery) are as follows:

For the years ended December 31,	2008	2007
Canadian income tax expense		
Current	**$ 282**	$ 185
Future	**136**	141
	$ 418	$ 326
Foreign income tax expense (recovery)		
Current	**$ 35**	$ 264
Future	**(373)**	787
	$(338)	$1,051
Income tax expense	**$ 80**	$1,377

The amount of income taxes paid in cash during the year ended December 31, 2008 was $235 (2007 – $424).

Income taxes are included in the consolidated financial statements as follows:

For the years ended December 31,	2008	2007
Consolidated Statements of Operations		
Income taxes	**$ 80**	$1,377
Consolidated Balance Sheets		
Goodwill – tax benefit of stock options exercised	**–**	(3)
Consolidated Statements of Equity		
Section 3855 implementation opening adjustments	**–**	(355)
Tax benefit of stock options exercised	**(3)**	(16)
Tax benefit of financing cost	**(19)**	–
Other comprehensive income opening adjustments	**–**	526
Tax benefit in respect of leveraged leases opening adjustment	**–**	(77)
Consolidated Statements of Comprehensive Income		
OCI on AFS and cash flow hedges	**(881)**	(79)
Currency translation account	**(305)**	121
Income taxes	**$(1,128)**	$1,494

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 it is expected to 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, 2008 are estimated to be $566 (2007 – $387).

Net future income tax liability is $1,789 of which $1,969 is reported as future tax liability. A future tax asset for only the Canadian jurisdiction of $180 is reported in Miscellaneous Assets. The following table presents future income taxes in total, and the principal components:

As at December 31,	2008	2007
Future income tax asset		
Actuarial liabilities	**$ –**	$ 674
Loss carry forward	**1,884**	764
Tax credits	**695**	433
Subtotal	**$ 2,579**	$ 1,871
Valuation allowance	**(97)**	(57)
Future income tax asset	**$ 2,482**	$ 1,814
Future income tax liability		
Actuarial liabilities	**$ (251)**	$ –
Real estate	**(468)**	(408)
Securities and other investments	**(2,474)**	(2,798)
Sale of invested assets	**(385)**	(405)
Intangible assets	**(637)**	(534)
Other	**(56)**	(125)
Future income tax liability	**$(4,271)**	$(4,270)
Net future income tax liability	**$(1,789)**	$(2,456)

As at December 31, 2008, the Company has approximately $5,492 (2007 – $2,201) of tax loss carry forwards available, of which $5,469 expire between the years 2009 and 2028 while $23 have no expiry date. A tax benefit has been recognized in the amount of $1,787 (2007 – $707) in future income taxes. A tax benefit in the amount of $97 (2007 – $57) has not been recognized.

As at December 31, 2008, the Company has approximately $496 (2007 – $339) of general business tax credit carry forwards available which expire between the years 2021 and 2028.

As at December 31, 2008, the Company has approximately $664 (2007 – $629) of current tax payable included in Other Liabilities.

Note 12 ^ Liabilities for Preferred Shares and Capital Instruments

As at December 31,	2008	2007
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	**582**	470
Subordinated notes – 6.24% Canadian dollar	**550**	550
Subordinated notes payable to Manulife Finance (Delaware) LLC	**1,198**	646
Total	**$3,674**	$3,010
Fair value	**$3,122**	$3,125

The fair value of liability instruments is determined using quoted market prices where available. For liability instruments that do not have quoted prices, 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 US$44 (2007 – US$46), which arose as a result of the acquisition of JHF. The amortization of the fair value adjustment is recorded in interest expense.

The cash amount of interest, including dividends on the Class A, Series 1 preferred shares, paid during the year ended December 31, 2008 was $190 (2007 – $212). Issue costs are amortized over the term of the underlying 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%. 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 number 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. 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 the debentures may be redeemed 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 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 US$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 were redeemed at par plus accrued interest on February 16, 2006. Debentures with principal of $550 remain outstanding and mature on February 16, 2016, bearing interest at a fixed rate of 6.24% for 10 years and thereafter at the 90-day Bankers Acceptance rate plus 1% (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, MHD issued a $650 subordinated note to MFLLC. The note matures on December 15, 2036 and bears interest payable semi-annually at the 90-day Bankers Acceptance rate plus 0.72%. With regulatory approval, MHD may redeem the note, in whole or in part, at any time for the amount of principal and unpaid interest.

On September 30, 2008, a $550 senior note payable to MFLLC was converted to subordinated debt and its interest rate was increased to the 90-day Bankers Acceptance rate plus 0.552%. Accordingly this note is now included in Liabilities for Preferred Shares and Capital Instruments.

MFLP is a VIE; however, MFC is not considered the primary beneficiary and, as a result, the subordinated debentures issued by MFLP and the subordinated notes receivable by MFLLC are not consolidated (see note 18(b)).

Note 13 ^ Non-Controlling Interest in Subsidiaries

As at December 31,	2008	2007
Non-controlling interest in common equity of subsidiaries	**$217**	$146

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 14 ^ 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%. With regulatory approval, the Series 2 Preferred Shares may be redeemed by MFC on or after March 19, 2010, in whole or in part, for cash, at declining premiums that range from $1.00 to nil per share.

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%. With regulatory approval, the Series 3 Preferred Shares may be redeemed by MFC on or after March 19, 2011, in whole or in part, for cash, at declining premiums that range from $1.00 to nil per share.

Common shares

On December 11, 2008, MFC issued 117 million common shares at $19.40 per share. Net cash proceeds, after deducting commissions and fees of the issue, were $2,190. Net proceeds including tax benefits were $2,208.

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 to repurchase up to 75 million of its common shares, representing approximately 5.0 per cent of common shares outstanding. MFC was also limited to purchasing up to 626,918 common shares on any one day under this bid. A previous normal course issuer bid program terminated on November 8, 2007. All transactions under the normal course issuer bids were 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 were cancelled.

In total, during the year ended December 31, 2008, MFC purchased and subsequently cancelled 11 million (2007 – 56 million) of its common shares pursuant to the normal course issuer bids at a total cost of $403 (2007 – $2,245).

	2008		2007	
For the years ended December 31,	Number of shares (in millions)	Amount	Number of shares (in millions)	Amount
Common shares				
Balance, January 1	**1,501**	**$14,000**	1,547	$14,248
Issued on exercise of stock options and deferred share units and acquisition of a subsidiary	**3**	**50**	10	275
Issued by private placement and public offering, net	**117**	**2,208**	–	–
Normal course issuer bids – purchased for cancellation	**(11)**	**(101)**	(56)	(523)
Balance, December 31	**1,610**	**$16,157**	1,501	$14,000

Note 15 ^ 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 subject to a variety of constraints as defined by regulatory rules, rating agency expectations, competitive considerations and business needs. During 2008, active capital management including net capital issuances has allowed Manulife Financial to maintain its capital position in excess of regulatory requirements, notwithstanding the substantial deterioration in the global economic environment worldwide.

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.

As part of its annual 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 2008 results, updated in December 2008, indicated that the Company's capital levels provided for sufficient assets to discharge liabilities and to retain positive surplus in the catastrophic scenarios tested. These scenarios included tests of equity market, credit, interest rate and mortality risk, among others.

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 consolidated level. For regulatory reporting purposes, adjustments are made for various additions or deductions to capital as mandated by guidelines issued by OSFI.

Consolidated Capital

As at December 31,	2008	2007
Equity[1]	**$27,664**	$22,406
Preferred shares[2]	**982**	982
Innovative instruments[3]	**1,000**	1,000
Subordinated debentures[4]	**1,195**	1,196
AOCI on AFS securities	**(529)**	1,327
Other capital instruments[5]	**582**	470
Non-controlling interest in subsidiaries	**217**	146
Total capital	**$31,111**	$27,527

(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) Qualifying subordinated debentures, net of unamortized issuance costs.
(5) Includes surplus notes only.

In 2008, the Company's capital increased by $3,584 compared to the prior year. The increase was primarily due to the common equity issuance of $2,275, net income of $497 and OCI of $4,409 from currency translation of net foreign operations. The impact of these items on the level of capital was partially offset by the $1,856 decline in AFS securities due to the market turmoil, $1,524 of dividends paid to shareholders and $403 of share repurchases.

It is the Company's policy to maintain a currency mix of assets supporting capital that is consistent with the currency mix of the Company's underlying liability risks. This policy mitigates the impact of currency movements on the capital ratios.

The Company raised $2,950 unsubordinated funding in 2008. While such funding may be deployed in downstream entities as capital, at the MFC consolidated level senior indebtedness is typically not considered capital, consistent with the OSFI guidelines.

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 and reviews issues and initiatives that affect the capital position of MFC's subsidiaries and the Company as a whole.

Note 16 ^ Stock-Based Compensation

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 2.5 million as at December 31, 2008 (2007 – 2.7 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 2008, 217,000 DSUs (2007 – 191,000) were granted to certain employees who elected to defer receipt of all or part of their annual bonus. Also in 2008, 269,000 DSUs (2007 – 260,000) were granted to certain employees who elected to defer payment of all or part of their restricted share units ("RSUs"). The DSUs granted in 2007 and 2008 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 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 2008, 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 76,000 as at December 31, 2008 (2007 – 82,000).

For the years ended December 31,	**2008**	2007
	Number of DSUs (in thousands)	
Outstanding, January 1	**4,629**	4,721
Issued	**535**	485
Reinvested	**158**	104
Redeemed	**(408)**	(681)
Outstanding, December 31	**4,914**	4,629

Of the DSUs outstanding as at December 31, 2008, 2,513,000 (2007 – 2,741,000) entitle the holder to receive common shares, 2,059,000 (2007 – 1,605,000) entitle the holder to receive payment in cash and 342,000 (2007 – 283,000) entitle the holder to receive payment in cash or common shares, at the option of the holder.

For the year ended December 31, 2008, 1.8 million RSUs (2007 – 1.5 million) were granted to certain eligible employees under MFC's Restricted Share Unit Plan. Each RSU entitles the recipient to receive payment equal to the market value of one common share, plus credited dividends, at the time the RSU vests. 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 $57 for the year ended December 31, 2008 (2007 – $73).

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"). 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.

Options outstanding

For the years ended December 31,	**2008**		2007	
	Number of options (in millions)	Weighted average exercise price	Number of options (in millions)	Weighted average exercise price
Outstanding, January 1	**26**	**$ 24.95**	30	$ 22.68
Granted	**4**	**$ 37.71**	3	$ 40.38
Exercised	**(2)**	**$ 20.00**	(6)	$ 17.90
Forfeited	**(1)**	**$ 36.54**	(1)	$ 32.96
Outstanding, December 31	**27**	**$ 27.29**	26	$ 24.95
Exercisable, December 31	**20**	**$ 23.37**	19	$ 21.31

As at December 31, 2008	Options outstanding			Options exercisable	
Exercise price	Number of options (in millions)	Weighted average exercise price	Weighted average contractual remaining life (in years)	Number of options (in millions)	Weighted average exercise price
$11.20 – $19.52	**5**	**$ 16.66**	**2.61**	**5**	**$ 16.66**
$19.53 – $25.45	**10**	**$ 21.89**	**3.02**	**10**	**$ 21.89**
$25.46 – $40.38	**12**	**$ 35.71**	**7.65**	**5**	**$ 33.04**
Total	**27**	**$ 27.29**	**5.05**	**20**	**$ 23.37**

The weighted average fair value of each option granted in 2008 has been estimated at $7.38 (2007 – $9.63) using the Black-Scholes option-pricing model. The pricing model uses the following weighted average assumptions for these options: risk-free interest rate of 3.2% (2007 – 4.4%), dividend yield of 2.2% (2007 – 1.9%), expected volatility of 20% (2007 – 20%) and expected life of 6.25 (2007 – 6.5) years.

In aggregate, the Company recorded stock-based compensation expense of $81 for the year ended December 31, 2008 (2007 – $93).

Dilutive effect of stock-based compensation awards

For the years ended December 31,	2008	2007
Diluted earnings per common share	**$ 0.32**	$ 2.78
Net income available to common shareholders	**$ 487**	$4,272
Weighted average number of common shares (in millions)	**1,502**	1,522
Stock-based awards [1] (in millions)	**10**	15
Weighted average number of diluted common shares (in millions)	**1,512**	1,537

[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 nine million (2007 – five 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 unfunded, and other post-employment benefit plans that are also primarily unfunded.

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. Assumptions and methods prescribed for regulatory funding purposes differ from those used for 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, 2008.

Pension and Post-Employment Benefit Plans

	Pension benefits		Post-employment benefits	
For the years ended December 31,	**2008**	2007	**2008**	2007
Changes in plan assets:				
Fair value of plan assets, January 1	**$3,299**	$3,743	**$ 322**	$ 354
Actual return on plan assets	**(843)**	207	**(86)**	24
Employer contributions	**100**	82	**69**	69
Plan participants' contributions	**1**	1	**4**	4
Benefits paid	**(255)**	(282)	**(73)**	(73)
Currency impact	**447**	(452)	**64**	(56)
Fair value of plan assets, December 31 [1]	**$2,749**	$3,299	**$ 300**	$ 322

[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 and retired 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. On May 1, 2007, these plans were merged and the funding through the rabbi trust was restricted to only those pension benefit obligations in respect of service prior to that date. At December 31, 2008, assets in the rabbi trust with respect to these pension benefit obligations were $334 (2007 – $263) compared to the pension benefit obligations under the merged plan of $435 (2007 – $313).

	Pension benefits		Post-employment benefits	
For the years ended December 31,	**2008**	2007	**2008**	2007
Changes in accrued benefit obligation:				
Balance, January 1	**$ 3,348**	$3,814	**$ 802**	$ 940
Service cost	**67**	60	**12**	12
Interest cost	**193**	193	**49**	48
Plan participants' contributions	**1**	1	**4**	4
Amendments	**(4)**	(56)	**1**	–
Actuarial losses (gains)	**(93)**	40	**(32)**	(19)
Benefits paid	**(255)**	(282)	**(73)**	(73)
Currency impact	**544**	(422)	**141**	(110)
Balance, December 31	**$ 3,801**	$3,348	**$ 904**	$ 802

	Pension benefits		Post-employment benefits	
As at December 31,	**2008**	2007	**2008**	2007
Excess of plan liabilities over fair value of plan assets, end of year	**$(1,052)**	$ (49)	**$ (604)**	$ (480)
Unrecognized net actuarial loss (gain)	**1,114**	20	**30**	(51)
Unrecognized prior service cost	**(41)**	(29)	**(3)**	(5)
Net accrued benefit liability, December 31	**$ 21**	$ (58)	**$ (577)**	$ (536)

Amounts recognized in the Consolidated Balance Sheets:

	Pension benefits		Post-employment benefits	
As at December 31,	**2008**	2007	**2008**	2007
Prepaid benefit cost	**$ 676**	$ 498	**$ –**	$ –
Accrued benefit liability	**(655)**	(556)	**(577)**	(536)
Net accrued benefit liability, December 31	**$ 21**	$ (58)	**$ (577)**	$ (536)

As at December 31, 2008, the Company's broad-based funded pension plans consisted of assets of $2,736 (2007 – $3,285) and pension benefit obligations of $3,060 (2007 – $2,673), which results in a pension benefit deficit of $324 (2007 – surplus of $612). These plans are subject to regulatory contribution requirements. For other broad-based but unfunded pension plans, the pension benefit deficit amounted to nil as at December 31, 2008 (2007 – $43) of which nil (2007 – $46) has been charged to earnings or otherwise accrued for in the Company's accounts. In 2008, the Company began funding these plans.

The Company's executive supplemental pension plans are primarily unfunded and, as at December 31, 2008, consisted of assets of $13 (2007 – $14) and pension benefit obligations of $741 (2007 – $632), which results in a pension benefit deficit of $728 (2007 – $618). Of this deficit, $581 (2007 – $493) has been charged to earnings to date. Further, the rabbi trust assets that support a portion of these executive pension obligations amounted to $334 as at December 31, 2008 (2007 – $263). 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,	**2008**	2007
Broad-based funded pension plans		
Fair value of plan assets	**$2,736**	$3,285
Accrued benefit obligation	**3,060**	2,673
Excess (shortfall) of fair value of plan assets over plan liabilities	**$ (324)**	$ 612
Broad-based unfunded pension plans		
Fair value of plan assets	**$ –**	$ –
Accrued benefit obligation	**–**	43
Shortfall of fair value of plan assets over plan liabilities	**$ –**	$ (43)
Executive unfunded pension plans		
Fair value of plan assets	**$ 13**	$ 14
Accrued benefit obligation	**741**	632
Shortfall of fair value of plan assets over plan liabilities	**$ (728)**	$ (618)
Other		
Rabbi trust assets	**$ 334**	$ 263
Total		
Fair value of assets	**$3,083**	$3,562
Accrued benefit obligation	**3,801**	3,348
Excess (shortfall) of fair value of assets over plan liabilities	**$ (718)**	$ 214

The assets that support the portion of the post-employment benefit plans that are not funded form part of the general fund assets of the Company.

The weighted average asset allocation for the Company's funded pension plans is as follows:

	Actual allocation	
As at December 31,	**2008**	2007
Equity securities[(1)]	**47%**	59%
Debt securities	**42%**	33%
Real estate	**4%**	2%
Other	**7%**	6%
Total	**100%**	100%

(1)Pension benefit plans include investments in MFC common shares of $0.5 (2007 – $1).

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,	**2008**	2007	**2008**	2007
Defined benefit service cost	**$ 67**	$ 60	**$ 12**	$ 12
Defined contribution service cost	**63**	61	**–**	–
Interest cost	**193**	193	**49**	48
Actual negative (positive) return on plan assets	**843**	(207)	**86**	(24)
Actuarial (gains) losses	**(93)**	40	**(32)**	(19)
Plan amendments	**(4)**	(56)	**1**	–
Pension costs incurred before adjustments	**$ 1,069**	$ 91	**$ 116**	$ 17
Difference between costs arising in the year and costs recognized:				
Return on plan assets[1]	**(1,088)**	(38)	**(114)**	(2)
Actuarial (gains) losses[2]	**108**	(27)	**31**	17
Plan amendments[3]	**3**	62	**(2)**	(3)
Net benefit expense	**$ 92**	$ 88	**$ 31**	$ 29

(1)Expected return on plan assets of $273 (2007 – $271) less deferral of actual negative (positive) return on plan assets of $929 (2007 – ($231)).
(2)Actuarial loss amortized of $14 (2007 – $11) less actual actuarial gain incurred of $125 (2007 – loss of $21).
(3)Amortization of plan amendment gains recognized of $2 (2007 – loss of $3) less actual plan amendment gains incurred of $3 (2007 – $56).

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,	**2008**	2007	**2008**	2007
To determine the accrued benefit obligation at end of year:				
Discount rate	**6.1%**	5.8%	**6.2%**	5.9%
Rate of compensation increase	**4.0%**	4.6%	**3.3%**	3.6%
Initial health care cost trend rate[1]	**n/a**	n/a	**8.2%**	8.6%
To determine the net benefit expense for the year:				
Discount rate	**5.8%**	5.6%	**5.9%**	5.7%
Expected return on plan assets[2]	**7.5%**	7.7%	**8.0%**	8.3%
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%

(1)The health care cost trend rate used to measure the U.S. based post-employment obligation was 8.5% grading to 5.0% for 2016 and years thereafter (2007 – 9.0% grading to 5.0% for 2016) and to measure the expense was 9.0% grading to 5.0% for 2016 and years thereafter (2007 – 9.5% grading to 5.0% for 2016). In Canada, the rate used to measure the post-employment benefit obligation was 7.0% grading to 5.0% for 2013 and years thereafter (2007 – 7.5% grading to 5.0% for 2013) and to measure the expense was 7.5% grading to 5.0% for 2013 and years thereafter (2007 – 8.0% grading to 5.0% for 2013).
(2)The expected return on pension plan assets for U.S. based plans was 8.0% (2007 – 8.25%). Plans based in Canada had an expected return on plan assets of 6.2% (2007 – 6.2%). Other pension plans had an expected return of 5.3% (2007 – 5.6%).

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 and 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, 2008	Obligation	Expense	Obligation	Expense
Discount rate:				
Impact of a 1% increase	**$ (335)**	**$ (1)**	**$ (78)**	**$ (4)**
Impact of a 1% decrease	**$ 404**	**$ 6**	**$ 93**	**$ 1**
Expected return on plan assets:				
Impact of a 1% increase	**n/a**	**$ (31)**	**n/a**	**$ (4)**
Impact of a 1% decrease	**n/a**	**$ 31**	**n/a**	**$ 4**
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**	**$ 49**	**$ 6**
Impact of a 1% decrease	**n/a**	**n/a**	**$ (42)**	**$ (7)**

Cash Flows – Contributions

Total cash payments for all employee future benefits, comprised of cash contributed by the Company to funded pension and post-employment benefit plans, cash payments directly to beneficiaries for unfunded pension and post-employment benefit plans, and cash contributed to defined contribution pension plans, were as follows:

	Pension benefits		Post-employment benefits	
For the years ended December 31,	**2008**	2007	**2008**	2007
Defined benefit	**$ 100**	$ 82	**$ 69**	$ 69
Defined contribution	**63**	61	**–**	–
Total	**$ 163**	$ 143	**$ 69**	$ 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
2009	**$ 324**	**$ 78**
2010	**320**	**79**
2011	**312**	**79**
2012	**313**	**79**
2013	**311**	**79**
2014 - 2018	**1,581**	**381**

Note 18 ^ Variable Interest Entities

a) Investments that are Variable Interest Entities

Variable interest entities that are consolidated with the Company's segregated funds

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, 2008 resulted in an increase in segregated fund assets of $235 (2007 – $188), an increase in segregated fund liabilities of $77 (2007 – $61) and an increase in net assets held by other contract holders of $158 (2007 – $127).

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 noted above, the Company has determined that it is not the primary beneficiary of any VIE which it invests in or manages, and accordingly, is not required to consolidate any of them.

The following is a discussion of the entities with whom the Company has significant relationships.

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 $33 (2007 – $29). This consists of $16 (2007 – $15) in tranches rated below BBB and $17 (2007 – $14) in equity tranches.

Company-managed CDOs

As at December 31,	2008	2007
Total assets	**$ 2,496**	$ 5,731
Total debt	**$ 8,121**	$ 9,093
Total other liabilities	**47**	59
Total liabilities	**$ 8,168**	$ 9,152
Total equity[2]	**(5,672)**	(3,421)
Total liabilities and equity[1]	**$ 2,496**	$ 5,731

(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 tax credits ("LIH Partnerships"). These investments are primarily made through real estate limited partnerships. The Company is usually the sole limited partner or an investor member and 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 $658 (2007 – $498). This consists of $518 (2007 – $377) of equity investments, $79 (2007 – $64) of mortgages, and $61 (2007 – $57) of outstanding equity capital commitments.

LIH Partnerships[1]

As at December 31,	2008	2007
Total assets	**$1,480**	$1,179
Total debt	**$ 883**	$ 704
Total other liabilities	**126**	85
Total liabilities	**$1,009**	$ 789
Total equity	**471**	390
Total liabilities and equity[2]	**$1,480**	$1,179

(1) Certain data in the table above is reported with a six to twelve 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 the LIH Partnerships.

Timberland investments

The Company acts as an investment manager of timberland properties with total assets of $10 billion, of which $8 billion relates to funds that the general fund and institutional segregated funds invest in (the "Timber Funds"). In its capacity as investment manager 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 $460 (2007 – $457). This consists of $189 (2007 – $142) of equity investments, $263 (2007 – $282) of debt investments, and $8 (2007 – $33) of outstanding equity commitments to these funds.

Timber Funds

As at December 31,	2008	2007
Total assets	**$7,860**	$4,107
Total debt	**$2,922**	$1,906
Total other liabilities	**455**	424
Total liabilities	**$3,377**	$2,330
Total equity	**4,483**	1,777
Total liabilities and equity[1]	**$7,860**	$4,107

(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.

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 MaCS form part of the Company's Tier 1 regulatory capital.

Manulife Finance (Delaware), L.P.

On December 14, 2006, Manulife Finance (Delaware), L.P. ("MFLP"), a wholly owned partnership, 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 plus 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 plus 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 to manage exposure to the interest rate difference between the debentures issued and the subordinated notes receivable from MHD (see note 12), MFLP has entered into interest rate swaps.

In accordance with VIE accounting guidelines, MFLP is divided into two silos and one host entity. The largest silo comprises the issued debt instruments and the interest rate swaps described above. The smaller silo and the host entity comprise the amounts the Company has invested, plus accumulated interest thereon. The Company is not the primary beneficiary of and therefore, does not consolidate the largest silo. The Company owns 100% of the smaller silo and the host entity and consolidates both. The impact of this application of the VIE accounting guidelines resulted in the Company recognizing its subordinated debt payable to MFLP, instead of recognizing MFLP's senior and subordinated debentures payable to the investing public. There is no impact to the Company's assets, liabilities or equity as a result of this accounting.

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 and 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 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) Tax related contingency

The Company is an investor in leveraged leases and previously established provisions in the amount of US$178 after tax for possible disallowance of the tax treatment and for interest on past due taxes. During the year ended December 31, 2008, the Company increased this provision by US$185 after tax. The Company continues to believe that deductions originally claimed in relation to these arrangements are appropriate. Although not expected to occur, should the tax attributes of the leveraged leases be fully denied, the maximum after tax exposure including interest would be an additional estimated US$280 as at December 31, 2008.

c) 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.

d) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were $2,722 (2007 – $2,535) of outstanding investment commitments as at December 31, 2008, of which

$230 (2007 – $283) mature in 30 days, $1,429 (2007 – $1,444) mature in 31 to 365 days and $1,063 (2007 – $808) mature after one year.

e) 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, 2008, letters of credit, for which third parties are beneficiary, in the amount of $588 (2007 – $470) were outstanding. There were no assets pledged against these outstanding letters of credit as at December 31, 2008 and 2007.

f) Guarantees regarding Manulife Finance (Delaware), L.P.

MFC has guaranteed the payment of the $550 senior debentures due December 15, 2026 and $650 subordinated debentures due December 15, 2041 issued by MFLP, a wholly owned partnership. The Company does not consolidate these debentures; however, the Company does have obligations in the same principal amounts to a subsidiary of MFLP (see note 18(b)). MFC's guarantee of the senior debentures has the effect of making the $550 senior debentures described in note 18(b) into a senior obligation of the Company. MFC's guarantee of the $650 subordinated debentures is a subordinated obligation of the Company.

The following tables set forth certain condensed consolidating financial information for MFC and MFLP:

As at and for the year ended December 31, 2008	MFC (Guarantor)	Manulife Finance (Delaware), L.P.	MLI Consolidated	Other Subsidiaries of MFC on a Combined Basis	Consolidating Adjustments	Total Consolidated Amounts
Total revenue	**$ 151**	**$ 72**	**$ 23,152**	**$ 10,278**	**$ (650)**	**$ 33,003**
Net income (loss) available to shareholders	**517**	**9**	**(68)**	**615**	**(556)**	**517**
Invested assets	**23**	**2**	**116,492**	**71,773**	**(789)**	**187,501**
Total other assets	**32,272**	**1,597**	**11,411**	**21,745**	**(43,501)**	**23,524**
Policy liabilities	**–**	**–**	**81,372**	**64,696**	**(9)**	**146,059**
Total other liabilities	**4,840**	**1,417**	**25,962**	**16,536**	**(11,244)**	**37,511**

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	$ 24,437	$ 11,285	$ (295)	$ 35,581
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

g) Pledged assets

In the normal course of business, certain of MFC's subsidiaries pledge their assets in respect of liabilities incurred, strictly for the purpose of providing collateral for the counterparty. In the event of the Company's default, the counterparty is entitled to apply the collateral in order to settle the liability. The pledged assets are returned to the Company if the underlying transaction is terminated or, in the case of derivatives, if the net exposure moves to an asset position due to market value changes.

The amounts pledged were as follows:

	2008		2007	
As at December 31,	Bonds	Other	Bonds	Other
In respect of:				
Derivatives	**$2,686**	**$ –**	$ 208	$ 81
Regulatory requirements	**160**	**62**	120	31
Real estate	**–**	**100**	–	59
Repurchase agreements	**1,028**	**–**	–	–
Non-registered retirement plans in trust	**–**	**442**	7	336
Other	**2**	**1**	2	4
Total	**$3,876**	**$ 605**	$ 337	$ 511

h) Lease obligations

The Company has a number of operating lease obligations, primarily for the use of office space. The future minimum lease payments by year and in aggregate, under non-cancelable operating leases, are presented below:

2009	$ 161
2010	106
2011	84
2012	74
2013	58
Thereafter	296
Total minimum lease payments	**$ 779**

i) 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 capital for its subsidiaries based on local regulations in each jurisdiction. 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.

There are additional restrictions on shareholder dividend distributions in foreign jurisdictions. 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 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 and 10 per cent of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. Under 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 approved, or has not disapproved, 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 local insurance commissioner no later than five days following declaration, and at least 10 days prior to payment, of any dividend or distribution.

j) 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 reflect 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, require significant judgment and do not include any tax impact.

The fair values and the basis for determining the fair value of invested assets, derivatives, consumer notes, long-term debt, and liabilities for preferred shares and capital instruments are disclosed in notes 4, 6, 9, 10 and 12, 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 $12,323 as at December 31, 2008 (2007 – $10,005), compared to a carrying value of $12,210 as at December 31, 2008 (2007 – $10,008). 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 ^ Segmented Information

The Company provides a wide range of financial products and services 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 using a risk-based methodology. The income statement impact of changes in actuarial methods and assumptions (note 7(f)) is reported in the Corporate and Other segment.

Effective January 1, 2008, the Company changed its approach for allocating investment gains and losses to be more aligned with how the Company manages the assets and related risk positions. Investment gains and losses are now accumulated into two pools – insurance and wealth management, and then allocated pro-rata to the reporting segments based on their respective policy liabilities. Prior to 2008, gains and losses were reported in the segments where the specific assets giving rise to the gains and losses were located and credit gains and losses were reported in the Corporate and Other segment. Investment gains and losses related to product features, such as segregated fund guarantees and future fees assumed in variable universal life and equity-linked policy liabilities, as well as investment gains and losses on full pass through products, such as par insurance, are not included in the pools.

Prior periods have been restated to conform to this presentation.

By segment For the year ended December 31, 2008	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	$ 5,751	$ –	$ 5,913	$ 3,266	$ 1,091	$ –	$ 16,021
Annuities and pensions	–	6,264	852	115	–	–	7,231
Total premium income	$ 5,751	$ 6,264	$ 6,765	$ 3,381	$ 1,091	$ –	$ 23,252
Investment income (loss)	3,819	1,238	544	(620)	132	(815)	4,298
Other revenue	621	2,545	1,116	853	24	294	5,453
Total revenue	$ 10,191	$10,047	$ 8,425	$ 3,614	$ 1,247	$ (521)	$ 33,003
Interest expense	$ 33	$ 101	$ 412	$ 60	$ 2	$ 579	$ 1,187
Income (loss) before income taxes	$ 1,187	$ (1,652)	$ 1,118	$ 223	$ 177	$ (476)	$ 577
Income taxes	(408)	731	(467)	(61)	(23)	148	(80)
Net income (loss)	$ 779	$ (921)	$ 651	$ 162	$ 154	$ (328)	$ 497
Loss attributed to participating policyholders	–	–	5	15	–	–	20
Net income (loss) attributed to shareholders	$ 779	$ (921)	$ 656	$ 177	$ 154	$ (328)	$ 517
Segregated funds deposits	$ 1,398	$20,187	$ 6,611	$ 5,837	$ –	$ 172	$ 34,205
Goodwill							
Balance, January 1	$ 2,291	$ 1,740	$ 2,115	$ 445	$ 66	$ 64	$ 6,721
Purchase equation adjustment	–	–	3	–	–	–	3
Change in foreign exchange rates	575	416	–	194	16	4	1,205
Balance, December 31	$ 2,866	$ 2,156	$ 2,118	$ 639	$ 82	$ 68	$ 7,929
As at December 31, 2008							
Policy liabilities	$ 53,635	$36,655	$ 35,171	$18,692	$ 1,854	$ 52	$146,059
Total assets	$ 64,525	$43,091	$ 55,684	$22,723	$ 3,265	$ 21,737	$211,025
Segregated funds net assets held by policyholders	$ 10,342	$99,133	$ 27,628	$24,541	$ –	$ 3,111	$164,755

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 **For the year ended December 31, 2008**	United States	Canada	Asia and Japan	Other	Total
Revenue					
Premium income					
Life and health insurance	**$ 6,264**	**$ 5,955**	**$ 3,273**	**$ 529**	**$16,021**
Annuities and pensions	**6,264**	**852**	**115**	**–**	**7,231**
Total premium income	**$12,528**	**$ 6,807**	**$ 3,388**	**$ 529**	**$23,252**
Investment income (loss)	**4,635**	**239**	**(622)**	**46**	**4,298**
Other revenue	**3,391**	**1,171**	**878**	**13**	**5,453**
Total revenue	**$20,554**	**$ 8,217**	**$ 3,644**	**$ 588**	**$33,003**

By segment **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	$ 2,857	$ 1,026	$ –	$ 14,798
Annuities and pensions	–	4,285	572	89	–	–	4,946
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	1,044	767	20	305	5,496
Total revenue	$ 9,203	$ 9,502	$ 9,845	$ 4,976	$ 1,261	$ 794	$ 35,581
Interest expense	$ 33	$ 171	$ 393	$ 53	$ 2	$ 380	$ 1,032
Income before income taxes	$ 1,176	$ 1,554	$ 1,443	$ 987	$ 330	$ 116	$ 5,606
Income taxes	(395)	(422)	(330)	(167)	(92)	29	(1,377)
Net income	$ 781	$ 1,132	$ 1,113	$ 820	$ 238	$ 145	$ 4,229
Net income (loss) attributed to participating policyholders	–	–	3	(31)	–	(45)	(73)
Net income attributed to shareholders	$ 781	$ 1,132	$ 1,110	$ 851	$ 238	$ 190	$ 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	$ 48,739	$ 38,674	$ 54,812	$17,723	$ 2,806	$ 13,704	$176,458
Segregated funds net assets held by policyholders	$ 11,387	$108,878	$ 31,391	$20,727	$ –	$ 2,594	$174,977

(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 **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	$ 2,893	$ 484	$14,798
Annuities and pensions	4,285	572	89	–	4,946
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	1,106	779	24	5,496
Total revenue	$19,649	$10,348	$ 5,027	$ 557	$35,581

Note 22 ^ 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,	Note 22 Reference	2008 U.S. GAAP	2008 Canadian GAAP	2007 U.S. GAAP	2007 Canadian GAAP
Assets					
Cash and short-term securities		**$ 17,359**	**$ 17,269**	$ 12,475	$ 12,354
Securities					
Bonds and other fixed maturity investments	g (i), h (iv)	**112,332**	**83,148**	97,398	72,831
Stocks	g (ii), h (iv), h (vii)	**16,532**	**8,354**	17,890	11,134
Loans					
Mortgages	h (iv)	**31,317**	**30,963**	26,146	26,061
Private placements and other fixed maturity investments	g (iii)	**2,501**	**25,705**	2,002	21,591
Policy loans		**7,533**	**7,533**	5,823	5,823
Bank loans		**2,384**	**2,384**	2,182	2,182
Real estate	g (iv)	**5,261**	**7,274**	4,236	5,727
Other investments	g (v), g (xi), h (iv)	**5,046**	**4,871**	4,027	3,597
Total invested assets		**$ 200,265**	**$ 187,501**	$ 172,179	$ 161,300
Other assets					
Accrued investment income	h (iv)	**$ 1,766**	**$ 1,760**	$ 1,422	$ 1,414
Outstanding premiums		**799**	**799**	672	672
Deferred acquisition costs	g (vii)	**21,373**	**–**	13,156	–
Reinsurance deposits and amounts recoverable	h (vi)	**5,192**	**–**	4,492	–
Goodwill		**6,834**	**7,929**	5,839	6,721
Intangible assets		**1,866**	**1,866**	1,573	1,573
Derivatives	g (xi), h (iv)	**7,888**	**7,883**	2,125	2,129
Value of business acquired	g (viii)	**4,239**	**–**	3,345	–
Miscellaneous	h (iv)	**5,777**	**3,287**	3,424	2,649
Total other assets		**$ 55,734**	**$ 23,524**	$ 36,048	$ 15,158
		$ 255,999	**$ 211,025**	$ 208,227	$ 176,458
Segregated funds net assets[1]	h (iv)	**148,492**	**–**	162,788	–
Total assets		**$ 404,491**	**$ 211,025**	$ 371,015	$ 176,458
Segregated funds net assets[1]	h (iv)	**$ –**	**$ 165,380**	$ –	$ 175,544
Liabilities and equity					
Policy liabilities	g (vi), h (iv)	**$ 183,936**	**$ 146,059**	$ 151,788	$ 124,422
Deferred realized net gains	g (iv)	**–**	**127**	–	107
Bank deposits		**12,210**	**12,210**	10,008	10,008
Consumer notes	g (xii)	**1,959**	**1,876**	2,131	2,085
Long-term debt		**3,721**	**3,689**	1,825	1,820
Future income tax liability[2]	h (iv)	**797**	**1,969**	2,253	2,456
Derivatives	g (xi)	**6,352**	**6,389**	1,887	1,866
Other liabilities	g (ix), h (iv)	**18,162**	**7,360**	9,285	6,203
		$ 227,137	**$ 179,679**	$ 179,177	$ 148,967
Liabilities for preferred shares and capital instruments		**3,681**	**3,674**	3,014	3,010
Non-controlling interest in subsidiaries		**416**	**217**	298	146
Segregated funds net liabilities[1]	h (iv)	**148,492**	**–**	162,788	–
Common shares, preferred shares, retained earnings and contributed surplus		**28,418**	**30,096**	28,865	29,248
Accumulated other comprehensive income (loss)					
on available-for-sale securities & others	g (xiii)	**(2,652)**	**(529)**	2,359	1,327
on cash flow hedges		**1,556**	**(317)**	378	(36)
on translation of net foreign operations		**(2,557)**	**(1,795)**	(5,864)	(6,204)
Total liabilities and equity		**$ 404,491**	**$ 211,025**	$ 371,015	$ 176,458
Segregated funds net liabilities[1]	h (iv)	**$ –**	**$ 165,380**	$ –	$ 175,544

[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,	2008		2007	
	U.S. GAAP	Canadian GAAP	U.S. GAAP	Canadian GAAP
Revenue				
Premium income	**$ 14,045**	**$ 23,252**	$ 12,888	$ 19,744
Net investment income (investment income)	**1,320**	**4,298**	10,241	10,341
Fee income and other revenue	**6,252**	**5,453**	6,961	5,496
Total revenue	**$ 21,617**	**$ 33,003**	$ 30,090	$ 35,581
Policy benefits and expenses				
Policyholder benefits	**$ 17,765**	**$ 22,201**	$ 18,910	$ 20,211
Commissions, investment and general expenses	**4,713**	**8,724**	4,550	8,426
Amortization of deferred acquisition costs and value of business acquired	**(739)**	**–**	1,201	–
Other	**1,506**	**1,501**	1,295	1,338
Total policy benefits and expenses	**$ 23,245**	**$ 32,426**	$ 25,956	$ 29,975
Income (loss) before income taxes and change in accounting policy	**$ (1,628)**	**$ 577**	$ 4,134	$ 5,606
Income taxes	**813**	**(80)**	(904)	(1,377)
Net income (loss)	**$ (815)**	**$ 497**	$ 3,230	$ 4,229
Weighted average number of common shares outstanding (in millions)	**1,502**	**1,502**	1,522	1,522
Weighted average number of diluted common shares outstanding (in millions)	**1,512**	**1,512**	1,537	1,537
Basic earnings (loss) per common share	**$ (0.54)**	**$ 0.32**	$ 2.12	$ 2.81
Diluted earnings (loss) per common share	**$ (0.54)**	**$ 0.32**	$ 2.10	$ 2.78
Dividends per common share	**$ 1.00**	**$ 1.00**	$ 0.88	$ 0.88

c) Reconciliation of Canadian GAAP to U.S. GAAP Net Income

For the years ended December 31,	Reference	2008	2007
Net income determined in accordance with Canadian GAAP		**$ 497**	$ 4,229
Net investment income			
Bonds excluding other than temporary impairments[1]	g (i)	**4,695**	528
Interest rate related other than temporary impairments	g (i)	**(1,877)**	(836)
Stocks[2]	g (ii)	**1,843**	141
Cash flow hedges[3]	g (xi)	**(2,050)**	145
Real estate	g (iv)	**(323)**	(270)
Other	g (v)	**(67)**	111
		$ 2,221	$ (181)
Deferred acquisition costs, differences[4]	g (vii)	**4,507**	2,592
Value of business acquired, differences	g (viii)	**(68)**	(219)
Consumer notes fair value adjustment	g (xii)	**(22)**	29
Policy liabilities	g (vi), g (ix)	**(8,825)**	(3,725)
Commissions, investment and general expenses		**10**	14
Income taxes on above items[5]		**865**	491
Net income (loss) determined in accordance with U.S. GAAP		**$ (815)**	$ 3,230

(1)Bonds classified in 2008 as AFS for U.S. GAAP and fair value option ("FVO") for Canadian GAAP include net realized gains on U.S. GAAP of $678 and net unrealized and realized losses on Canadian GAAP of ($4,017).

(2)Stocks classified in 2008 as AFS for U.S. GAAP and FVO for Canadian GAAP include net realized losses on U.S. GAAP of ($1,023) and net unrealized and realized losses on Canadian GAAP of ($2,866).

(3)Cash flow hedge accounting on certain forward start interest rate derivatives not elected for Canadian GAAP but elected for U.S. GAAP.

(4)Deferred acquisition costs consist of $3,699 (2007 – $3,573) of expenditures that have been capitalized and ($808) of negative amortization (2007 – $981 expense).

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

d) Other comprehensive income reconciliation

For the years ended December 31,	2008	2007
Comprehensive income (loss) in accordance with Canadian GAAP	**$ 2,769**	$ 584
Difference in Canadian GAAP to U.S. GAAP net income (loss)	**(1,312)**	(999)
Difference in Canadian GAAP to U.S. GAAP other comprehensive income (loss):		
Changes in unrealized gains on available-for-sale financial securities, net of income tax benefit of $1,997 (2007 – $87)	**(4,267)**	5
Adjustments to net unrealized gains/(losses):		
Actuarial liabilities, net of income tax expense of $399 (2007 – $87)	**1,298**	(162)
Deferred acquisition costs, net of income tax expense of $156 (2007 – $3)	**351**	116
Deferred revenue, net of income tax benefit of $15 (2007 – income tax expense of $5)	**(27)**	10
Value of business acquired, net of income tax expense of $126 (2007 – income tax benefit of $25)	**237**	(46)
Changes in gains on derivative investments designated as cash flow hedges, net of income tax expense of $966 (2007 – income tax benefit of $6)	**1,459**	(29)
Additional pension obligation, net of income tax benefit of $413 (2007 – $18)	**(747)**	(34)
Changes in unrealized currency translation gains (losses) of self-sustaining operations, net of income tax benefit/expense of nil [1]	**(1,102)**	253
Total difference in other comprehensive income (loss)	**$(2,798)**	$ 113
Comprehensive income (loss) in accordance with U.S. GAAP	**$(1,341)**	$(302)

[1] Included a loss of ($748) (2007 – gain of $50), 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 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 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 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. On December 18, 2008, the Company declared effective a similar joint registration statement and the 2005 registration statement simultaneously expired.

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 restrictions related to dividends imposed by the ICA are described in note 19(i).

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 limitations are also described in note 19(i).

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.

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, 2008	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	**$ 23**	**$ 250**	**$ 57,734**	**$ 7,639**	**$ 135,390**	**$ (771)**	**$ 200,265**
Investments in unconsolidated subsidiaries	**28,913**	**10,670**	**4,166**	**239**	**3,292**	**(47,280)**	**–**
Other assets	**691**	**420**	**20,459**	**4,096**	**47,059**	**(16,991)**	**55,734**
Separate account assets	**–**	**–**	**10,551**	**6,508**	**131,433**	**–**	**148,492**
Total assets	**$ 29,627**	**$ 11,340**	**$ 92,910**	**$ 18,482**	**$ 317,174**	**$ (65,042)**	**$ 404,491**
Liabilities and equity							
Policy liabilities	**$ –**	**$ –**	**$ 60,882**	**$ 8,047**	**$ 120,651**	**$ (5,644)**	**$ 183,936**
Consumer notes	**–**	**–**	**1,959**	**–**	**–**	**–**	**1,959**
Other liabilities	**1,220**	**2,049**	**9,039**	**1,399**	**31,134**	**(7,320)**	**37,521**
Long-term debt	**3,300**	**407**	**–**	**–**	**593**	**(579)**	**3,721**
Liabilities for preferred shares and capital instruments	**342**	**–**	**582**	**–**	**5,169**	**(2,412)**	**3,681**
Non-controlling interest in subsidiaries	**–**	**–**	**–**	**–**	**495**	**(79)**	**416**
Separate account liabilities	**–**	**–**	**10,551**	**6,508**	**131,433**	**–**	**148,492**
Shareholders' equity	**24,765**	**8,884**	**9,897**	**2,528**	**27,699**	**(49,008)**	**24,765**
Total liabilities and equity	**$ 29,627**	**$ 11,340**	**$ 92,910**	**$ 18,482**	**$ 317,174**	**$ (65,042)**	**$ 404,491**

As at December 31, 2007							
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	–	–	11,699	7,855	144,065	(831)	162,788
Total assets	$ 27,530	$ 12,986	$ 82,072	$ 17,551	$ 288,421	$ (57,545)	$ 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	–	–	11,699	7,855	144,065	(831)	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	$ 82,072	$ 17,551	$ 288,421	$ (57,545)	$ 371,015

Condensed Consolidating Statements of Operations

For the year ended December 31, 2008	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	**$ –**	**$ –**	**$ (1,532)**	**$ 76**	**$ 15,507**	**$ (6)**	**$ 14,045**
Net investment income	**4**	**(27)**	**2,285**	**252**	**(1,091)**	**(103)**	**1,320**
Fee income and other revenue	**58**	**8**	**305**	**142**	**6,691**	**(952)**	**6,252**
Total revenue	**$ 62**	**$ (19)**	**$ 1,058**	**$ 470**	**$ 21,107**	**$ (1,061)**	**$ 21,617**
Policy benefits and expenses							
Policyholder benefits	**$ –**	**$ –**	**$ 298**	**$ 245**	**$ 17,236**	**$ (14)**	**$ 17,765**
Commissions, investment and general expenses	**12**	**(7)**	**903**	**45**	**4,545**	**(785)**	**4,713**
Amortization of deferred acquisition costs and value of business acquired	**–**	**–**	**43**	**(14)**	**(748)**	**(20)**	**(739)**
Other	**88**	**84**	**418**	**38**	**1,120**	**(242)**	**1,506**
Total policy benefits and expenses	**$ 100**	**$ 77**	**$ 1,662**	**$ 314**	**$ 22,153**	**$ (1,061)**	**$ 23,245**
Income (loss) before income taxes	**$ (38)**	**$ (96)**	**$ (604)**	**$ 156**	**$ (1,046)**	**$ –**	**$ (1,628)**
Income tax (expense) recovery	**(14)**	**34**	**265**	**(48)**	**576**	**–**	**813**
Income (loss) after income taxes	**$ (52)**	**$ (62)**	**$ (339)**	**$ 108**	**$ (470)**	**$ –**	**$ (815)**
Equity in net income of unconsolidated subsidiaries	**(763)**	**(230)**	**117**	**(2)**	**584**	**294**	**–**
Net income (loss)	**$ (815)**	**$ (292)**	**$ (222)**	**$ 106**	**$ 114**	**$ 294**	**$ (815)**

For the year ended December 31, 2007							
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	6,502	(448)	6,961
Total revenue	$ 108	$ 59	$ 6,827	$ 775	$ 22,856	$ (535)	$ 30,090
Policy benefits and expenses							
Policyholder benefits	$ –	$ –	$ 4,891	$ 397	$ 13,635	$ (13)	$ 18,910
Commissions, investment and general expenses	40	59	594	33	4,202	(378)	4,550
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	$ 19,820	$ (535)	$ 25,956
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

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2008	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 (loss)	$ (815)	$ (292)	$ (222)	$ 106	$ 114	$ 294	$ (815)
Adjustments for non-cash items in net income:							
Equity in net income of unconsolidated subsidiaries	763	230	(117)	2	(584)	(294)	–
Increase in actuarial liabilities and policy related items	–	–	2,455	(347)	7,996	–	10,104
Net realized investment gains and other investment items	6	39	516	71	6,335	–	6,967
Capitalized amounts net of amortization of deferred acquisition costs and value of business acquired	–	–	(219)	(95)	(4,124)	–	(4,438)
Amortization of premium/discount	–	–	181	20	340	–	541
Other amortization	–	(4)	59	8	299	–	362
Future income tax expense (recovery)	5	4	(356)	78	(861)	–	(1,130)
Stock option expense	–	–	2	–	22	–	24
Non-controlling interest in subsidiaries	–	–	–	–	14	–	14
Net income (loss) adjusted for non-cash items	$ (41)	$ (23)	$ 2,299	$ (157)	$ 9,551	$ –	$ 11,629
Change in other operating assets and liabilities	84	(232)	274	249	(1,042)	–	(667)
Cash provided by (used in) operating activities	$ 43	$ (255)	$ 2,573	$ 92	$ 8,509	$ –	$ 10,962
Investing activities							
Purchase and mortgage advances	$ –	$ –	$ (7,732)	$ (720)	$ (41,115)	$ –	$ (49,567)
Disposals and repayments	–	–	10,145	945	30,769	–	41,859
Changes in investment broker net receivables and payables	–	–	3	–	15	–	18
Subscription of preferred shares issued by a subsidiary	(704)	–	–	–	704	–	–
Net cash increase from purchase of subsidiary	–	–	–	–	(16)	–	(16)
Capital contribution to unconsolidated subsidiary	–	(509)	–	(86)	–	595	–
Dividends from unconsolidated subsidiary	2,150	1,218	31	–	–	(3,399)	–
Cash (used in) provided by investing activities	$ 1,446	$ 709	$ 2,447	$ 139	$ (9,643)	$ (2,804)	$ (7,706)
Financing activities							
Decrease in securities sold but not yet purchased	$ –	$ –	$ –	$ –	$ 1,046	$ –	$ 1,046
Issue of long-term debt	3,916	–	–	–	–	–	3,916
Repayment of long-term debt	(1,000)	(206)	(3)	–	(402)	–	(1,611)
Dividends paid to parent	2,438	(3,020)	(1,073)	(31)	440	1,246	–
Return of capital to parent	–	595	–	–	–	(595)	–
Net redemptions of structured products	–	–	(4,276)	134	(1,502)	–	(5,644)
Bank deposits, net	–	–	–	–	2,134	–	2,134
Capital from joint venture partner	–	–	–	–	–	–	–
Consumer notes reedemed, net	–	–	(703)	–	–	–	(703)
Shareholder dividends	(1,524)	–	–	–	(2,150)	2,150	(1,524)
Notes payable to subsidiary	(737)	–	–	–	–	737	–
Notes receivable from subsidiary	(172)	–		–	–	172	–
Notes payable to parent	–	–	–	–	172	(172)	–
Notes receivable from parent	–	–			737	(737)	–
Notes payable to affiliates	841	766	(115)	–	(839)	(653)	–
Notes receivable from affiliates	(2)	965	49	–	(1,668)	656	–
Funds repaid, net	–	–	–	–	34	–	34
Purchase and cancellation of common shares	(403)	–	–	–	–	–	(403)
Preferred shares issued (redeemed) by a subsidiary	(10)	–	–	–	10	–	–
Common shares issued, net	(3,646)	–	–	–	5,900	–	2,254
Capital contribution by parent	(1,167)	–	–	–	1,167	–	–
Cash (used in) provided by financing activities	$ (1,466)	$ (900)	$ (6,121)	$ 103	$ 5,079	$ 2,804	$ (501)
Cash and short-term securities							
Increase (decrease) during the year	$ 23	$ (446)	$ (1,101)	$ 334	$ 3,945	$ –	$ 2,755
Currency impact on cash and short-term securities	–	104	526	20	1,488	–	2,138
Balance, January 1	–	585	2,809	80	8,513	–	11,987
Balance, December 31, 2008	$ 23	$ 243	$ 2,234	$ 434	$ 13,946	$ –	$ 16,880
Cash and short-term securities January 1							
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, January 1	$ –	$ 585	$ 2,809	$ 80	$ 8,513	$ –	$ 11,987
End of year							
Gross cash and short-term securities	$ 23	$ 243	$ 2,396	$ 447	$ 14,250	$ –	$ 17,359
Net payments in transit, included in other liabilities	–	–	(162)	(13)	(304)	–	(479)
Net cash and short-term securities, December 31, 2008	$ 23	$ 243	$ 2,234	$ 434	$ 13,946	$ –	$ 16,880

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 actuarial liabilities and policy related items	–	–	2,394	131	7,488	–	10,013
Net realized investment gains and other investment items	–	–	(125)	(9)	(1,358)	–	(1,492)
Capitalized amounts net of amortization of deferred acquisition costs and value of business acquired	–	–	(56)	(50)	(2,265)	–	(2,371)
Amortization of premium/discount	–	–	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	(342)	–	717
Cash provided by operating activities	$ 134	$ 8	$ 4,389	$ 331	$ 6,400	$ –	$ 11,262
Investing activities							
Purchase and mortgage advances	$ (35)	$ –	$ (9,084)	$ (1,270)	$ (42,920)	$ –	$ (53,309)
Disposals and repayments	–	–	12,223	968	39,554	–	52,745
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)	$ (3,354)	$ (667)	$ (504)
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 reedemed, net	–	–	(434)	–	–	–	(434)
Shareholder dividends	1,329	–	–	–	(2,705)	5	(1,371)
Notes payable to subsidiary	700	–	–	–	–	(700)	–
Notes receivable from parent	–	–	–	–	(700)	700	–
Notes receivable from affiliates	–	(218)	(1)	–	127	92	–
Notes payable to affiliates	14	271	(24)	–	(169)	(92)	–
Funds repaid, net	–	–	–	–	(10)	–	(10)
Purchase and cancellation of common shares	(2,245)	–	–	–	–	–	(2,245)
Common shares issued, net	114	–	15	–	1	–	130
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)
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

f) Derivative instruments 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 Canadian GAAP. 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 hedged items. These differences create reconciling items between Canadian GAAP and U.S. GAAP.

Under U.S. GAAP the Company has entered into hedge accounting relationships 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 OCI and reclassified into income in the same period or periods during which the hedged transaction affects earnings. The Company estimates that deferred net losses of $18, included in AOCI as at December 31, 2008 (2007 – gains of $17), 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	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. Impairment charges are recorded on AFS bonds for other than temporary declines in fair value due to changes in issuer credit.	Bonds and other fixed maturity investments 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. 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	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) Private placements and other fixed maturity investments	Private placement and other fixed maturity investments include fixed income securities and private placement loans for which prices quoted in active markets are not available, as well as investments in leveraged leases. Private placement loans and leveraged leases are carried at cost less allowance for impairments, if any.	Private placements and other fixed maturity investments include investments in leveraged leases which are accounted for at amortized cost, less allowance for impairments, if any. Investments in private placement loans are categorized as bonds and other fixed maturity investments under U.S. GAAP.
(iv) 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.
(v) 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.

	Canadian GAAP	U.S. GAAP
(vi) Policy liabilities	Actuarial liabilities for all types of policies are calculated using 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. 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. The term of the liability used in the valuation may be shorter than the ultimate contractual maturity. 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: 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. 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. In addition, Statement of Position 03-1, “Accounting and Reporting by Insurance Enterprises for Certain Nontraditional 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.

	Canadian GAAP	U.S. GAAP
(vi) Policy liabilities (continued)		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. 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 AFS 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. 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. 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.
(vii) 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. 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. 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 AFS bonds and stocks had actually been realized. These amounts are recorded in OCI.

	Canadian GAAP	U.S. GAAP
(viii) 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. Changes to VOBA that would have been necessary had unrealized gains and losses on AFS bonds and stocks had actually been realized are recorded in OCI.
(ix) 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 included in other liabilities and is amortized to fee income in the same pattern as the amortization of the DAC asset. Changes to deferred revenue that would have been necessary had unrealized gains and losses on AFS bonds and stocks actually been realized are recorded in OCI.
(x) 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. 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.
(xi) Derivatives	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. 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. 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 AFS 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.
(xii) Consumer notes	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.	Consumer notes are carried at amortized cost.

	Canadian GAAP	U.S. GAAP
(xiii) 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 OCI. 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. 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. 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.
(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. 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 Statements of Cash Flows.

	Canadian GAAP	U.S. GAAP
(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) 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 genera 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.
(ix) 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.

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.

Transition to International Financial Reporting Standards

On December 21, 2007, the United States Securities and Exchange Commission approved rule amendments that will allow the Company, subject to certain conditions, upon adoption of IFRS on January 1, 2011, to eliminate the reconciliation to U.S. GAAP in the notes to the consolidated financial statements. Accordingly, for fiscal periods beginning January 1, 2011, the Company no longer expects to include a reconciliation to U.S. GAAP in its consolidated financial statements.

j) Recent U.S. GAAP Accounting and Reporting Changes

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.

On January 1, 2008, the Company elected to adopt SFAS 159, for certain bonds previously classified as AFS which back certain actuarial liabilities to participating policyholders. The actuarial liabilities in these products are marked to market through earnings based on fluctuations in the fair value of the underlying bonds. The adoption of SFAS 159 resulted in an adjustment to retained earnings of $4, net of tax as of January 1, 2008.

Fair value measurements

FASB's Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"), establishes a framework for the measurement and disclosure of fair value under U.S. GAAP. SFAS 157 was effective for the Company's financial statements on January 1, 2008. No adjustments to opening retained earnings were required by the Company on adoption. The impact of changing valuation methods to comply with SFAS 157 resulted in adjustments to actuarial liabilities, which were recorded as an increase in net income of $68, net of tax, on January 1, 2008.

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 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.

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 23 ^ Subsequent Event

On March 4, 2009, MFC issued 18 million Class A Preferred Shares, Series 4 ("Series 4 Preferred Shares") at a price of $25 per share, for an aggregate amount of $450. The Series 4 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a per annum rate of 6.6% until June 19, 2014, after which the dividend rate will be reset every five years at a rate equal to the five year Government of Canada bond yield plus 4.56%. On June 19, 2014 and on June 19 every five years thereafter, the Series 4 Preferred Shares will be convertible at the option of the holder into Class A Preferred Shares, Series 5 ("Series 5 Preferred Shares"). The Series 5 Preferred Shares are entitled to non-cumulative preferential cash dividends, payable quarterly, if and when declared, at a rate equal to the three month Government of Canada Treasury Bill yield plus 4.56%.

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 26, 2009

/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 26, 2009

/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, 2008, 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 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 26, 2009

/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, 2008, 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 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 26, 2009

/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 17, 2009, with respect to the consolidated financial statements of Manulife Financial Corporation, included in the 2008 Annual Report (Form 40-F) of Manulife Financial Corporation and the effectiveness of internal control over financial reporting of Manulife Financial Corporation as at December 31, 2008.

We consent to the incorporation by reference of our Independent Auditors' Reports 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. 333-157326) of Manulife Financial Corporation pertaining to the Stock Plan for Non-Employee Directors, Executive Stock Option Plan and 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. 333-155649 and 333-155649-01) 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.



Toronto, Canada
March 26, 2009

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, 2008 of my Appointed Actuary's Report to the Shareholders and Directors dated March 17, 2009 (the "Report"), relating to the valuation of the policy liabilities of the Company for its Consolidated Balance Sheets as at December 31, 2008 and 2007 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 26, 2009

Business of the Annual and Special 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, 2008, together with the reports of the auditor and the actuary on those statements.

2. Election 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, with the exception of Donald Guloien, 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 2010.

Directors' attendance at Board and committee meetings held in 2008 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 2009 fiscal year. Ernst & Young LLP has served as the Company's auditor for more than five years. For 2008, fees charged by Ernst & Young LLP to the Company and its subsidiaries were $21.9 million, compared with $20.8 million in 2007.

	Year ended December 31, 2008 ($ in millions)	Year ended December 31, 2007 ($ in millions)
Audit fees[1]	$ 21.1	$ 19.8
Audit-related fees[2]	0.7	0.5
Tax fees[3]	0.1	0.5
All other fees	—	—
Total	**$ 21.9**	**$ 20.8**

1 Includes the annual audit, *Sarbanes-Oxley Act of 2002* ("SOX") attestation, reviews of quarterly reports, statutory audits and regulatory filings.
2 Includes review of product filing registration statements and due diligence in connection with proposed or consummated acquisitions.
3 Includes tax compliance, tax planning and tax advice services.

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. Confirmation of Amendments to By-Law No. 2 Creating Class 1 Shares
On February 25, 2009, the Board of Directors approved amendments to By-Law No. 2 of the Company (referred to in By-Law No. 2 as the "Corporation") to create a new class of shares designated as "Class 1 Shares". The new Class 1 Shares would rank *pari passu* with the existing Class A Shares and senior to the existing Class B Shares. The Company has four series of Class A Shares outstanding, and has authorized but not issued a fifth series of Class A Shares. The Company has not issued any Class B Shares. The new Class 1 Shares provide additional flexibility for the Company to create future series of preferred shares with different rights from those under the existing series.

The amendments approved by the Board of Directors are as follows:

"1. By-law No. 2 of the Corporation is hereby amended to create a new class of shares to be designated as "Class 1 Shares" (the "Class 1 Shares"), such shares to be unlimited in number and issuable in series and to have rights, privileges, restrictions and conditions in the form of the rights, privileges, restrictions and conditions presented to the board of directors of the Corporation, as contained in Schedule A attached to this resolution;

2. section 1.1 of By-law No. 2 of the Corporation is hereby amended by adding the following definition after the definition of "Cancellation Time":

   "Class 1 Shares" means the Class 1 Shares of any series in the capital of the Corporation, without nominal or par value, now existing or hereafter created;"

3. section 2.1 of By-law No. 2 of the Corporation is hereby deleted in its entirety and the following is substituted therefor:

   "2.1 Authorized Capital
   The authorized capital of the Corporation shall consist of an unlimited number of Class A Shares issuable in series, an unlimited number of Class B Shares issuable in series, an unlimited number of Class 1 Shares issuable in series and an unlimited number of Common Shares."

4. By-law No. 2 of the Corporation is hereby amended to add a new section 7 setting forth the rights, privileges, restrictions and conditions of the Class 1 Shares;

5. the submission of the foregoing amendments to By-law No. 2 of the Corporation to the shareholders of the Corporation entitled to vote thereon for approval at the next meeting of shareholders of the Corporation is hereby authorized and approved; and

6. the proper officers of the Corporation are hereby authorized to sign and deliver for and on behalf of the Corporation all such documents and instruments and to do all such other acts and things as may be necessary or desirable to give effect to the foregoing resolutions.

SCHEDULE A
CLASS 1 SHARES

The Class 1 Shares shall have attached thereto the following rights, privileges, restrictions and conditions:

1.1 Directors' Right to Issue in One or More Series
The Class 1 Shares may be issued at any time or from time to time in one or more series. Before any shares of a series are issued, the Board of Directors of the Corporation 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 the Corporation or in the Act, determine the designation, rights, privileges, restrictions and conditions to be attached to the Class 1 Shares of such series, the whole subject to the filing with the Office of the Superintendent of Financial Institutions (Canada) of the particulars of such series, including the rights, privileges, restrictions and conditions determined by the Board of Directors of the Corporation.

1.2 Ranking of Class 1 Shares

Each Series of Class 1 Shares shall rank on a parity with every other series of Class 1 Shares and every series of Class A Shares with respect to dividends and return of capital. The Class 1 Shares shall be entitled to a preference over the Class B Shares, the Common Shares and any other shares ranking junior to the Class 1 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 the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the specific purpose of winding-up its affairs. If any cumulative dividends, whether or not declared, or declared non-cumulative dividends or amounts payable on return of capital are not paid in full in respect of any series of Class 1 Shares, the Class 1 Shares and Class A Shares of all series shall participate rateably in respect of such dividends in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of such return of capital in accordance with the sums that would be payable on such return of capital if all sums so payable were paid in full; provided, however, that if there are insufficient assets to satisfy in full all such claims as aforesaid, the claims of the holders of the Class 1 Shares and Class A Shares with respect to return of capital shall be paid and satisfied first and any assets remaining thereafter shall be applied towards the payment and satisfaction of claims in respect of dividends. The Class 1 Shares of any series may also be given such other preferences not inconsistent with the rights, privileges, restrictions and conditions attached to the Class 1 Shares as a class over the Class B Shares, the Common Shares and any other shares ranking junior to the Class 1 Shares as may be determined in the case of such series of Class 1 Shares.

1.3 Voting Rights

Except as hereinafter referred to or as required by law, holders of Class 1 Shares will not be entitled as such to receive notice of or to attend or to vote at any meeting of shareholders of the Corporation unless and until the first time at which the Board of Directors has not declared the dividend in full on the shares of one or more series of Class 1 Shares in respect of a particular period specified for the payment of dividends in the rights, privileges, restrictions and conditions attached to such series. In that event, the holders of such series will be entitled to receive notice of and to attend only meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share of such series held at such meetings, but only in respect of the election of directors voting together with all other shareholders of the Corporation who are entitled to vote at such meetings, and the holders of such series will not be entitled to vote in respect of any other business conducted at such meetings (the "Voting Rights"). The Voting Rights of the holders of any such series will cease on payment by the Corporation of the first dividend on that series to which the holders thereof are entitled under the rights, privileges, restrictions and conditions attached to such series after the time the Voting Rights first arose in respect of such series, until such time as the Corporation may again fail to declare the dividend in full on such series in any period specified for the payment of dividends in the rights, privileges, restrictions and conditions attached to such series, in which event the Voting Rights will become effective again and so on from time to time.

1.4 Constrained Shares

(a) The Corporation shall not issue or allot any Class 1 Shares to any person, or any entity controlled by a person, the Corporation shall refuse to allow the entry in the securities register of the Corporation of an issue or transfer of any Class 1 Shares to any person, or any entity controlled by a person, and no person or any entity controlled by a person, shall purchase or otherwise acquire any Class 1 Shares, if such issue, transfer or purchase or other acquisition would cause the person to have a significant interest in the Class 1 Shares. No person who has a significant interest in any class of shares of the Corporation, or entity controlled by a person who has a significant interest in any class of shares of the Corporation, shall, in person or by proxy, exercise any voting rights attached to Class 1 Shares beneficially owned by, or that are subject to agreement pertaining to the exercise of voting rights entered into by, that person or entity. In accordance with the authority granted to the Corporation's Directors under the Act and the Regulations, the Directors of the Corporation are hereby authorized to make such arrangements as the Directors deem necessary to carry out the intent of the purchase or other acquisition, issue, transfer and voting restrictions contained in the Act, the Regulations and the by-laws.

(b) If the purchase or other acquisition, issue, transfer or voting of any Class 1 Shares would be permitted under the Act and the Regulations, notwithstanding the provisions of subsection 1.4(a), the Directors are hereby authorized, in their discretion, to permit by resolution of the Directors, any such purchase or other acquisition, issue, transfer or exercise of voting rights with respect to such Class 1 Shares.

(c) Subject to subsection 1.4(d), if, after the date of incorporation of the Corporation, the Share Constraint Regime is amended, replaced or deleted, such that the provisions of the subsection 1.4(a) are inconsistent with the Share Constraint Regime resulting from such amendment, replacement or deletion, then the Directors are hereby authorized to amend, replace or delete subsection 1.4(a) such that it will be consistent with the Share Constraint Regime then in effect. The action of the Board of Directors to amend, replace or delete subsection 1.4(a) shall be by resolution of the Board of Directors and such amendment, replacement or deletion of subsection 1.4(a) shall be effective without the approval of the holders of any of the Class 1 Shares, the Class A Shares, the Class B Shares or the Common Shares. Promptly following any amendment, replacement or deletion of subsection 1.4(a) by the Directors, the Corporation shall give notice to the holders of the Class 1 Shares of the amendment, replacement or deletion thereto.

(d) If, after the date of incorporation of the Corporation, the Share Constraint Regime is amended or replaced and the Share Constraint Regime then in effect allows the Corporation to determine the application to it and its shareholders of all or any part of such Share Constraint Regime then the provisions of subsection 1.4(a) may only be amended or replaced with approval of the holders of the Class 1 Shares, the Class A Shares, the Class B Shares and the Common Shares as provided in the Act.

1.5 Amendment With Approval of Holders of Class 1 Shares
The rights, privileges, restrictions and conditions attached to the Class 1 Shares as a class may be added to, changed or removed but only with the approval of the holders of the Class 1 Shares given as hereinafter specified.

1.6 Approval of Holders of Class 1 Shares
The approval of the holders of the Class 1 Shares to add to, change or remove any rights, privilege, restriction or condition attaching to the Class 1 Shares as a class or in respect of any other matter requiring the consent of the holders of the Class 1 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 the Class 1 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 the Class 1 Shares duly called for that purpose. Notwithstanding anything else in this Section 1, the approval of the holders of the Class 1 Shares, voting separately as a class or series, is not required on a proposal to amend the by-laws of the Corporation to:

(a) increase or decrease the maximum number of authorized Class 1 Shares, or increase the maximum number of authorized shares of a class of shares having rights or privileges equal or superior to the Class 1 Shares;

(b) effect the exchange, reclassification or cancellation of all or any part of the Class 1 Shares; or

(c) create a new class of shares equal to or superior to the Class 1 Shares.

The formalities to be observed with respect to the giving of notice of any such meeting or any continuation of an adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the Act as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of the Corporation with respect to meetings of shareholders. On every poll taken at every meeting of the holders of the Class 1 Shares as a class, or at any joint meeting of the holders of two or more series of Class 1 Shares, each holder of Class 1 Shares entitled to vote thereat shall have one vote in respect of each Class 1 Share held.

1.7 Notice to holders of Class 1 Shares
Any notice, cheque, notice of redemption or other communication from the Corporation herein provided for shall be sent to the holders of the Class 1 Shares by first class mail, postage prepaid at their respective addresses appearing on the securities register of the Corporation or, in the event of the address of any such holder not so appearing, then at the last address of such holder known to the Corporation. Accidental failure to give any such notice, notice of redemption or other communication to one or more holders of Class 1 Shares shall not affect the validity thereof, but, upon such failure being discovered, a copy of the notice, notice of redemption or other communication, as the case may be, shall be sent or delivered forthwith to such holder or holders. Unless otherwise provided herein, any notice, request, certificate, or other communication from a holder of Class 1 Shares herein provided for shall be either sent to the Corporation by first class mail, postage prepaid, or delivered by hand to the Corporation at its registered office."

To be effective, this amendment must be confirmed by special resolution of the shareholders. This special resolution requires the affirmative vote of not less than two-thirds of the votes cast by holders of common shares present in person or represented by proxy. The Board of Directors recommends that shareholders vote in favour of this special resolution.

Special Resolution of Holders of Common Shares Confirming Amendments to By-Law No. 2 Creating Class 1 Shares

RESOLVED THAT:

1. The amendments to By-Law No. 2 of the Company creating a new class of shares designated as "Class 1 Shares" approved by the Board of Directors on February 25, 2009 are hereby confirmed.
2. The proper officers of the Company are hereby authorized to sign and deliver for and on behalf of the Company all such documents and instruments and to do all such other acts and things as may be necessary or desirable to give effect to the foregoing resolution.

5. Shareholder Proposals
The shareholder proposals submitted for consideration by the shareholders at the Meeting are included in Schedule "C".

Note: All figures reported in this Proxy Circular are in Canadian currency, unless otherwise indicated.

Board Renewal and Director Selection

The Board of Directors commenced a renewal process (as disclosed in last year's proxy circular), to nominate candidates to replace several Directors who will retire over the next four years, having reached the mandatory retirement age of 72. The Corporate Governance and Nominating Committee (the "Governance Committee"), in actively managing the renewal process, considered this an opportune time to engage in a complete review of the Director selection criteria to identify the ideal size and competencies that should be represented on a board of directors of a major global financial services organization. To ensure the smooth transition from the retiring Directors, including maintaining critical competencies, the size of the Board may temporarily increase to allow new Directors to be elected to the Board prior to the retirements being effective.

Due to the forthcoming vacancies, the increased complexity of the Company's business and the current market, the Board of Directors is developing new selection criteria for director nominees, which will allow the Board over the next four years to: (i) have the flexibility to move quickly if excellent individuals meeting any of the requirements become available; (ii) deliberately recruit against these specifications; and (iii) use these requirements to prioritize and select potential candidates who may come to the Company through merger and acquisition activity.

In addition to having the basic characteristics of integrity, good judgment, financial knowledge, and sufficient time available, the Governance Committee recommended that new nominees have experience in such areas as Risk Management, Investments and Pan-Asia operations or governance. (See the Board Policies in Schedule "B" for the Director Succession and Selection Criteria and the mandatory retirement age policy.) The Governance Committee will retain one or more executive search firms, to assist in identifying qualified candidates who meet the revised selection criteria.

Two Directors will not be seeking re-election to the Board. Arthur Sawchuk retired on October 1, 2008 and his successor, Gail Cook-Bennett, was appointed as Chair of the Board on October 2, 2008. Dominic D'Alessandro will be retiring from his position as President and Chief Executive Officer in May 2009. Following an extensive succession planning process, the Board has selected Donald Guloien, Senior Executive Vice President and Chief Investment Officer to succeed Dominic D'Alessandro as President and Chief Executive Officer.

The Directors' Matrix below is a combination of the previous and the revised selection criteria and reflects the current strengths of the Board as a whole.

Board of Directors' Matrix

Skills and Experience	John Cassaday	Lino Celeste	Gail Cook-Bennett	Donald Guloien	Thomas d'Aquino	Richard DeWolfe	Robert Dineen	Pierre Ducros	Scott Hand	Robert Harding	Luther Helms	Thomas Kierans	Lorna Marsden	Hugh Sloan	Gordon Thiessen
Senior Executive[1]	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Other Directorships[2]	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Public Sector[3]		■	■		■							■	■	■	■
Financial/Risk Management Experience	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Global Financial Services Executive, Knowledge of Investment Management			■	■						■		■			■
Non-Canadian (Asia, U.S. Operations/ Governance)	■		■	■	■	■	■		■	■	■			■	
Information Technology						■		■							
Marketing	■			■		■					■			■	

1 Any senior officer or Chair of the Board of a major organization.
2 Director of a major organization (public, private, non-profit).
3 Including a Crown Corporation, educational institution, or any non-public, non-private organization.

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



Gail C.A. Cook-Bennett
Age: 68
Toronto, ON Canada
Director Since[1]: 1978
Independent[2]

Gail Cook-Bennett was appointed Chair of the Board on October 2, 2008. Gail Cook-Bennett is past Chair of the Canada Pension Plan Investment Board, an investment management organization that invests the Canada Pension Plan fund to help pay the benefits of 17 million Canadians who participate in the Plan, a position she held since 1998. Gail Cook-Bennett holds a BA (Honours) from Carleton University and a PhD (Economics) from the University of Michigan. She is a Member of the Order of Canada. 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:	Overall Attendance[3]:	100%
Board of Directors	13 of 13	100%
Corporate Governance & Nominating (Chair)[4]	6 of 6[4]	100%
Management Resources & Compensation	2 of 2[4]	100%

Public Board Membership During Last Five Years:	
Emera Inc.	2004 – Present
Petro-Canada[5]	1991 – Present
Transcontinental Inc.	1998 – 2004

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	15,000	8,831	23,831	$328,868	$300,000
2008	15,000	8,546	23,546	$841,299	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Donald A. Guloien
Age: 51
Toronto, ON Canada
Not Independent – Management

Donald Guloien, a 28-year veteran of Manulife, will succeed Dominic D'Alessandro upon his election as President and Chief Executive Officer on May 7, 2009. Mr. Guloien started his career at Manulife as a Senior Research Analyst, Corporate Planning and is currently Senior Executive Vice President and Chief Investment Officer, a position he has held since 2001. He is also Chairman and CEO of MFC Global Investment Management. Mr. Guloien holds a Bachelor of Commerce from the University of Toronto. He is a former board member of Elliott & Page Limited, the Children's Aid Society Foundation, Think First Foundation of Canada, the Governing Council of the University of Toronto and LIMRA International. Mr. Guloien is a member of the Young Presidents' Organization and is actively involved with the Rotman School of Management. He is a 1998 recipient of the Arbor Award for his contributions to the University of Toronto.

Public Board Membership During Last Five Years:

Seamark Asset Management Ltd.	2001 – 2006

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	123,720	160,686	284,406	$3,924,803	See Executive Share Ownership Guidelines (page 27)

Options Held: See "Statement of Executive Compensation" Section



John M. Cassaday
Age: 55
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 St. Michael's Hospital.

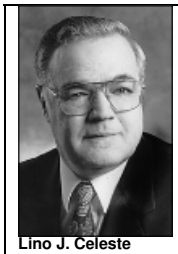
Board/Committee Membership:	Overall Attendance[3]:	100%
Board of Directors	13 of 13	100%
Corporate Governance & Nominating	6 of 6	100%
Management Resources & Compensation	4 of 4[10]	100%

Public Board Membership During Last Five Years:	
Corus Entertainment Inc.	1999 – Present
Sysco Corporation	2004 – Present
Loblaw Companies Limited	1997 – 2004
Masonite International Corporation	1992 – 2005

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	40,000	34,751	74,751	$1,031,564	$300,000
2008	40,000	28,368	68,368	$2,442,789	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Lino J. Celeste
Age: 71
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:	Overall Attendance[3]: 100%		Public Board Membership During Last Five Years:	
Board of Directors	13 of 13	100%	None	
Audit & Risk Management	6 of 6	100%		
Conduct Review & Ethics	3 of 3	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	12,600	19,022	31,622	$436,384	$300,000
2008	12,600	15,655	28,255	$1,009,551	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Thomas P. d'Aquino
Age: 68
Ottawa, ON Canada
Director Since[1]: 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 Doctor of Laws honorary degree from Queen's University and Wilfrid Laurier University. Mr. d'Aquino has served as Special Assistant to the Prime Minister of Canada and a Professor Adjunct on the law of international business transactions. As well as CEO, he is the CCCE's chief policy officer and strategist responsible for fiscal, taxation, competitiveness, international trade and environmental issues. 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:	Overall Attendance[3]: 95%		Public Board Membership During Last Five Years:	
Board of Directors	12 of 13	92%	CGI Inc.	2006 – Present
Audit & Risk Management	4 of 4[10]	100%		
Conduct Review & Ethics	2 of 2[10]	100%		
Management Resources & Compensation	2 of 2[10]	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	6,190	17,330	23,520	$324,576	$300,000
2008	6,190	11,454	17,644	$630,420	

Options Held (Director option grants discontinued in 2004): Nil



Richard B. DeWolfe[11]
Age: 65
Westwood, MA U.S.A.
Director Since[1]: 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 previously 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:	Overall Attendance[3]: 100%		Public Board Membership During Last Five Years:	
Board of Directors	13 of 13	100%	Avantair, Inc.	2009 – Present
Audit & Risk Management (Chair)	6 of 6	100%	John Hancock Financial Services, Inc.	2002 – 2004
Conduct Review & Ethics	3 of 3	100%		
Corporate Governance & Nominating	1 of 1[12]	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	14,000	29,992	43,992	$607,090	$300,000
2008	14,000	21,424	35,424	$1,265,700	

Options Held (Director option grants discontinued in 2004): Nil



Robert E. Dineen, Jr.
Age: 68
New York, NY U.S.A.
Director Since[1]: 1999
Independent[2]

Robert Dineen was 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:	Overall Attendance[3]: 100%		Public Board Membership During Last Five Years:	
Board of Directors	13 of 13	100%	Nova Chemicals Corporation	1998 – Present
Audit & Risk Management	6 of 6	100%		
Conduct Review & Ethics	3 of 3	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	29,000	33,513	62,513	$862,679	$300,000
2008	29,000	32,429	61,429	$2,194,858	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Pierre Y. Ducros
Age: 69
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:	Overall Attendance[3]: 86%		Public Board Membership During Last Five Years:	
Board of Directors	11 of 13	85%	Rona Inc.	2005 – Present
Corporate Governance & Nominating	4 of 5[12]	80%	Telus	2005 – Present
Management Resources & Compensation	4 of 4[10]	100%	Cognos Incorporated[13]	1986 – 2008
			Emergis Inc.	1998 – 2008
			eNGENUITY Technologies Inc.	2002 – 2005
			Nstein Technologies Inc.	2002 – 2006

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	55,600	31,920	87,520	$1,207,776	$300,000
2008	55,600	28,310	83,910	$2,998,104	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Scott M. Hand
Age: 66
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 is also a member of the board of directors of the World Wildlife Fund Canada. Mr. Hand received a BA from Hamilton College and a JD from Cornell University.

Board/Committee Membership:	Overall Attendance[3]: 95%		Public Board Membership During Last Five Years:	
Board of Directors	12 of 13	92%	Fronteer Development Group Inc.	2007 – Present
Audit & Risk Management	2 of 2[10]	100%	Inco Limited	1991 – 2007
Conduct Review & Ethics	1 of 1[10]	100%	Independence Community Bank Corp.	1987 – 2006
Management Resources & Compensation	4 of 4[10]	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement by 2012[9]
2009	30,000	3,918	33,918	$468,068	$300,000
2008	20,000	1,242	21,242	$758,977	

Options Held (Director option grants discontinued in 2004): Nil



Robert J. Harding
Age: 51
Toronto, ON Canada
Director Since[1]: 2008
Independent[2]

Robert Harding is Chairman of Brookfield Asset Management Inc., a position he has held since 1997. He has held various executive positions with Brookfield (and its predecessor companies) since 1984, including Chief Financial Officer and President and Chief Executive Officer. In his role as Chairman, Mr. Harding represents Brookfield's interests on the boards of its various affiliates as a director and Chairman of Norbord Inc. and as a director of Fraser Papers Inc. and Western Forest Products Limited. Brookfield Asset Management is a specialist asset management company focused on property, power and other infrastructure assets. Mr. Harding holds a B. Mathematics and a Doctor of Laws honorary degree from the University of Waterloo and is a Fellow of the Institute of Chartered Accountants. He is Chair of the Board of Governors of the University of Waterloo, Chair of the Board of Trustees for the United Way of Greater Toronto, a member of the Board of Trustees for the Hospital for Sick Children and a trustee for the Art Gallery of Ontario.

Board/Committee Membership:	Overall Attendance[3]: 86%		Public Board Membership During Last Five Years:	
Board of Directors	2 of 3[14]	67%	Brookfield Asset Management Inc.	1992 – Present
Audit & Risk Management	3 of 3[14]	100%	Fraser Papers Inc.	2004 – Present
Conduct Review & Ethics	1 of 1[14]	100%	Norbord Inc.	1998 – Present
			Western Forest Products Inc.	2006 – Present
			BPO Properties Inc.	1999 – 2004
			Burlington Resources Inc.	2002 – 2006
			Falconbridge Ltd.	2000 – 2005
			Noranda Inc.	1995 – 2005

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement by 2013[9]
2009	16,000	2,027	18,027	$248,773	$300,000

Options Held (Director option grants discontinued in 2004): Nil



Luther S. Helms
Age: 65
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 was 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:	Overall Attendance[3]: 100%		Public Board Membership During Last Five Years:	
Board of Directors	13 of 13	100%	ABM Industries Incorporated	1995 – Present
Audit & Risk Management	6 of 6	100%		
Conduct Review & Ethics	3 of 3	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement by 2012[9]
2009	2,100	9,086	11,186	$154,367	$300,000
2008	2,100	2,610	4,710	$168,288	

Options Held (Director option grants discontinued in 2004): Nil



Thomas E. Kierans[15]
Age: 68
Toronto, ON Canada
Director Since[1]: 1990
Independent[2]

Thomas Kierans is Chair of Council and Vice President of the 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:	Overall Attendance[3]: 96%		Public Board Membership During Last Five Years:	
Board of Directors	12 of 13	92%	Petro-Canada[5]	1991 – Present
Audit & Risk Management	6 of 6	100%	BCE Inc.	1999 – 2004
Conduct Review & Ethics (Chair)	3 of 3	100%	Inmet Mining Corporation	1996 – 2004
Corporate Governance & Nominating	6 of 6	100%	Telesat Canada	1999 – 2004

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	61,376	0	61,376	$846,989	$300,000
2008	61,376	0	61,376	$2,192,964	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Lorna R. Marsden
Age: 67
Toronto, ON Canada
Director Since[1]: 1995
Independent[2]

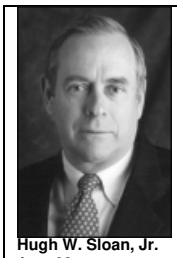
Lorna Marsden is President Emerita and Professor of York University. Prior to her retirement in May 2007, she was President and Vice-Chancellor and a member of the Board of Governors of York University. Dr. Marsden was President and Vice-Chancellor of Wilfrid Laurier University and served as a member 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 private and non-profit organizations. Dr. Marsden was appointed to the Order of Ontario in 2009.

Board/Committee Membership:	Overall Attendance[3]: 100%		Public Board Membership During Last Five Years:	
Board of Directors	13 of 13	100%	SNC-Lavalin Group Inc.	2006 – Present
Management Resources & Compensation	6 of 6	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	38,664	17,529	56,193	$775,463	$300,000
2008	38,664	14,455	53,119	$1,897,942	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Hugh W. Sloan, Jr.
Age: 68
Bloomfield Village, MI U.S.A.
Director Since[1]: 1985
Independent[2]

Hugh Sloan is Retired 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:	Overall Attendance[3]: 100%		Public Board Membership During Last Five Years:	
Board of Directors	13 of 13	100%	Spartan Motors, Inc.	2007 – Present
Corporate Governance & Nominating	6 of 6	100%	Wescast Industries Inc.	1998 – Present
Management Resources & Compensation[10]	6 of 6	100%	Virtek Vision International, Inc.	2000 – 2005

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	14,420	26,047	40,467	$558,445	$300,000
2008	14,420	22,010	36,430	$1,301,644	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"



Gordon G. Thiessen
Age: 70
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 was Chairman of the Canadian Public Accountability Board, the oversight body for the auditing profession in Canada from 2002 to 2008. 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:	Overall Attendance[3]: 90%		Public Board Membership During Last Five Years:	
Board of Directors	11 of 13	85%	IPSCO Inc.	2001 – 2007
Corporate Governance & Nominating	1 of 1[12]	100%		
Management Resources & Compensation (Chair)[10]	6 of 6	100%		

Securities Held:

Year	Common Shares[6]	DSUs[7]	Total Common Shares and DSUs	Total Market Value of Common Shares and DSUs[8]	Minimum Ownership Requirement[9]
2009	1,000	26,804	27,804	$383,695	$300,000
2008	1,000	23,131	24,131	$862,201	

Options Held (Director option grants discontinued in 2004): See chart "Outstanding Share-Based Awards"

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, Section 1.2 of Canadian Securities Administrators' ("CSA") National Instrument 58-101 – Disclosure of Corporate Governance Practices and Section 1.4 of the CSA National Instrument 52-110 – Audit Committees. 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 circumstances which might interfere with a Director's ability to exercise 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 At the Board meeting on May 8, 2008, Gail Cook-Bennett resigned from the Management Resources and Compensation Committee. On October 2, 2008, Gail Cook-Bennett was appointed Chair of the Board. The Chair of the Board is also Chair of the Corporate Governance and Nominating Committee. As Vice-Chair and then as Chair of the Board, Gail Cook-Bennett was invited to attend all other Committee meetings at the invitation of the Chair of each committee.

5 Gail Cook-Bennett and Thomas 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 and the Board of Directors of Manufacturers Life.

6 "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 17, 2009 and March 18, 2008, respectively.

7 "DSUs" refers to the number of deferred share units held by the Director as of March 17, 2009 and March 18, 2008, respectively.

8 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 17, 2009 ($13.80) and March 18, 2008 ($35.73), respectively, times the number of Common Shares and DSUs outstanding as of March 17, 2009 and March 18, 2008.

9 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. Directors' share ownership will be valued using the higher of grant price or current market price for the purposes of meeting the share ownership guidelines. This measure was introduced on an interim basis due to the extreme volatility of market conditions and the significant reduction in the Company's Common Share price (see Schedule "A" Statement of Corporate Governance Practices – Director Share Ownership). The minimum required for Donald Guloien, as President and CEO, will be equal to seven times his base salary (see "Compensation Discussion and Analysis – Executive Share Ownership Guidelines"). Mr. Guloien currently meets this requirement.

10 At the Board meeting on May 8, 2008: John Cassaday, Pierre Ducros and Scott Hand were appointed to the Management Resources and Compensation Committee (Mr. Hand resigned from the Audit and Risk Management Committee and the Conduct Review and Ethics Committee); Gordon Thiessen was appointed Chair of the Management Resources and Compensation Committee (Hugh Sloan resigned as Chair of the Committee); and Thomas d'Aquino was appointed to the Audit and Risk Management Committee and the Conduct Review and Ethics Committee (Mr. d'Aquino resigned from the Management Resources and Compensation Committee).

11 Richard DeWolfe was a director of Response U.S.A., Inc. until October 2000. In May 2001, Response U.S.A., Inc. commenced proceedings under applicable bankruptcy statutes in the United States.

12 At the Board Meeting on November 6, 2008, Pierre Ducros resigned from the Corporate Governance and Nominating Committee. Richard DeWolfe and Gordon Thiessen were appointed to the Corporate Governance and Nominating Committee effective December 1, 2008.

13 Pierre 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.

14 Robert Harding was appointed to the Board of Directors at the Board Meeting on August 7, 2008 which appointment became effective October 2, 2008. While the Board requires 100% attendance except in unusual circumstances, it also recognizes that when a Director first joins a Board, there may be pre-existing commitments that cannot be re-arranged. The Board accepts these conditions, particularly in situations where a highly skilled candidate becomes available to join the Board as was the case with Mr. Harding. Mr. Harding advised the Board, prior to his appointment, of certain conflicts which would prevent him from attending certain Board and Committee meetings during his first two years as a Director.

15 Thomas Kierans was a director of Teleglobe Inc. during the period from December 2000 until April 23, 2002. On May 15, 2002, Teleglobe Inc. 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.

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' National Instrument 52-110 – Audit Committees (the "Audit Committee Instrument") and the corporate governance standards and disclosure requirements in Canadian Securities Administrators' National Policy 58-201 – Corporate Governance Guidelines and National Instrument 58-101 – Disclosure of Corporate Governance Practices (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, and in all material respects with 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 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 circumstances which might interfere with a Director's ability to exercise independent judgment.

The Board has determined that 14 of the 15 current members of the Board are independent under Section 303A.02 of the NYSE Rules, Section 301 of SOX, Section 1.2 of the Governance Instrument and Section 1.4 of the Audit Committee Instrument. Dominic D'Alessandro is not independent because he is the Company's President and CEO. Upon successful election to the Board of Directors, Donald Guloien will not be independent as he will succeed Dominic D'Alessandro as the 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 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 Govern-

ance 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 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 or wait until the next Annual Meeting.

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, including the Annual Information Form, 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.
- The Directors' Orientation materials include the positions descriptions, the Board Mandate, Board Policies, committee charters, the regulatory compliance program, by-laws, administrative resolutions, Directors' policies, Company policies, the Code of Business Conduct and Ethics and organization charts.
- Directors' seminars and divisional presentations to the Board to provide in-depth reviews of key businesses and functions. In 2008, seminars included: Alternative Asset Class Management; U.S. Regulation; Pay and Performance; and Update on the Current Financial Condition and Regulatory Capital Provisions.
- 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 2008 the Directors visited the Company's United States operations in Boston, Massachusetts.
- In 2008, all Directors were 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 2008, certain Directors continued to be members of organizations relating to human resources and women on boards and attended a conference for directors on board compensation issues.

Board Access to Management
The Company provides both formal and informal means for the Board to interact with management. Directors have access to management and are encouraged to raise any questions or concerns directly with management.

Board Committee Membership Standards
The Board relies on its committees to assist in fulfilling 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 the responsibilities of each committee. 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 Messrs. DeWolfe, Celeste, Dineen, Harding, Helms and Kierans 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 the objectives, performance and compensation of the President and CEO. Beginning in 2009, the Compensation Committee assumed this responsibility.
- Reviewing and approving annually the appointment, succession, remuneration and performance of the senior executives.
- 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 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. 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 2008, five meetings of the independent Directors were 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 2008.

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.

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 the minimum value is met. Directors' share ownership will be valued using the higher of grant price or current market price for the purposes of meeting the share ownership guidelines. This measure was introduced on an interim basis due to the extreme volatility of market conditions and the significant reduction in the Company's Common Share price. All Directors who have been on the Board for five years have satisfied 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 Chair and the individual Directors. 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 objectives for the coming year.
- Annual *in camera* meeting of the independent Directors to review the results of the evaluations and to approve the Governance Committee's objectives for the coming year.
- 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
Beginning in 2009, the Compensation 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 Compensation Committee based on these objectives and on the Company's performance. This was previously the responsibility of the Governance Committee.

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 www.manulife.com.

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 online 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, www.manulife.com, 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 www.sedar.com.

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 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.

We target to assume risks at levels prudent in relation to the Company's capital strength and earnings capacity, that 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 are appropriately compensated over the long term. We must manage risks 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. With an overall goal of effectively executing risk management activities, 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, market and liquidity, credit, 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.

2008 presented extraordinary challenges for the risk management function at Manulife Financial. The ongoing deterioration of the economy overall and severe dislocation of the financial markets continues to weigh heavily on the financial services industry. In this environment, Manulife Financial is not immune. While our disciplined investment risk management approach resulted in our asset portfolio performing comparatively well, the severe equity market declines had a material impact on the operations of our Company, in large part arising from our variable annuity and segregated fund guarantee exposures. While these potential obligations are long-term in nature and payable over a 30 year period beginning in several years, we must account for the increase in liabilities currently. In the face of continuing market instability, measures were taken to strengthen our capital base to provide us with a capital position that we expect will provide the flexibility to absorb further market declines.

With our significant balance sheet and earnings sensitivity to equity market performance, as well as exposures related to declining interest rates and heightened credit challenges, managing risk and capital will have even heightened priority. Plans are being implemented to stem the growth in equity exposure. Our investment portfolio has been, and will continue to be, managed conservatively. Product designs and prices are being reviewed and modified to achieve a reduced risk profile appropriate for the current market environment.

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 periodically reviews and approves our enterprise risk management policy, risk taking philosophy, overall risk appetite, 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. Recognizing the increasing risk environment, the Board of Directors and ARMC has, and will continue to, increase their focus on risk oversight. 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 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 are accountable 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 returns commensurate with the level of risk assumed.

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 evaluates all potential new business initiatives, acquisitions, product offerings, reinsurance arrangements, and investment and financing transactions on a directly comparable risk-adjusted basis. Our comprehensive processes identify, monitor, measure, and control the risks assumed using a common set of practices. 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.

On a quarterly basis, the ERC, ARMC and Board of Directors each review risk reports 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 ("DCAT") 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 DCAT.

Risk Control and Mitigation

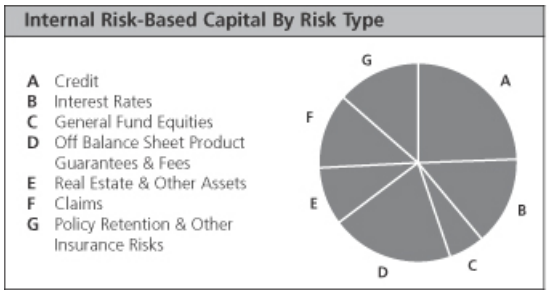
Risk control activities are in place throughout the Company to mitigate risks to within the approved risk limits for each specific risk. Controls, which include policies, procedures, systems and processes, are appropriate and commensurate with the key risks faced at all levels across the Company and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

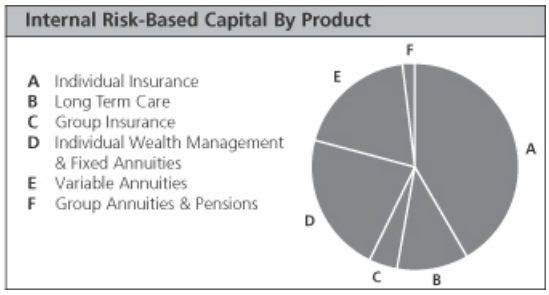
CRM establishes and oversees formal review and approval processes, involving independent individuals, groups or risk oversight committees, for product offerings, reinsurance, investment activities and other material business activities, based on the nature, size and complexity of the risk taking activity involved. Authority for assuming risk at the transaction level is 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. Over 2008, the most significant change in the composition of our internal risk-based capital by category was an increase in capital associated with off-balance sheet guarantees in our variable annuity products, where the risk exposure is primarily related to the performance of equity markets.





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 reputation. External business, economic, 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 achieve wide diversification across asset classes and individual investment risks within our investment portfolios, and to ensure they 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, along 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, timberlands and oil and gas properties 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 death and living benefit guarantees provided on variable annuity and insurance products as well as the uncertainty of future levels of asset-based fees. Guarantees include death, maturity, income and withdrawal guarantees on variable products. A sustained decline in stock markets could increase the cost of guarantees associated with our variable products and reduce asset-based fee revenues. A sustained increase in equity market volatility or decline in interest rates could increase the costs of hedging the benefit guarantees provided.

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. We design guaranteed benefit insurance and wealth management products and set premiums and credited rates to limit the risk of not achieving targeted profit margins. 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 guaranteed 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. In response to the changed market conditions, guaranteed benefit products, and their premiums, are being reviewed and modified to ensure risk tolerances are maintained and targeted profit margins will continue to be achieved.

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, delta, rho, gamma, vega, 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 have reinsured the investment return benefit guarantee risk on a portion of our in-force business and employ capital market hedging for a portion of our in-force and the majority of the new business we write. We design new product benefit guarantees and fund offerings to meet established extreme event risk exposure limits, based on economic capital and regulatory capital, and to achieve desired profit targets. Product guarantee features, fund offerings and fees are being reviewed and modified to ensure guarantees can be hedged effectively in the changed market conditions.

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.

Variable annuity guarantees generate the largest component of our exposure risk related to equity markets. We are implementing a comprehensive plan that will allow us to economically achieve a reduced level of exposure to equity market volatility. We have already begun to review our variable annuity guarantee offerings and modify product designs to better balance the features that have attracted customers to these products with the risk that they present to Manulife Financial. We will continue to provide variable annuity and segregated fund offerings, with potential obligations payable over a long time period, generally deferred several years. However, recognizing increasing volatility in equity markets, we will offer product designs and investment fund alternatives with reduced exposure to equity markets. We have also expanded our variable annuity hedging to encompass all new business written in the U.S and the majority of Canadian new business and will look for opportunities to economically hedge existing business. We intend to continue to monitor market conditions and manage product features, fee levels, and our hedging program throughout 2009 to ensure an appropriate balance between risk and long-term profitability for the variable annuity product line. We also intend to prudently limit growth in our guaranteed variable annuity businesses.

Market price and interest rate risk exposures are disclosed in note 8 to the consolidated financial statements.

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 is designed to ensure that changes to our reported shareholders' equity are proportionate to 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 one per cent change in the Canadian dollar relative to our key operating currencies.

Impact of Changes in Foreign Exchange Rates [1],[2]

	Shareholders' Equity		Net Income	
As at December 31				
(Canadian $ in millions)	**2008**	2007	**2008**	2007
1% strengthening relative to U.S. dollar	**$ (189)**	$ (159)	**$ 12**	$ (31)
1% strengthening relative to Japanese yen	**$ (15)**	$ (14)	**$ 3**	$ (6)

(1) A weakening in rates would have the exact opposite impact to that displayed above.

(2) A strengthening or weakening of the average Canadian dollar relative to our key operating currencies can have a significant impact to our net income. For example, in the fourth quarter of 2008, the average Canadian dollar exchange rate weakened considerably against the U.S. dollar, resulting in an increase in the translated value of our U.S. dollar net loss. Similarly, a strengthening of the Canadian dollar would decrease our U.S. dollar net loss, and thus positively impact our net income.

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, deposit withdrawals, 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, deposit withdrawals 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 provide adequate liquidity 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. Liquid assets represent a large portion of our total assets. We manage our deposit funded businesses through a reliance on stable and diverse sources of funding with active management of the risk profile associated with the deposit mix. We forecast and monitor actual daily operating liquidity and cash movements in local operations as well as centrally, aiming to ensure liquidity is available and cash is employed optimally.

We also maintain centralized cash pools and access to other sources of liquidity such as repurchase funding agreements. Our centralized cash pool consists of cash or near-cash, high quality short term investments that are continually monitored for their credit quality and market liquidity. During the last two quarters of 2008, wholesale funding markets, primarily in the U.S., became disrupted. Consequently, seeking to reduce risk, Manulife has increased liquidity to historically high levels.

Cash and Government Securities

As at December 31 (Canadian $ in millions)	**2008**	2007
Cash and cash equivalents	**$17,269**	$12,354
Government bonds	**24,280**	21,793
Total	**$41,549**	$34,147
Cash and government securities as a % of total assets	**19.7%**	19.4%

Through the normal course of business, pledging of assets is required to comply with jurisdictional regulatory and other requirements including collateral pledged to mitigate derivative counterparty credit risk and assets held as collateral for repurchase funding agreements. Total unencumbered assets as at December 31, 2008 were $206.5 billion.

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 investments, 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.

Strategic Liquidity

	2008		2007	
As at December 31 (Canadian $ in millions)	Immediate scenario	Ongoing scenario	Immediate scenario	Ongoing scenario
Adjusted liquid assets	**$ 92,361**	**$ 93,504**	$ 81,487	$ 81,571
Adjusted policy liabilities	**$ 23,047**	**$ 30,090**	$ 20,597	$ 26,750
Liquidity ratio	**401%**	**311%**	396%	305%

A separate liquidity risk management policy and process is run for Manulife Bank which at the end of 2008 had liquidity in excess of policy requirements.

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 fund invested assets and off-balance derivative financial 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 derivative counterparties as well as 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 net potential credit exposure, which takes into consideration mark-to-market values of all transactions with each counterparty, 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.

Our credit policies and procedures and investment strategies have remained fundamentally unchanged. Given the challenging credit environment experienced in 2008 and in response to the emerging environment, credit exposure in our investment portfolio is being actively managed to reduce risk and mitigate losses. Derivative counterparty exposure is being managed proactively and securities lending activities have been reduced.

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 conservatively, 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, 2008 and December 31, 2007, for every 25 per cent that credit loss rates over the next year exceeded the rates provided for in actuarial reserves, net income would be reduced by $34 million and $21 million, respectively.

Credit risk exposures are disclosed in note 8 to the consolidated financial statements.

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. The development of assumptions for future claims are based on Company and industry experience; assumptions for future policyholder behavior are based on Company experience and predictive models. Such assumptions require significant professional judgment and therefore, 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, 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 US$20 million for a single life (US$25 million for survivorship 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, 2008 and December 31, 2007 for every five per cent that actual mortality and morbidity rates over the next year exceeded the rates provided for in actuarial reserves, net income would be reduced by $147 million and $127 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 liquidity 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 coverage 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, fraud 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. In addition, we have an anti-fraud policy to protect the Company, its customers and other related third parties from acts of fraud. Divisions ensure that existing processes and controls give adequate consideration to the risk of fraud and Audit Services and Global Compliance periodically assess the effectiveness of the control environment.

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 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. In providing credit to borrowers, or making equity investments in private firms, we take reasonable steps to assess that counterparties are environmentally responsible.

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 “Cautionary Statement Concerning 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; 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 for each regulated entity. 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. During 2008, net capital issuances combined with proactive management of capital requirements and efficient deployment of capital across the Company has allowed us to maintain a solid capital position, notwithstanding the substantial deterioration in the global economic environment worldwide. Overall, the capital position of the Company and its subsidiaries remains in excess of regulatory requirements, with the capital levels of the key operating subsidiaries exceeding or within internal targets.

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 meet or 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 other considerations. Management regularly monitors capital 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 liabilities. The impact of the currency movements on the capital ratios is thus mitigated as both available and required capital rise (fall) when the Canadian dollar weakens (strengthens).

As part of our annual 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 2008 results, updated in December 2008, indicated that the Company's capital levels provided for sufficient assets to discharge liabilities and to retain positive surplus in the catastrophic scenarios tested. These scenarios included tests of equity market, credit, interest rate and mortality risk, amongst others.

Capital quality is maintained by limiting the amount of debt capital or non-permanent equity capital in the capital structure. The composition of capital between equity and other instruments remains well within regulatory constraints. 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").

Consolidated Capital

As at December 31, (Canadian $ in millions)	**2008**	2007	2006
Equity	**$27,664**	$22,406	$25,018
Preferred shares	**982**	982	982
Innovative instruments	**1,000**	1,000	1,000
Subordinated debentures	**1,195**	1,196	1,195
AOCI on AFS securities [1]	**(529)**	1,327	–
Other capital instruments	**582**	470	1,156
Non-controlling interest in subsidiaries	**217**	146	202
Total capital	**$31,111**	$27,527	$29,553

[1] The Company adopted CICA Handbook section 3855 on January 1, 2007 and therefore 2006 does not include AOCI on AFS securities.

The Company's capital increased by $3,584 million compared to prior year. The increase was primarily due to the common equity issuance of $2,275 million, net income of $497 million and other comprehensive income of $4,409 million from currency translation of net foreign operations. The impact of these items on the level of capital was partially offset by the $1,856 million decline in AFS securities due to the market turmoil, $1,524 million of dividends paid to shareholders and $403 million of share repurchases.

Designated committees of the Board of Directors review and approve Manulife Financial's capital management policies. Each quarter the ARMC 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 and reviews issues and initiatives that affect the capital position of MFC'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. On August 7, 2008, the Company announced an increase in the quarterly shareholders' dividend from $0.24 to $0.26 per common share.

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,	**2008**	2007	2006
Dividends per common share paid in cash	**$1.00**	$0.88	$0.73
Common share dividend payout ratio	**307%**	31%	29%

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.

In 2008, the common share dividend payout ratio was 39 per cent for the first half of the year. It rose considerably in the later half of 2008 due to the earnings reduction caused by the unprecedented market turmoil.

Capital and Funding Activities

In analyzing capital at the MFC consolidated level, we primarily consider equity as well as subordinated long-term instruments, in alignment with OSFI's regulatory capital definitions. While we also raise unsubordinated funding from MFC which may be deployed in our downstream entities as capital, at the MFC consolidated level such senior indebtedness is not considered capital.

In 2008, we issued $2,318 million and repurchased $403 million of common shares. We also raised a net amount of $2,338 million in other funding. Details of these activities are provided below.

On December 11, 2008, we issued $2,275 million of common shares including $1,125 million sold by way of private placement to eight existing institutional investors. The remaining $1,150 million, inclusive of a fully subscribed over-allotment of $150 million, was sold to a syndicate of underwriters in a "bought deal" public offering.

During 2008, 2.6 million common shares were issued pursuant to the exercise of stock options and the settlement of deferred share units for a total consideration of $43 million. MFC purchased and subsequently cancelled 11 million common shares pursuant to normal course issuer bids ("NCIB") at a total cost of $403 million. The NCIB expired on November 8, 2008, and was not renewed.

In addition to the above capital activities, the following financing transactions took place during the year.

On June 26, 2008, the Company raised $950 million of medium term notes constituting senior indebtedness. The medium term notes were issued in two tranches of $550 million of 5.161% notes and $400 million of 5.505% notes, maturing in 2015 and 2018, respectively.

On November 6, 2008, the Company executed a binding credit agreement with leading Canadian banks to provide a loan of $3 billion. Subsequent to the common equity offering in December 2008, the credit facility was reduced to $2 billion. The five year term loan is repayable at the Company's option at any time without penalty, and it is priced on a floating rate basis at one month Bankers Acceptance plus 3.80%.

On December 1, 2008, the Company repaid US$500 million of maturing 5.625% senior notes.

In 2007, MFC issued 9.5 million common shares for a total consideration of $251 million pursuant to the acquisition of a subsidiary as well as the exercise of stock options and the settlement of deferred share units. MFC purchased and subsequently cancelled 56.4 million common shares pursuant to NCIB at a total cost of $2,245 million. On February 1, 2007, the Company redeemed US$492.5 million 8.375% Capital Trust Pass-through Securities issued by MIC Financing Trust that qualified as regulatory capital. 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, reducing the amount of the Company's non-controlling interest in subsidiaries.

As a subsequent event, on March 4, 2009, MFC issued 18 million Non-Cumulative Five Year Rate Reset Class A Preferred Shares, Series 4 at a price of $25 per share, for an aggregate amount of $450 million.

Regulatory Capital Position

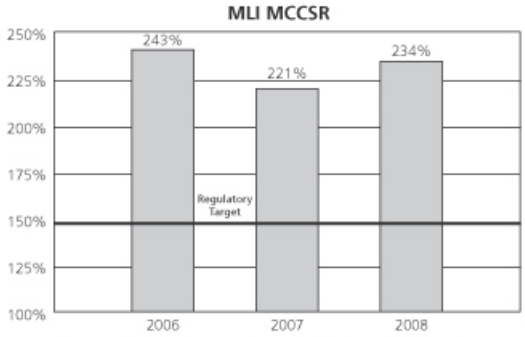
The Company monitors and manages consolidated capital for MFC in compliance with the OSFI Guideline A2 – Capital Regime for Regulated Insurance Holding Companies and Non-Operating Life Companies, issued July 5, 2005. Under this regime our consolidated available capital is measured against a required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

Manulife Financial 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").

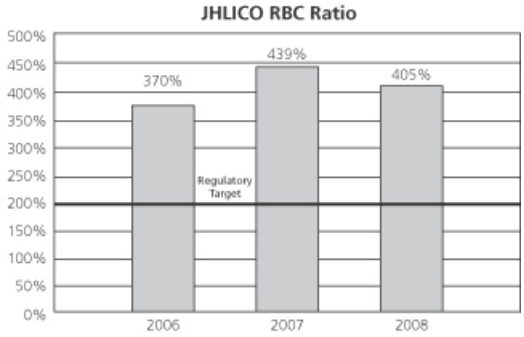
MLI, our principal Canadian operating company, is regulated by OSFI and is subject to MCCSR. MLI's MCCSR ratio as at December 31, 2008 was 234 per cent (December 31, 2007 – 221 per cent), well in excess of OSFI's target of 150 per cent. The key driver of the higher ratio in 2008 was the net increase in MLI's available capital reflecting capital issuances partly offset by dividends paid to MFC and unrealized losses on AFS assets. During the year, the Company took actions to strengthen the regulatory capital position of MLI by internally redeploying excess financial resources, including changes to the terms of $550 million senior note payable to Manulife Finance (Delaware) LLC due December 15, 2016. Under the new terms, the senior note became a subordinated note qualified as MLI's regulatory capital with the interest rate increased to 90-day Bankers Acceptance plus 0.552%.

The positive impact of MLI's higher available capital on its capital ratios exceeded the impact of higher required capital. Capital for segregated fund guarantees was the key driver of the required capital increase, with the beneficial impact of changes in regulatory guidelines and other approved modeling refinements related to policyholder behaviour assumptions and interest rates being more than offset by the negative impact of the downturn in equity markets. The revised regulatory guideline for segregated fund guarantees requires higher capital for short-term obligations and reduces capital required to support longer-term payment obligations. Given the Company's generally long-dated guarantees, the regulatory changes had a beneficial impact on our capital ratios. MLI's non-consolidated operations and subsidiaries all maintained capital levels in excess of local requirements as at December 31, 2008. In particular Manulife Canada Ltd., an OSFI-regulated Canadian operating insurance company, had an MCCSR ratio of 173 per cent, 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 439 per cent as at December 31, 2007 to 405 per cent as at December 31, 2008, as the decline in available capital outpaced lower capital requirements. 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, 2008.



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 remain among the highest of global financial institutions. Given the global economic turmoil that has adversely impacted financial flexibility of many companies and consistent with the rating agencies' overall concerns regarding current issues affecting the insurance industry, Manulife Financial, like many of its industry peers, has experienced recent rating downgrades. In the last two months, Standard and Poor's lowered the AAA financial strength ratings of our operating companies to AA+ with a stable outlook, Moody's lowered our ratings from Aa1 to Aa3 with a negative outlook, Fitch lowered our ratings from AA+ to AA with a negative outlook and A.M. Best changed its outlook of our A++ ratings from stable to negative. In November 2008, DBRS confirmed our ratings but lowered their outlook from positive to stable.

The following table summarizes our operating company ratings as at March 18, 2009.

Primary Insurance Company Financial Strength/Claims Paying Credit Ratings

	S&P	Moody's	DBRS	Fitch	A.M. Best
The Manufacturers Life Insurance Company	AA+	Aa3	IC-1	AA	A++
John Hancock Life Insurance Company	AA+	Aa3	Not Rated	AA	A++
John Hancock Life Insurance Company (U.S.A.)	AA+	Aa3	Not Rated	AA	A++
Manulife (International) Limited	AA+	Not Rated	Not Rated	Not Rated	Not Rated
Manulife Life Insurance Company (Japan)	AA+	Not Rated	Not Rated	Not Rated	Not Rated

Note 8 ^ Risk Management

The Company employs an enterprise-wide approach to all risk taking and risk management activities globally. The Company's enterprise risk management framework sets out policies and standards of practice related to governance, identification and monitoring, measurement and control and mitigation of key risks. Individual risk management strategies are in place for each specific key risk within the Company's broad risk categories: strategic, market and liquidity (includes market price, interest rate, foreign currency and liquidity risks), credit, insurance and operational.

Market price and interest rate risk

Due to the nature of the insurance business, invested assets and insurance liabilities as well as revenues and expenses are impacted by movements in capital markets, interest rates and credit spreads. Accordingly, the Company considers these risks together in managing its asset and liability positions and ensuring that risks are properly managed. These risks are referred to collectively as market price and interest rate risk – the risk of loss resulting from adverse movements in market price, interest rates and credit spreads.

In the general fund, market price and interest rate changes may lead to asset returns that are insufficient to support product liabilities and may impact the value of assets held in the Company's shareholders' equity account. This level of risk is impacted by the Company's asset allocation and the nature of embedded product guarantees and policyholder options. Interest rate risk within the general fund arises mainly from the uncertainty of returns that can be achieved on investments to be made in the future as recurring premiums are received, and from any mismatch between the term profile of assets and liabilities. Market price and interest rate risk also arise from minimum rate guarantees and withdrawal options on products where investment returns are generally passed through to policyholders. The performance of capital markets, interest rates, inflation and general economic conditions all influence the performance of the Company's general fund investments, including bonds, loans, publicly traded and private equities, commercial real estate, timber and agricultural lands and oil and gas investments.

Market price and interest rate risk in the general fund is managed through established policies and standards of practice that limit market price and interest rate risk exposure. Company-wide market price and interest rate risk exposure limits are established and actual positions are monitored against limits. Target asset mixes and term profiles, and risk limits are updated regularly and communicated to individual portfolio managers. Actual asset positions are periodically rebalanced to within established limits.

The market price and interest rate risk arising from the Company's off-balance sheet products is due mainly to the guarantees provided on variable annuity and insurance products, as well as the uncertainty of future levels of asset-based fees. Guarantees include minimum levels of death, maturity, income and withdrawal benefits on variable products. The Company mitigates its market price and interest rate risk arising from off-balance sheet products through benefit guarantee design, limitations on fund offerings and the use of capital market hedging strategies and reinsurance.

In order to manage the exposure to market price and interest rate risk, the Company monitors invested assets and the liabilities which they support under three broad categories: liabilities supported with matching mandates, liabilities supported with target return mandates, and exposures arising from variable products and other managed assets. Liabilities supported with matching mandates generally include insurance and wealth guaranteed benefit obligations falling within the terms for which fixed income assets are generally available in the market, and are supported by fixed income assets with generally matching term profiles. Liabilities supported with target return mandates include guaranteed benefit obligations falling beyond the term for which fixed income assets are generally available in the market as well as obligations related to products that generally pass through investment returns to policyholders. Assets supporting the shareholders' equity account are generally managed under a target return mandate.

The following table shows the potential impact on shareholders' economic value of specific stress scenarios, 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 the Company's internal models. The stress scenarios are:

- an immediate and permanent increase of one per cent in interest rates for all maturities across all markets,
- an immediate and permanent decrease of one per cent in interest rates for all maturities across all markets, and
- an immediate ten per cent decline in the market value of non-fixed income assets.

Impact on shareholders' economic value arising from general fund

Shareholders' economic value for general fund assets is calculated as the net present value of future cash flows related to existing assets, recurring premiums to be received and product benefit and expenses to be paid, all discounted at market yields and adjusted for tax.

	1% change in interest rates		10% decline in market values [2]			
As at December 31, 2008	Increase	Decrease	Equities	Real estate	Timber	Other[1]
Matching mandates						
Insurance	**$ 27**	**$ (86)**				
Wealth Management	**(9)**	**12**				
Total	**$ 18**	**$ (74)**				
Target return mandates						
Insurance	**$ 688**	**$ (1,133)**	**$ (142)**	**$ (288)**	**$ (67)**	**$ (61)**
Wealth Management	**8**	**(110)**	**(71)**	**(58)**	**(8)**	**(10)**
Shareholders' equity account	**(366)**	**470**	**(195)**	**(1)**	**(20)**	**(30)**
Total	**$ 330**	**$ (773)**	**$ (408)**	**$ (347)**	**$ (95)**	**$ (101)**

(1) Other assets include agricultural lands and oil and gas holdings.
(2) A 10% increase in market values of equities, real estate, timber and other assets would have the exact opposite impact to that displayed above.

Impact on shareholders' economic value from variable products and other managed assets

Shareholders' economic value arising from variable products, mutual funds and institutional asset management operations, is calculated as the net present value of expected after-tax cash flows related to managing these assets and/or providing guarantees discounted at market yields. The table below shows the potential impact on shareholders' economic value of an immediate ten per cent decline and ten per cent increase in the market value of equity funds.

Change in market values as at December 31, 2008	10% Increase	10% Decrease
Market-based fees	**$ 346**	**$ (380)**
Variable product guarantees	**$ 634**	**$ (800)**

Guarantees are also sensitive to changes in interest rates. A one per cent increase in interest rates would improve shareholders' economic value related to variable product guarantees by $216, while a one per cent decrease in interest rates would diminish shareholders' economic value related to variable product guarantees by $250. Additional information about guarantees on variable annuities and segregated funds is shown in the table below.

Variable annuity and segregated fund benefit guarantees

As at December 31, 2008	Fund value[2]	Amount at risk[2]	Expected guarantee cost[3]
Maturity / income / withdrawal benefits	**$65,457**	**$20,971**	
Death benefits[1]	**8,965**	**5,838**	
Total	**$74,422**	**$26,809**	**$ (135)**

(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.
(3) The expected guarantee cost is the average, across all investment return scenarios, of the present value of projected future guaranteed benefit payments, net of reinsurance and fee income allocated to support the guarantees.

In the latter half of 2008, volatility in the global equity markets increased dramatically and market values decreased significantly changing the Company's exposures arising from variable annuity and segregated fund benefit guarantees.

Guaranteed benefits are contingent and only payable upon death, maturity, withdrawal or annuitization, if fund values remain below guaranteed values. If markets do not recover, liabilities on current in-force business would be due primarily in the period from 2015 to 2038. The amount at risk at December 31, 2008 increased significantly from December 31, 2007 as a result of significant declines in fund values. Commensurate with the increase in the amount at risk, additional reserves were established in 2008 and at December 31, 2008, reserves for these liabilities amounted to $5,783 (2007 – $526).

Although these guaranteed benefits cannot be claimed currently, the accounting valuation of the guarantees is extremely sensitive to short-term changes in market levels. The potential impact on shareholders' net income arising from variable products and general fund assets supporting policy liabilities, of an immediate ten per cent decline in equity market values was $1,554 at December 31, 2008 (2007 – $352).

Foreign currency risk

Currency risk for financial instruments arises when assets and the liabilities or target capital they support are denominated in different currencies. The Company has a policy of matching the currency of its 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, the Company has established a policy of generally matching the currency of the assets in shareholders' equity to the liabilities they support, up to target capital levels. This policy ensures that changes to the Company's reported shareholders' equity are proportionate to changes in the Company's reported capital requirements, stabilizing capital ratios from the impact of foreign exchange rates, but resulting in variability in reported shareholders' equity. As at December 31, 2008, the Company did not have a material unmatched currency exposure related to financial instruments.

Liquidity risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands. Under stressed conditions, unexpected cash demands could arise primarily from an increase in the level of policyholders either systemically terminating policies with cash surrender values, or not renewing policies when they mature, deposit withdrawals and from an increase in the level of borrowers renewing or extending their loans when they mature.

The Company manages its exposure to liquidity risk by ensuring that its operating and strategic liquidity levels are well above minimum internal requirements. Minimum operating liquidity is set at a level of one month's operating cash outflows. Strategic liquidity is established based on immediate and longer term liquidity requirements under stress conditions whereby policyholder liabilities and liquid assets are risk-adjusted for their potential for withdrawals and convertibility to cash respectively.

The following table outlines the expected maturity of the Company's significant financial liabilities. The expected maturity dates are based on estimates made by management.

Maturity of financial liabilities [1], [2]

As at December 31, 2008	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	**Total**
Long-term debt	$ 5	$ 408	$2,322	$ 954	**$ 3,689**
Capital instruments	–	–	–	3,330	**3,330**
Derivative liabilities	374	657	628	4,730	**6,389**
Bank deposits	11,041	772	299	98	**12,210**
Consumer notes	459	476	185	756	**1,876**
Repurchase agreements	1,001	–	–	–	**1,001**

[1] The amounts shown above are net of the related unamortized deferred issue costs.
[2] Class A preferred shares, Series 1 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. These shares have not been included in the above table.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a borrower or counterparty to fulfill its payment obligation to the Company. A pronounced and sustained economic downturn could result in defaults or downgrades, and could lead to increased provisions or impairments related to the Company's general fund invested assets and off-balance sheet derivative financial instruments, and an increase in provisions for future credit impairments to be included in actuarial liabilities. Counterparty credit exposure arises primarily from derivatives and reinsurance activities. Any of the Company's reinsurance providers being unable or unwilling to fulfill their contractual obligations related to the liabilities the Company cedes to them could lead to an increase in actuarial liabilities.

The Company's exposure to credit risk is managed through risk management policies and procedures which include a defined credit evaluation and adjudication process, delegated credit approval authorities and established exposure limits by borrower, corporate connection, quality rating, industry and geographic region. Reinsurance counterparty exposure is measured as both current exposure and potential future exposures reflecting the level of ceded liabilities. Reinsurance and insurance counterparties must also meet minimum risk rating criteria.

The Company also ensures where warranted that mortgages, private placement and bank loans are secured by collateral, the nature of which depends on the credit risk of the counterparty.

An allowance for losses on loans is established when a loan becomes impaired. Provisions for loan losses are calculated to reduce the carrying value of the loans to estimated net realizable value. The establishment of such provisions takes into consideration normal historical credit loss levels and future expectations, with an allowance for adverse deviations. In addition, actuarial liabilities include general provisions for credit losses from future asset impairments. Impairments are identified through regular monitoring of all credit related exposures, considering such information as general market conditions, industry and borrower specific credit events and any other relevant trends or conditions. Allowance for losses on reinsurance contracts is established when a reinsurance counterparty becomes unable or unwilling to fulfill their contractual obligations. The allowance for loss is based on current recoverables and ceded actuarial liabilities.

Credit risk associated with derivative counterparties is discussed under the heading Derivatives later in this note.

Credit exposure

The following table outlines the gross carrying amount of financial instruments subject to credit exposure, without taking into account any collateral held or other credit enhancements.

As at December 31, 2008	
Bonds	
Fair value option	$ 70,399
Available-for-sale	12,749
Loans	
Mortgages	30,963
Private placements	25,705
Policy loans	7,533
Bank loans	2,384
Derivative assets	7,883
Accrued investment income	1,760
Other financial assets	2,152
Total	**$161,528**

Past due or impaired financial assets

The following table summarizes the Company's financial assets that are considered past due or impaired.

Carrying value of financial assets

As at December 31, 2008	Past due but not impaired: Less than 90 days	Past due but not impaired: 90 days and greater	Past due but not impaired: Total past due but not impaired	Total impaired
Bonds				
Fair value option	$ 352	$ 7	$ 359	$ 91
Available-for-sale	57	19	76	8
Loans				
Private placements	344	81	425	183
Mortgages and bank loans	49	18	67	51
Equities and other investments	–	–	–	603
Other financial assets	–	37	37	–
Total	**$ 802**	**$ 162**	**$ 964**	**$ 936**

Impairments

The Company provides for credit risk by establishing allowances against the carrying value of impaired loans, recognizing other than temporary impairments on AFS securities and reclassifying into income the other than temporary impairment portion of unrealized losses on bonds designated as fair value option. In addition, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of policy liabilities.

For the years ended December 31,	**2008**	2007
Bonds		
Fair value option	**$ 476**	$ 8
Available-for-sale	**46**	4
Equities (public and private)	**353**	73
Loans and other	**175**	(43)
Total impairments	**$1,050**	$ 42

Net impaired assets

As at December 31,	2008	2007
Net impaired assets	**$ 936**	$ 240
Net impaired assets as a per cent of total invested assets	**0.50%**	0.15%

Allowance for loan losses

	2008			2007		
For the year ended December 31,	Mortgages and bank loans	Private placements	Total	Mortgages and bank loans	Private placements	Total
Balance, January 1	**$ 23**	**$ 53**	**$ 76**	$ 61	$ 73	$134
Provisions	**23**	**146**	**169**	18	37	55
Recoveries	**(6)**	**(1)**	**(7)**	(39)	(39)	(78)
Write-offs[1]	**3**	**(33)**	**(30)**	(17)	(18)	(35)
Balance, December 31	**$ 43**	**$ 165**	**$208**	$ 23	$ 53	$ 76

(1)Includes disposals and impact of currency translation.

Securities lending

The Company engages in securities lending to generate fee income. 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. 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, 2008, the Company had loaned securities (which are included in invested assets) with a market value of approximately $1,213 (2007 – $3,692). The Company holds collateral with a current market value that exceeds the value of securities lent in all cases.

Mortgage securitization

During 2008, the Company securitized and sold insured fixed- and variable-rate commercial and residential mortgages through the creation of mortgage backed securities under the Canada Mortgage Bond Program and the Government of Canada NHA MBS Auction program. The Company will continue to service these mortgages. The following table summarizes the securitization and sales activity.

For the year ended December 31, 2008	Residential mortgages	Commercial mortgages	Total
Securitized and sold	$ 120	$ 310	**$ 430**
Net cash proceeds	117	305	**422**
Retained interests	6	27	**33**
Pre-tax gain on sale	3	22	**25**

Derivatives

The Company's exposure to loss on derivatives is limited to the amount of any net gains with a particular counterparty. Derivative counterparty exposure is measured as net potential credit exposure, which takes into consideration mark-to-market values of all derivatives transactions with each counterparty, net of any collateral held, and an allowance to reflect future potential exposure. The Company seeks to limit the risk of credit losses from derivative counterparties by: establishing a minimum acceptable counterparty credit rating of A- from external rating agencies; entering into master netting arrangements; and entering into Credit Support Annex ("CSA") agreements, whereby collateral must be provided when the exposure exceeds a certain threshold.

As at December 31, 2008, the percentage of the Company's derivative exposure which were with counterparties rated AA- or higher amounted to 62 per cent (2007 – 82 per cent). The largest single counterparty exposure as at December 31, 2008 was $100 (2007 – $170). The Company's exposure to credit risk was mitigated by $3,521 fair value of collateral held as security as at December 31, 2008 (2007 – $881). In accordance with customary terms of CSA agreements, the Company is permitted to sell or repledge collateral held.

As at December 31, 2008, the maximum exposure to credit risk related to derivatives after taking into account netting agreements and without taking into account the fair value of any collateral held, was $4,520 (2007 – $1,385). Without master netting agreements, maximum exposure to credit risk would have been $7,883 (2007 – $2,129).

Risk concentrations

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. The Company monitors actual investment positions and risk exposures for concentration risk and reports such findings to the Executive Risk Committee and the Audit and Risk Management Committee of the Board of Directors on a regular basis.

Market risk concentrations

As at December 31,	2008	2007
Bonds and private placements rated as investment grade BBB or higher [1]	**95%**	96%
Government bonds as a per cent of total bonds	**29%**	30%
Government private placements as a per cent of total private placements	**18%**	17%
Highest exposure to a single non-government bond and private placement issuer	**$829**	$524
Largest single issuer as a per cent of the total stock portfolio	**6%**	5%
Publicly listed corporations as a per cent of total stock portfolio	**99%**	99%
Income producing commercial office properties (2008 – 70% of total real estate, 2007 – 72%)	**$5,057**	$4,115
Largest concentration of mortgages and real estate [2] – Ontario, Canada (2008 – 23%, 2007 – 26%)	**$8,803**	$8,417

[1] Investment grade bonds include 31% rated A, 20% rated AA and 20% rated AAA (2007 – 29%, 22% and 22%, respectively) based on external ratings where available.
[2] Mortgages and real estate are diversified geographically and by property type.

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,	2008		2007	
	Fair value	**% of total**	Fair Value	% of total
Government & agency	**$ 28,537**	27	$ 25,383	27
Financial	**22,348**	21	21,048	22
Utilities	**15,951**	15	12,475	13
Securitized (ABS/MBS)	**8,885**	8	9,218	10
Energy	**7,468**	7	5,761	6
Industrial	**6,119**	6	5,364	6
Consumer (non-cyclical)	**5,197**	5	4,869	5
Other	**12,913**	11	10,286	11
Total	**$107,418**	100	$ 94,404	100

Insurance risk

Insurance risk is the risk of loss due to actual experience differing from the experience assumed when a product was designed and priced with respect to claims, policyholder behaviour and expenses. A variety of assumptions are made related to the future level of claims, policyholder behaviour, expenses and sales levels when products are designed and priced as well as in the determination of actuarial liabilities. The development of assumptions for future claims are based on Company and industry experience; assumptions for policyholder behaviours are based on Company experience and predictive models. Such assumptions require a significant amount of professional judgment and therefore, actual experience may be materially different than the assumptions made by the Company. 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 by many factors including market and general economic conditions, and the availability and price of other products in the marketplace.

The Company manages insurance risk through global product design, pricing standards and guidelines and a global life underwriting manual. Each business unit establishes underwriting policies and procedures, including criteria for approval of risks and claims adjudication policies and procedures. The Company's current global retention limit for a single life is US$20 (US$25 for survivorship life policies) and is shared across business units. Lower limits are applied in some markets and jurisdictions. The Company further reduces exposure to claims concentrations by applying geographical aggregate retention limits for certain covers.

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,	2008	2007
Direct premium income	**$23,891**	$20,359
Reinsurance assumed	**1,433**	1,400
Reinsurance ceded	**(2,072)**	(2,015)
Total premium income	**$23,252**	$19,744

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. Significant estimation processes relate to the determination of policy liabilities, evaluation of invested asset impairment, assessment of variable interest entities, determination of pension and other post-employment benefit obligations and expenses, income taxes and valuation of goodwill and intangible assets as described below. In addition, in the determination of the fair values of financial instruments, where observable market data is not available, management applies judgment in the selection of valuation models.

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 prudent 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 2008 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 2008 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 2008 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 2008 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. In 2008, non-fixed income returns were unfavourable when compared to our assumptions, primarily as a result of poor public equity markets. 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 2008, credit loss experience was unfavourable 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.

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,

(Canadian $ in millions)	**2008**	2007
Best estimate actuarial liability	**$102,446**	$96,030
Provision for Adverse Deviation		
Insurance risks (mortality/morbidity)	**$ 8,168**	$ 6,167
Policyholder behavior (lapse/surrender/premium persistency)	**3,249**	2,544
Expenses	**1,165**	918
Investment risks (non-credit)	**16,588**	9,932
Investment risks (credit)	**1,398**	1,161
Segregated fund guarantees	**4,747**	457
Other	**362**	443
Total Provision for Adverse Deviation (PfAD)	**$ 35,677**	$21,622
Segregated funds – additional margins	**9,144**	11,548
Total of PfAD and additional segregated fund margins	**$ 44,821**	$33,170

Reported actuarial liabilities as at December 31, 2008 of $138,123 million (2007 – $117,652 million) are composed of $102,446 million (2007 – $96,030 million) of best estimate actuarial liability and $35,677 million (2007 – $21,622 million) of PfAD.

Significant increases in PfADs were as a result of currency movements, movements in market spreads on fixed income assets, revisions to investment strategies supporting policy liabilities that increase the use of non fixed income assets, and an increase in the margins for segregated fund guarantees due to the impact of the adverse 2008 equity markets on the potential future cost of these guarantees.

Currency movements increased the PfADs $5,887 million primarily due to the weakening of the Canadian dollar versus the U.S. dollar and Japanese yen. The increase in market spreads on fixed income assets increases the expected re-investment rates in the valuation but generates higher margins for spread compression in the valuation. The increase in margins as a result of the investment strategy changes was as a result of the greater projected use of non fixed income assets in the investment portfolios supporting policy liabilities, and is largely offset by a corresponding reduction in expected reserves due to higher expected returns. Both of these items are reflected in Investment Risks (non-credit). Virtually all the positive segregated fund guarantee reserves, including the new reserves established in 2008 as equity markets corrected, represent required margins, as the actual present value of the expected costs before margins for adverse deviations remains minimal.

The decrease in additional margins on segregated funds is the result of lower segregated fund balances due to the poor 2008 equity markets and consequent reduced future projected net revenues.

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 which in turn affects income. The sensitivity of after tax income to changes in assumptions underlying policy liabilities is shown below, assuming that there is a simultaneous change in the assumption across all business units. For changes in asset related assumptions, the sensitivity is shown net of the corresponding impact on income of the change in the value of the assets supporting liabilities. 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, (Canadian $ in millions)	**Increase (Decrease) in After Tax Income**	
	2008	2007
Policy Related Assumptions		
2% adverse change in future mortality rates		
Products where an increase in rates increases policy liabilities	**$ (293)**	$ (198)
Products where a decrease in rates increases policy liabilities	**(213)**	(132)
5% increase in future morbidity rates	**(952)**	(696)
10% adverse change in future termination rates	**(925)**	(586)
5% increase in future expense levels	**(310)**	(246)
Asset Related Assumptions		
100 basis point parallel decrease in market interest rates	**$(1,336)**	$ (452)
100 basis point parallel increase in market interest rates	**1,138**	369
10% reduction in non fixed income market values	**(2,079)**	(572)
100 basis point reduction in future annual returns for non fixed income assets	**(3,447)**	(1,481)

- An increase in mortality rates will generally increase policy liabilities for life insurance contracts whereas a decrease in mortality rates will generally increase policy liabilities for policies with longevity risk such as payout annuities.
- No amounts related to morbidity risk are included for policies where the policy liability provides only for claims costs expected over a short period, generally less than one year, such as Group Life and Health.
- 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 after tax income decreases by $2,668 million for a 100 basis point decrease in interest rates, and increases by $2,146 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.
- Non fixed income assets include both common and private equities, all forms of real estate, and any other non fixed income instruments supporting policy liabilities. The $(2,079) million after tax income impact for a 10% reduction in non fixed income market values consists of $(1,660) million related to common and private equities, and $(419) million related to real estate and other non fixed income assets. The $(3,447) million after tax income impact for a 100 basis point reduction in future annual returns consists of $(2,232) million related to common and private equities and $(1,215) million related to real estate and other non fixed income assets.
- A large portion of the change in the level of the sensitivities from 2007 to 2008 is caused by changes in foreign exchange rates, particularly the appreciation of the U.S. dollar versus the Canadian dollar.
- The increase in the sensitivity to changes in market rates reflects a change in the current valuation interest scenario used to determine policy liabilities under which interest rates grade more slowly to the ultimate rates.
- The increase in sensitivity to changes in market interest rates reflects a change in the valuation interest scenario used to determine policy liabilities. The new scenario adopted in 2008 is based on a grading from current market interest rates to assumed ultimate re-investment rates over 20 years. Under Canadian GAAP, we must test a number of prescribed interest scenarios. The interest scenario we have adopted uses the structure of the prescribed scenario that currently produces the highest policy liability, with additional prudence introduced through use of lower ultimate re-investment rates than the maximum levels permitted.
- The increase in sensitivity to non fixed income market values reflects the increased sensitivity of segregated fund guarantee policy liabilities to changes in equity market levels. As a result of the severe 2008 global equity market corrections both the liability for existing guarantees and the sensitivity of this liability to changes in equity market levels have increased materially.

Review of Actuarial Methods and Assumptions

The 2008 review of the actuarial methods and assumptions underlying policy liabilities produced a net reduction in the policy liabilities of $482 million. Net of the impacts on participating surplus and minority interests, this resulted in an increase in 2008 shareholders' income of pre-tax $454 million.

Impact of 2008 Review by Category of Change

(Canadian $ in millions)

Assumption	Reserve Impact Increase (Decrease)
Mortality / morbidity	$ (647)
Lapses and other policyholder behaviour	699
Expense	(570)
Investment returns	164
Other valuation model refinements and assumption updates	(128)
Net release of policy liabilities	**$ (482)**

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.

Impact of 2008 Review by Category of Change

(Canadian $ in millions)

Assumption		
Mortality / morbidity	$(647)	Reduction is driven mainly by mortality releases for U.S. Insurance, with lesser increases in Reinsurance and Canadian Insurance and Long Term Care incidence and termination rates. Offsetting these decreases were increases in assumptions for Hong Kong hospital claims assumptions, reduced mortality assumptions for Long Term Care (which leads to higher reserves) and minor strengthening in other lines.
Lapses and other policyholder behaviour	699	Increases driven by updates to lapse assumptions and premium persistency assumptions for most insurance lines, as well as updates for rates of annuitization for certain U.S. annuity products.
Expense	(570)	Release in reserves is driven by decreases in expenses for U.S. Insurance, as well as refinements to the allocation of certain overhead expenses between maintenance and acquisition. A review of premium taxes in U.S. Life insurance also led to a reserve reduction.
Investment returns	164	Increases in reserves are attributed to updates to expected returns for real estate and other non fixed income assets. These increases were offset by the net impact of reflecting in the future investment returns the projected impact of the recently adopted long tail investment strategy and the related impact on the interest rate risk scenario used to determine the Company's interest rate risk reserves.
Other valuation model refinements and assumption updates	(128)	There was a net release in reserves from the release of excess margins in interest rate risk reserves. This was offset by establishment of segregated fund guarantee reserves incremental to normal policy reserve accruals and a net increase in reserves due to refinements of existing reserve modeling for insurance and Long Term Care businesses.
Total	**$(482)**	

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 $(506) million for the fourth quarter of 2008, and $24 million in aggregate for the first three quarters of 2008.

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:

2008 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, 2008	$ 41,096	$ 30,648	$ 36,649	$ 13,913	$ 1,621	$ 495	$124,422
New business	846	4,447	289	(99)	(26)	–	5,457
In-force movement	1,920	(5,347)	(1,773)	790	(10)	(455)	(4,875)
Currency impact	9,773	6,907	6	4,088	269	12	21,055
Total net changes	$ 12,539	$ 6,007	$ (1,478)	$ 4,779	$ 233	$ (443)	$ 21,637
Balance, December 31, 2008	$ 53,635	$ 36,655	$ 35,171	$ 18,692	$ 1,854	$ 52	$146,059

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 currency reflects the appreciation of the U.S. dollar and Japanese yen versus the Canadian dollar. As assets are currency matched to liabilities, the increase 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 $5,347 million for in-force movements on the U.S. Wealth Management block includes $2,985 million of net maturity benefits on institutional contracts, a product line that is intentionally being de-emphasized. The decrease in the Corporate and Other segment is related to an Accident and Health block for which the liabilities are held in the Corporate and Other segment.

Included in the total in-force reduction of $4,875 million is a decrease of $482 million from changes in methods and assumptions, as described earlier. This decrease results in an increase in pre-tax earnings.

Of the $582 million net increase in policy liabilities related to new business and in-force movement, $761 million is an increase in actuarial liabilities. The remaining is a decrease of $179 million in other policy liabilities.

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	76	(126)	11	–	2,558
In-force movement	1,957	(5,263)	254	973	(118)	243	(1,954)
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

New business and normal in-force movement for Canadian Division were restated.

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.

Included in the total in-force reduction of $1,954 million is an increase of $32 million from changes in methods and assumptions, as described earlier. This decrease 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.

Evaluation of Invested Asset Impairment
AFS equity and fixed income securities are carried at fair market value, with changes in fair value recorded in Other Comprehensive Income ("OCI"). AFS securities are considered impaired when fair value falls below their original cost. Impaired securities are reviewed on a regular basis and any fair value decrement is transferred out of AOCI and recorded in income at such time as the impairment is determined to be other than temporary.

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.

Significant judgment is required in assessing whether an impairment is other than temporary and in assessing fair values and recoverable values. Key matters considered include economic factors, company and industry specific developments and specific issues with respect to single issuers and borrowers. For fixed income securities the Company's ability and intent to hold a security may also be considered in the impairment assessment.

Changes in circumstances may cause future assessments of asset impairment to be materially different from current assessments, which could require additional provisions for impairment. Additional information on the process and methodology for determining the allowance for credit losses is included in the discussion of credit risk in note 8 to the consolidated financial statements.

Variable Interest Entities ("VIEs")
When 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 under GAAP. When the Company 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, 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 whether it is the primary beneficiary of any entities that are determined to be VIEs. 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. For further details on the Company's involvement with VIEs, see note 18 to the consolidated financial statements.

Pensions and Other Post-Employment Benefits
The Company has a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees and agents after employment. 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. Differences between actual and 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 estimated liabilities to these assumptions, are presented in note 17 to the consolidated financial statements.

The funding of defined benefit plans is also subject to various projections and assumptions based on the demographic profile of the membership, expected rates of return on plan assets, and compensation increase rates. A valuation for funding purposes is being completed as at December 31, 2009 and January 1, 2009 for the Company's largest registered Canadian and U.S. plans respectively. Once completed, these valuations will reflect current asset values and return assumptions as well as any changes to the demographic profile of the member group. For 2009, the minimum funding requirement for the Company's largest registered Canadian and U.S. plans is expected to be in the range of $50 to $100 million. However, future Company contribution amounts may change upon the Company's review of its contribution levels during the year and based on the results of the pending valuations.

The Company reviews the appropriateness of the plans' investment policy on a regular basis and was in compliance with the investment policy throughout the year. The current asset mix and level of investment risk of the Company's pension plans reflects their long-term nature.

Income Taxes
The Company is subject to income tax laws in various jurisdictions. Tax laws are complex and 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 recognized whenever an amount is recorded for accounting purposes but not for tax purposes or vice versa. Future tax assets and liabilities are recorded based on expected future tax rates and management's assumptions regarding the expected timing of the reversal of such temporary differences.

The Company is an investor in leveraged leases and previously established provisions in the amount of US$178 million after tax for possible disallowance of the tax treatment and for interest on past due taxes. During the year ended December 31, 2008, the Company increased this provision by US$185 million after tax. The Company continues to believe that deductions originally claimed in relation to these arrangements are appropriate. Although not expected to occur, should the tax attributes of the leveraged leases be fully denied, the maximum after tax exposure including interest would be an additional estimated US$280 million as at December 31, 2008.

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 internally developed valuation models that consider various factors such as normalized and projected earnings, market multiples and discounted cash flows. 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 2008 demonstrated that there was no impairment of goodwill or intangible assets with indefinite lives.

Change in Accounting Policies – Financial instruments – disclosure and presentation
Effective January 1, 2008, the Company adopted CICA Handbook Section 3862 “Financial Instruments – Disclosures” and 3863 “Financial Instruments – Presentation”. Sections 3862 and 3863 replace Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires additional disclosures of the nature and extent of risks arising from financial instruments, including the objectives, policies, processes and methods used to measure and manage key risks.

Future Change in Accounting Policy – Goodwill and Intangible Assets
In February 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”, replacing Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Requirements concerning goodwill are unchanged from the previous Section 3062. Section 3064 will be effective on a prospective basis for the Company’s fiscal year beginning January 1, 2009. The new section is not expected to have a material impact on the Company’s consolidated financial statements.

Future Change in Accounting Policy – Transition to International Financial Reporting Standards (“IFRS”)
On February 13, 2008 the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises in Canada will be required to adopt IFRS as a replacement of Canadian GAAP for periods beginning on or after January 1, 2011. The Company will adopt IFRS in its quarterly and annual reports starting with the first quarter of 2011 and will provide corresponding comparative financial information for 2010.

The Company is in the process of evaluating the financial statement impact of the differences between Canadian GAAP and IFRS, and assessing the first time adoption and transitional options, in order to select the most appropriate accounting policies under IFRS. Until this process is complete, the full impact of adopting IFRS on the Company’s future financial position and future results cannot be reasonably determined.

The international financial reporting standard that addresses the measurement of insurance contracts is currently being developed and is not expected to be in place by January 1, 2011. Therefore, upon initial adoption of IFRS the Company will continue to measure insurance liabilities using the Canadian Asset Liability Method (“CALM”). Under CALM, the measurement of actuarial liabilities is based on the carrying value of assets required to support those liabilities. Consistent with the results of the adoption of CICA Handbook Section 3855, when IFRS is adopted any change in the carrying value of the invested assets that support insurance liabilities will be offset by a corresponding change in reserves and therefore is not expected to have a material impact on net income.

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 22 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, 2008, 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 accurately and completely and 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, 2008, 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 our disclosure controls and procedures were effective as at December 31, 2008.

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, 2008 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, 2008, 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, 2008 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, 2008. Their report expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2008.

Changes in Internal Control over Financial Reporting
No changes were made in our internal control over financial reporting during the year ended December 31, 2008, 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.

Principal Subsidiaries

The following is a list of the directly and indirectly held major operating subsidiaries of Manulife Financial Corporation.

As at December 31, 2008 (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	$20,515	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		Boston, Massachusetts, U.S.A.	Investment advisor
John Hancock Distributors LLC	100		Delaware, U.S.A	Wholesale distributor for variable products
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 Asset Management (Taiwan) Co., Ltd.	100		Taipei, Taiwan	Asset management company
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 Investment Services Inc.	100		Burlington, 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	99.9		Tokyo, Japan	Japanese life insurance company
MFC Global Investment Management (Japan) Limited	100		Tokyo, Japan	Japanese investment management and advisory company
PT Asuransi Jiwa Manulife Indonesia	100		Jakarta, Indonesia	Indonesian life insurance company
PT 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	98.3		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, Canada	Insurance broker
JH Investments (Delaware) LLC	100		Boston, Massachusetts, U.S.A.	Investment holding company
Manulife Securities Incorporated	100		Burlington, Canada	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, 2008 (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	$10,916	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
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 Berhad	45.8		Kuala Lumpur, Malaysia	Malaysian life insurance company
Manulife Asset Management (Malaysia) Sdn Bhd	45.8		Kuala Lumpur, Malaysia	Asset management 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